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中国人民财产保险股份有限公司

PICC PROPERTY AND CASUALTY COMPANY LIMITED

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

(Stock Code: 2328)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

The Board of Directors is pleased to announce the audited results of the Company and its subsidiaries for the year ended 31 December 2017, with comparative figures for last year, as follows:

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 <u>RMB million</u>	2016 <u>RMB million</u>
GROSS WRITTEN PREMIUMS	4	350,314	311,160
Net earned premiums	4	309,076	270,261
Net claims incurred	5	(192,520)	(171,759)
Net policy acquisition costs	6	(74,348)	(62,954)
Other underwriting expenses		(24,939)	(23,147)
Administrative expenses		(7,974)	(7,377)
UNDERWRITING PROFIT		9,295	5,024
Investment income	7	15,382	15,073
Net realised and unrealised gains on investments	8	1,136	922
Investment related expenses		(675)	(637)
Interest expenses credited to policyholders' deposits		(2)	(2)
Exchange (losses)/gains, net		(451)	422
Sundry income		372	369
Sundry expenses		(473)	(457)
Finance costs	9	(1,998)	(1,208)
Share of profits of associates		4,575	2,945

		<u>2017</u>	<u>2016</u>
	<i>Notes</i>	<i>RMB million</i>	<i>RMB million</i>
PROFIT BEFORE TAX	<i>10</i>	27,161	22,451
Income tax expense	<i>11</i>	<u>(7,353)</u>	<u>(4,430)</u>
PROFIT FOR THE YEAR		<u>19,808</u>	<u>18,021</u>
Profit attributable to			
– owners of the Company		19,807	18,020
– non-controlling interests		<u>1</u>	<u>1</u>
		<u>19,808</u>	<u>18,021</u>
BASIC EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY (in RMB)	<i>12</i>	<u>1.336</u>	<u>1.215</u>

Details of the dividends approved for the Year are disclosed in note 13 to the announcement.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	<u>2017</u>	<u>2016</u>
	<i>RMB million</i>	<i>RMB million</i>
PROFIT FOR THE YEAR	<u>19,808</u>	<u>18,021</u>
OTHER COMPREHENSIVE INCOME		
Items that may be reclassified subsequently to profit or loss:		
Available-for-sale financial assets		
– Fair value losses	(89)	(4,368)
– Reclassification of (gains)/losses to profit or loss on disposals	(1,317)	69
– Impairment losses	297	98
Income tax effect	<u>277</u>	<u>1,050</u>
	<u>(832)</u>	<u>(3,151)</u>
Net losses on cash flow hedges	(3)	(5)
Income tax effect	<u>1</u>	<u>1</u>
	<u>(2)</u>	<u>(4)</u>
Share of other comprehensive expense of associates	<u>(728)</u>	<u>(203)</u>
NET OTHER COMPREHENSIVE EXPENSE THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS	<u>(1,562)</u>	<u>(3,358)</u>
Items that will not be reclassified to profit or loss:		
Gains on revaluation of properties and prepaid land premiums upon transfer to investment properties	184	275
Income tax effect	<u>(46)</u>	<u>(69)</u>
NET OTHER COMPREHENSIVE INCOME THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS	<u>138</u>	<u>206</u>
OTHER COMPREHENSIVE EXPENSE FOR THE YEAR, NET OF TAX	<u>(1,424)</u>	<u>(3,152)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>18,384</u>	<u>14,869</u>
Total comprehensive income attributable to		
– owners of the Company	18,383	14,868
– non-controlling interests	<u>1</u>	<u>1</u>
	<u>18,384</u>	<u>14,869</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2017

		31 December 2017	31 December 2016
	<i>Notes</i>	<i>RMB million</i>	<i>RMB million</i>
ASSETS			
Cash and cash equivalents		34,688	25,144
Derivative financial assets		–	3
Debt securities		153,728	110,645
Equity securities and mutual funds		64,701	67,038
Insurance receivables, net	<i>14</i>	37,845	30,479
Reinsurance assets		29,410	30,707
Term deposits		61,300	68,286
Investments classified as loans and receivables		51,180	63,855
Prepayments and other assets		19,112	15,805
Investments in associates	<i>15</i>	41,832	37,045
Investment properties		4,976	4,902
Property and equipment		15,531	14,977
Prepaid land premiums		3,023	3,185
Deferred tax assets		7,240	3,878
		<hr/>	<hr/>
TOTAL ASSETS		524,566	475,949
		<hr/> <hr/>	<hr/> <hr/>
LIABILITIES			
Payables to reinsurers	<i>16</i>	17,319	16,443
Accrued insurance security fund		958	834
Securities sold under agreements to repurchase		23,121	21,030
Income tax payable		4,396	2,680
Other liabilities and accruals		55,352	48,115
Insurance contract liabilities	<i>17</i>	264,748	242,093
Policyholders' deposits		2,296	2,330
Bonds payable		23,262	23,112
		<hr/>	<hr/>
TOTAL LIABILITIES		391,452	356,637
		<hr/>	<hr/>
EQUITY			
Issued capital		14,828	14,828
Reserves		118,279	104,478
		<hr/>	<hr/>
Equity attributable to owners of the Company		133,107	119,306
Non-controlling interests		7	6
		<hr/>	<hr/>
TOTAL EQUITY		133,114	119,312
		<hr/>	<hr/>
TOTAL EQUITY AND LIABILITIES		524,566	475,949
		<hr/> <hr/>	<hr/> <hr/>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Attributable to owners of the Company										Non-controlling interests	Total equity	
	Issued capital	Share premium account	Asset revaluation reserve**	Available-for-sale investment revaluation reserve	Cash flow hedging reserve	Surplus reserve***	General risk reserve	Agriculture catastrophic loss reserve	Share of other comprehensive income of associates	Retained profits	Total		
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Balance at 1 January 2017	14,828	18,986*	2,879*	7,023*	2*	32,614*	9,337*	1,885*	176*	31,576*	119,306	6	119,312
Profit for the year	-	-	-	-	-	-	-	-	-	19,807	19,807	1	19,808
Other comprehensive income/ (expense)	-	-	138	(832)	(2)	-	-	-	(728)	-	(1,424)	-	(1,424)
Total comprehensive income/ (expense)	-	-	138	(832)	(2)	-	-	-	(728)	19,807	18,383	1	18,384
Appropriations to statutory surplus reserve and general risk reserve	-	-	-	-	-	1,971	1,971	-	-	(3,942)	-	-	-
Appropriations to agriculture catastrophic loss reserve	-	-	-	-	-	-	-	586	-	(586)	-	-	-
2016 final dividend****	-	-	-	-	-	-	-	-	-	(4,582)	(4,582)	-	(4,582)
Balance at 31 December 2017	<u>14,828</u>	<u>18,986*</u>	<u>3,017*</u>	<u>6,191*</u>	<u>-*</u>	<u>34,585*</u>	<u>11,308*</u>	<u>2,471*</u>	<u>(552)*</u>	<u>42,273*</u>	<u>133,107</u>	<u>7</u>	<u>133,114</u>

* The consolidated reserves of RMB118,279 million (31 December 2016: RMB104,478 million) in the consolidated statement of financial position as at 31 December 2017 comprise these reserve accounts.

** The asset revaluation reserve arose from the change in use from owner-occupied properties to investment properties.

*** This account contains both statutory and discretionary surplus reserve.

**** On 23 June 2017, the shareholders of the Company at a general meeting approved a final dividend of RMB0.309 per ordinary share totalling RMB4,582 million for the year ended 31 December 2016.

	Attributable to owners of the Company										Non-controlling interests	Total equity	
	Issued capital	Share premium account	Asset revaluation reserve**	Available-for-sale investment revaluation reserve	Cash flow hedging reserve	Surplus reserve***	General risk reserve	Agriculture catastrophic loss reserve	Share of other comprehensive income of associates	Retained profits	Total		
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Balance at 1 January 2016	14,828	18,986*	2,673*	10,174*	6*	30,804*	7,527*	1,885*	379*	21,684*	108,946	5	108,951
Profit for the year	-	-	-	-	-	-	-	-	-	18,020	18,020	1	18,021
Other comprehensive income/ (expense)	-	-	206	(3,151)	(4)	-	-	-	(203)	-	(3,152)	-	(3,152)
Total comprehensive income/ (expense)	-	-	206	(3,151)	(4)	-	-	-	(203)	18,020	14,868	1	14,869
Appropriations to statutory surplus reserve and general risk reserve	-	-	-	-	-	1,810	1,810	-	-	(3,620)	-	-	-
2015 final dividend****	-	-	-	-	-	-	-	-	-	(4,508)	(4,508)	-	(4,508)
Balance at 31 December 2016	<u>14,828</u>	<u>18,986*</u>	<u>2,879*</u>	<u>7,023*</u>	<u>2*</u>	<u>32,614*</u>	<u>9,337*</u>	<u>1,885*</u>	<u>176*</u>	<u>31,576*</u>	<u>119,306</u>	<u>6</u>	<u>119,312</u>

* The consolidated reserves of RMB104,478 million (31 December 2015: RMB94,118 million) in the consolidated statement of financial position as at 31 December 2016 comprise these reserve accounts.

** The asset revaluation reserve arose from the change in use from owner-occupied properties to investment properties.

*** This account contains both statutory and discretionary surplus reserve.

**** On 24 June 2016, the shareholders of the Company at a general meeting approved a final dividend of RMB0.304 per ordinary share totalling RMB4,508 million for the year ended 31 December 2015.

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

	<u>2017</u>	<u>2016</u>
	<i>RMB million</i>	<i>RMB million</i>
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	27,161	22,451
Adjustments for:		
Investment income	(15,382)	(15,073)
Net realised and unrealised gains on investments	(1,136)	(922)
Interest expenses credited to policyholders' deposits	2	2
Exchange losses/(gains), net	451	(422)
Share of profits of associates	(4,575)	(2,945)
Depreciation of property and equipment	1,544	1,573
Amortisation of prepaid land premiums	149	147
Net gains on disposal of items of property and equipment	(56)	(121)
Finance costs	1,998	1,208
Investment related expenses	675	637
Impairment losses on insurance receivables	391	387
(Reversal of)/provision for impairment losses on prepayments and other assets	(46)	36
	<hr/>	<hr/>
Operating cash flows before working capital changes	11,176	6,958
Changes in working capital:		
Increase in insurance receivables	(7,757)	(11,549)
Increase in other assets	(4,497)	(1,741)
Increase in payables to reinsurers	876	7,302
Increase in accrued insurance security fund	124	93
Increase in other liabilities and accruals	6,335	8,117
Increase in insurance contract liabilities, net	23,952	20,524
	<hr/>	<hr/>
Cash generated from operations	30,209	29,704
Income tax paid	(8,768)	(7,627)
	<hr/>	<hr/>
Net cash flows from operating activities	21,441	22,077
	<hr/>	<hr/>

	<u>2017</u>	<u>2016</u>
	<i>RMB million</i>	<i>RMB million</i>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	13,232	13,017
Rental income received from investment properties	273	256
Dividend income received from equity securities and mutual funds	1,840	2,465
Payment for capital expenditure	(1,730)	(2,105)
Proceeds from disposal of items of property and equipment	156	208
Payment for acquisition of associates	(1,077)	(24,944)
Payment for purchase of debt securities, equity securities and mutual funds	(80,091)	(86,564)
Payment for purchase of investments classified as loans and receivables	(45,820)	(42,983)
Dividend income received from associates	628	234
Proceeds from sale of debt securities, equity securities and mutual funds	64,555	82,629
Proceeds from sale of investments classified as loans and receivables	33,529	9,180
Decrease in term deposits, net	6,982	30,401
	<u>(7,523)</u>	<u>(18,206)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of bonds payable	–	15,000
Payment for redemption of bonds payable	–	(8,000)
Increase/(decrease) in securities sold under agreements to repurchase, net	2,091	(2,658)
(Decrease)/increase in policyholders' deposits	(34)	104
Interest paid	(1,849)	(1,493)
Dividends paid	(4,582)	(4,508)
	<u>(4,374)</u>	<u>(1,555)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		
Cash and cash equivalents at the beginning of the year	9,544	2,316
	<u>25,144</u>	<u>22,828</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		
	<u>34,688</u>	<u>25,144</u>

Notes:

1. CORPORATE INFORMATION

The Company is a joint stock company with limited liability incorporated in the PRC.

The registered office of the Company is located at Tower 2, No.2 Jianguomenwai Avenue, Chaoyang District, Beijing 100022, the PRC. The Company is listed on The Stock Exchange of Hong Kong Limited.

The Company and its subsidiaries (collectively referred to as the “Group”) are engaged in property and casualty insurance business. The details of the operating segments are set out in note 3 to the consolidated financial statements.

In the opinion of the directors, the parent and the ultimate holding company of the Company is the PICC Group, which is incorporated in the PRC.

2.1 STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

2.2 BASIS OF PREPARATION

The consolidated financial statements have been prepared on 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.

2.3 APPLICATION OF NEW AND REVISED HKFRSS

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

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle

Except as described below, the application of the above amendments to HKFRSs 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 HKAS 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 financial 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.

Specifically, 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.

3. OPERATING SEGMENT INFORMATION

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

For management purposes, the Group is organised into business units based on their products and services and has eight operating and reportable segments as follows:

- (a) the motor vehicle segment provides insurance products covering motor vehicles;
- (b) the commercial property segment provides insurance products covering commercial properties;
- (c) the cargo segment provides insurance products covering vessels, crafts or conveyances;
- (d) the liability segment provides insurance products covering policyholders' liabilities;
- (e) the accidental injury and health segment provides insurance products covering accidental injuries and medical expenses;
- (f) the agriculture segment provides insurance products covering agriculture business;
- (g) the others segment mainly represents insurance products related to homeowners, special risks, marine hull, construction and credit; and
- (h) the corporate segment includes the income and expenses from investment activities, share of results of associates, non-operating income and expenses, unallocated income and expenditures of the Group.

Management monitors the results of the Group's operating segments separately for the purpose of performance assessment. Segment performance is evaluated based on reportable segment result, in which insurance business income and expense (for segments (a) to (g)) is a measure of underwriting profit/(loss) and corporate business income and expense (for segment (h)), primarily investment related income and expense, is a measure of profit for the year excluding underwriting profit/(loss). Income tax expense is not further allocated but assigned to corporate business segment.

Insurance business assets and liabilities directly attributable to operating segments of insurance business will be allocated to each segment. Investment assets and liabilities managed on a group basis will be allocated to the corporate business segment together with property and equipment, investment properties, prepaid land premiums, other assets, bonds payable, income tax payable, deferred tax liabilities and other payables, which are not allocated further.

Geographical information is not presented as all of the Group's customers, operations and assets and liabilities are located in the PRC. No inter-segment transactions occurred in 2017 and 2016.

In 2017 and 2016, no direct written premiums from transactions with a single external customer amounted to 10% or more of the Group's total direct written premiums.

The segment income statements for the years ended 31 December 2017 and 2016 are as follows:

	Insurance							Corporate	Total
	Motor vehicle	Commercial property	Cargo	Liability	Accidental injury and health	Agriculture	Others		
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
2017									
Gross written premiums	<u>249,232</u>	<u>12,623</u>	<u>3,232</u>	<u>16,975</u>	<u>30,646</u>	<u>22,090</u>	<u>15,516</u>	<u>-</u>	<u>350,314</u>
Net earned premiums	236,877	7,148	2,427	11,795	25,622	16,489	8,718	-	309,076
Net claims incurred	(139,407)	(4,076)	(1,227)	(6,929)	(24,004)	(11,033)	(5,844)	-	(192,520)
Net policy acquisition costs	(65,614)	(1,812)	(571)	(2,715)	(1,680)	(509)	(1,447)	-	(74,348)
Other underwriting expenses	(17,800)	(1,107)	(219)	(1,093)	(790)	(2,829)	(1,101)	-	(24,939)
Administrative expenses	(5,308)	(358)	(114)	(472)	(415)	(865)	(442)	-	(7,974)
Underwriting profit/(loss)	<u>8,748</u>	<u>(205)</u>	<u>296</u>	<u>586</u>	<u>(1,267)</u>	<u>1,253</u>	<u>(116)</u>	<u>-</u>	<u>9,295</u>
Investment income	-	-	-	-	-	-	-	15,382	15,382
Net realised and unrealised gains on investments	-	-	-	-	-	-	-	1,136	1,136
Investment related expenses	-	-	-	-	-	-	-	(675)	(675)
Interest expenses credited to policyholders' deposits	-	-	-	-	-	-	(2)	-	(2)
Exchange losses, net	-	-	-	-	-	-	-	(451)	(451)
Finance costs	-	-	-	-	-	-	-	(1,998)	(1,998)
Sundry income and expenses, net	-	-	-	-	-	-	-	(101)	(101)
Share of profits of associates	-	-	-	-	-	-	-	4,575	4,575
Profit/(loss) before tax	<u>8,748</u>	<u>(205)</u>	<u>296</u>	<u>586</u>	<u>(1,267)</u>	<u>1,253</u>	<u>(118)</u>	<u>17,868</u>	<u>27,161</u>
Income tax expense	-	-	-	-	-	-	-	(7,353)	(7,353)
Profit/(loss) for the year – segment results	<u>8,748</u>	<u>(205)</u>	<u>296</u>	<u>586</u>	<u>(1,267)</u>	<u>1,253</u>	<u>(118)</u>	<u>10,515</u>	<u>19,808</u>

2016	Insurance							Corporate	Total
	Motor vehicle	Commercial property	Cargo	Liability	Accidental injury and health	Agriculture	Others		
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Gross written premiums	<u>225,640</u>	<u>12,321</u>	<u>2,977</u>	<u>13,703</u>	<u>23,432</u>	<u>19,535</u>	<u>13,552</u>	<u>-</u>	<u>311,160</u>
Net earned premiums	209,667	7,527	2,161	9,572	19,833	14,428	7,073	-	270,261
Net claims incurred	(124,718)	(5,741)	(1,149)	(5,767)	(17,649)	(11,233)	(5,502)	-	(171,759)
Net policy acquisition costs	(55,387)	(2,717)	(407)	(2,049)	(1,351)	196	(1,239)	-	(62,954)
Other underwriting expenses	(17,282)	(501)	(247)	(888)	(780)	(2,407)	(1,042)	-	(23,147)
Administrative expenses	<u>(5,255)</u>	<u>(324)</u>	<u>(131)</u>	<u>(340)</u>	<u>(351)</u>	<u>(602)</u>	<u>(374)</u>	<u>-</u>	<u>(7,377)</u>
Underwriting profit/(loss)	<u>7,025</u>	<u>(1,756)</u>	<u>227</u>	<u>528</u>	<u>(298)</u>	<u>382</u>	<u>(1,084)</u>	<u>-</u>	<u>5,024</u>
Investment income	-	-	-	-	-	-	-	15,073	15,073
Net realised and unrealised gains on investments	-	-	-	-	-	-	-	922	922
Investment related expenses	-	-	-	-	-	-	-	(637)	(637)
Interest expenses credited to policyholders' deposits	-	-	-	-	-	-	(2)	-	(2)
Exchange gains, net	-	-	-	-	-	-	-	422	422
Finance costs	-	-	-	-	-	-	-	(1,208)	(1,208)
Sundry income and expenses, net	-	-	-	-	-	-	-	(88)	(88)
Share of profits of associates	-	-	-	-	-	-	-	2,945	2,945
Profit/(loss) before tax	<u>7,025</u>	<u>(1,756)</u>	<u>227</u>	<u>528</u>	<u>(298)</u>	<u>382</u>	<u>(1,086)</u>	<u>17,429</u>	<u>22,451</u>
Income tax expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,430)</u>	<u>(4,430)</u>
Profit/(loss) for the year – segment results	<u>7,025</u>	<u>(1,756)</u>	<u>227</u>	<u>528</u>	<u>(298)</u>	<u>382</u>	<u>(1,086)</u>	<u>12,999</u>	<u>18,021</u>

The segment assets, liabilities and other segment information of the Group as at 31 December 2017 and 2016 are as follows:

	Insurance							Corporate	Total
	Motor vehicle	Commercial property	Cargo	Liability	Accidental injury and health	Agriculture	Others		
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>		
31 December 2017									
Segment assets	<u>13,299</u>	<u>12,055</u>	<u>1,490</u>	<u>8,082</u>	<u>4,056</u>	<u>7,502</u>	<u>22,082</u>	<u>456,000</u>	<u>524,566</u>
Segment liabilities	<u>209,267</u>	<u>19,171</u>	<u>3,276</u>	<u>21,044</u>	<u>19,231</u>	<u>12,801</u>	<u>27,380</u>	<u>79,282</u>	<u>391,452</u>
Other segment information:									
Depreciation and amortisation	1,381	67	18	94	170	121	85	-	1,936
Impairment losses on insurance receivables, prepayments and other assets	27	14	1	27	56	186	34	-	345
Interest income	-	-	-	-	-	-	-	13,278	13,278
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,278</u>	<u>13,278</u>
	Insurance							Corporate	Total
	Motor vehicle	Commercial property	Cargo	Liability	Accidental injury and health	Agriculture	Others		
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>		
31 December 2016									
Segment assets	<u>13,517</u>	<u>11,754</u>	<u>1,410</u>	<u>6,064</u>	<u>6,240</u>	<u>6,465</u>	<u>18,471</u>	<u>412,028</u>	<u>475,949</u>
Segment liabilities	<u>190,900</u>	<u>19,216</u>	<u>3,158</u>	<u>17,344</u>	<u>15,556</u>	<u>12,865</u>	<u>24,927</u>	<u>72,671</u>	<u>356,637</u>
Other segment information:									
Depreciation and amortisation	1,406	75	19	85	146	121	82	-	1,934
Impairment losses on insurance receivables, prepayments and other assets	6	51	31	64	78	58	135	-	423
Interest income	-	-	-	-	-	-	-	12,351	12,351
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,351</u>	<u>12,351</u>

4. GROSS WRITTEN PREMIUMS AND NET EARNED PREMIUMS

	<u>2017</u>	<u>2016</u>
	<i>RMB million</i>	<i>RMB million</i>
<u>Gross written premiums</u>		
Direct written premiums	349,290	310,453
Reinsurance premiums assumed	1,024	707
	<u>350,314</u>	<u>311,160</u>
<u>Net earned premiums</u>		
Gross written premiums	350,314	311,160
Less: Reinsurance premiums ceded	(28,996)	(30,386)
	<u>321,318</u>	<u>280,774</u>
Net written premiums		
Gross change in unearned premium reserves	(11,835)	(11,360)
Less: Reinsurer's share of change in unearned premium reserves	(407)	847
	<u>(12,242)</u>	<u>(10,513)</u>
Net change in unearned premium reserves		
Net earned premiums	<u>309,076</u>	<u>270,261</u>

5. NET CLAIMS INCURRED

	<u>2017</u>	<u>2016</u>
	<i>RMB million</i>	<i>RMB million</i>
Gross claims paid	199,777	180,496
Less: Paid losses recoverable from reinsurers	(18,967)	(18,748)
	<u>180,810</u>	<u>161,748</u>
Net claims paid		
Gross change in loss and loss adjustment expense reserves	10,820	13,445
Less: Reinsurer's share of change in loss and loss adjustment expense reserves	890	(3,434)
	<u>11,710</u>	<u>10,011</u>
Net change in loss and loss adjustment expense reserves		
Net claims incurred	<u>192,520</u>	<u>171,759</u>

6. NET POLICY ACQUISITION COSTS

	<u>2017</u>	<u>2016</u>
	<i>RMB million</i>	<i>RMB million</i>
Commission expenses	59,725	46,557
Less: Reinsurance commission income	(8,817)	(9,559)
Underwriting personnel expenses	18,184	16,288
Business tax and other surcharges	1,513	6,208
Contributions to insurance security fund	2,683	2,398
Others	1,060	1,062
	<u>74,348</u>	<u>62,954</u>

7. INVESTMENT INCOME

	<u>2017</u>	<u>2016</u>
	<i>RMB million</i>	<i>RMB million</i>
Operating lease income from investment properties	<u>273</u>	<u>256</u>
Interest income from:		
Current and term deposits	4,262	4,921
Debt securities		
– Held-to-maturity	2,103	2,101
– Available-for-sale	3,777	2,822
– Held-for-trading	53	55
Derivative financial instruments	3	118
Investments classified as loans and receivables	3,080	2,334
	<u>13,278</u>	<u>12,351</u>
Dividend income from equity securities and mutual funds:		
– Available-for-sale	1,748	2,151
– Held-for-trading	83	315
	<u>1,831</u>	<u>2,466</u>
	<u>15,382</u>	<u>15,073</u>

8. NET REALISED AND UNREALISED GAINS ON INVESTMENTS

	<u>2017</u>	<u>2016</u>
	<i>RMB million</i>	<i>RMB million</i>
Realised gains from:		
Debt securities		
– Available-for-sale	90	285
– Held-for-trading	–	13
Equity securities and mutual funds		
– Available-for-sale	1,227	(354)
– Held-for-trading	215	223
Derivative financial instrument (<i>note</i>)	–	1,009
	<u>1,532</u>	<u>1,176</u>
Unrealised losses from:		
Debt securities classified as held-for-trading	(55)	(23)
Equity securities and mutual funds classified as held-for-trading	(59)	(271)
Derivative financial instruments	(44)	(10)
	<u>(158)</u>	<u>(304)</u>
Fair value gains on investment properties	<u>59</u>	<u>148</u>
Impairment losses on equity securities and mutual funds classified as available-for-sale	<u>(297)</u>	<u>(98)</u>
	<u>1,136</u>	<u>922</u>

Note: For the year ended 31 December 2016, the realised gain of a derivative financial instrument arose from an agreement to purchase interests in equity instrument at a price predetermined by a formula agreed by the Group and the third parties. The amount represents the difference between the final consideration paid by the Group and the fair value of this equity instrument when the transaction was completed.

9. FINANCE COSTS

	<u>2017</u>	<u>2016</u>
	<i>RMB million</i>	<i>RMB million</i>
Interest on bonds payable	1,157	650
Interest on securities sold under agreements to repurchase	801	509
Other finance costs	40	49
	<u>1,998</u>	<u>1,208</u>

10. PROFIT BEFORE TAX

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

	<u>2017</u>	<u>2016</u>
	<i>RMB million</i>	<i>RMB million</i>
Depreciation of property and equipment	1,544	1,573
Amortisation of prepaid land premiums	149	147
Employee expenses (including directors', supervisors' and senior management's remunerations)		
– Salaries, allowances and performance related bonuses	28,800	26,661
– Pension scheme contributions	3,232	2,651
Impairment losses on insurance receivables	391	387
(Reversal of)/provision for impairment losses on prepayments and other assets	(46)	36
Minimum lease payments under operating leases in respect of land and buildings	985	808
Net gains on disposal of items of property and equipment	(56)	(121)
Auditors' remuneration	16	15
	<u> </u>	<u> </u>

11. INCOME TAX EXPENSE

The provision for PRC income tax is calculated based on the statutory rate of 25% (2016: 25%) in accordance with the relevant PRC income tax rules and regulations.

	<u>2017</u>	<u>2016</u>
	<i>RMB million</i>	<i>RMB million</i>
Current		
– Charge for the year	10,444	7,327
– Adjustments in respect of current tax of prior years	39	37
Deferred	(3,130)	(2,934)
	<u> </u>	<u> </u>
Total tax charge for the year	<u>7,353</u>	<u>4,430</u>

A reconciliation of the tax expense applicable to profit before tax at the statutory tax rate of the PRC, in which the Group is domiciled, to the tax expense at the effective tax rate is as follows:

	<u>2017</u>	<u>2016</u>
	<i>RMB million</i>	<i>RMB million</i>
Profit before tax	<u>27,161</u>	<u>22,451</u>
Tax at the statutory tax rate of 25% (2016: 25%)	6,790	5,613
Income not subject to tax	(1,787)	(1,552)
Expenses not deductible for tax (<i>note</i>)	2,311	332
Adjustments in respect of current tax of prior years	<u>39</u>	<u>37</u>
Tax charge at the Group's effective tax rate	<u>7,353</u>	<u>4,430</u>

Note: Commission expenses are not deductible for tax purposes when they exceed certain percentages of premiums income. The increase in commission expenses resulted in an increase in expenses not deductible for tax purposes.

12. EARNINGS PER SHARE

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

	<u>2017</u>	<u>2016</u>
Earnings:		
Profit attributable to owners of the Company (RMB million)	<u>19,807</u>	<u>18,020</u>
Shares:		
Weighted average number of ordinary shares in issue (in million shares)	<u>14,828</u>	<u>14,828</u>
Basic earnings per share (RMB)	<u>1.336</u>	<u>1.215</u>

Basic earnings per share was calculated as the profit attributable to owners of the Company divided by the weighted average number of ordinary shares in issue. Diluted earnings per share amounts for the years ended 31 December 2017 and 2016 have not been disclosed as there were no potential ordinary shares outstanding during these years.

13. DIVIDENDS

	<u>2017</u>	<u>2016</u>
	<i>RMB million</i>	<i>RMB million</i>
Dividends recognised as distribution during the year:		
2016 final dividend – RMB0.309 per ordinary share	4,582	–
2015 final dividend – RMB0.304 per ordinary share	<u>–</u>	<u>4,508</u>

No interim dividend was proposed by the Board of Directors in 2017 and 2016.

Pursuant to the shareholders' approval at the general meeting on 23 June 2017, a final dividend of RMB0.309 per ordinary share totalling RMB4,582 million in respect of the year ended 31 December 2016 was declared.

Pursuant to the shareholders' approval at the general meeting on 24 June 2016, a final dividend of RMB0.304 per ordinary share totalling RMB4,508 million in respect of the year ended 31 December 2015 was declared.

14. INSURANCE RECEIVABLES, NET

	31 December 2017	31 December 2016
	<i>RMB million</i>	<i>RMB million</i>
Premiums receivable and agents' balances	20,400	13,786
Receivables from reinsurers	21,011	19,911
	41,411	33,697
Less: Impairment provisions on		
– Premiums receivable and agents' balances	(3,308)	(2,960)
– Receivables from reinsurers	(258)	(258)
	37,845	30,479

An aged analysis of insurance receivables, based on the payment due date and net of provision, is as follows:

	31 December 2017	31 December 2016
	<i>RMB million</i>	<i>RMB million</i>
Not yet due	20,900	18,827
Within 1 month	2,737	2,496
1 to 3 months	4,507	3,770
3 to 6 months	3,640	3,594
6 to 12 months	4,985	1,472
1 to 2 years	920	208
Over 2 years	156	112
	37,845	30,479

The movements in the provision for impairment of insurance receivables are as follows:

	2017	2016
	<i>RMB million</i>	<i>RMB million</i>
At 1 January	3,218	2,872
Impairment losses recognised (<i>note 10</i>)	391	387
Amount written off as uncollectible	(43)	(41)
At 31 December	3,566	3,218

Included in the Group's insurance receivables are amounts due from a fellow subsidiary of RMB349 million (31 December 2016: RMB117 million) and an associate of RMB588 million (31 December 2016: Nil), respectively.

15. INVESTMENTS IN ASSOCIATES

	31 December	31 December
	2017	2016
	<i>RMB million</i>	<i>RMB million</i>
Cost of investments in associates	37,620	36,053
Share of post-acquisition profit and other comprehensive income, net of dividend received	4,212	992
	41,832	37,045

Particulars of material associates as at 31 December 2017 and 2016 are as follows:

Name	Place of registration and operations	Paid up/ registered share capital <i>RMB million</i>	Proportion of ownership interest and voting right as at 31 December		Measurement method	Principal activities
			2017	2016		
PICC Life Insurance Company Limited	Beijing	25,761	8.615%	8.615%	Equity method	Provision of life insurance products
China Aerospace Investment Holdings Limited	Beijing	7,425	16.835%	16.835%	Equity method	Investment holding
Sinopec Marketing Plan	Shanghai	9,490	29.399%	29.399%	Equity method	Equity investment
Hua Xia Bank	Beijing	10,686	19.990%	19.990%	Equity method	Commercial banking
PICC Health Insurance Company Limited	Beijing	8,568	24.726%	24.726%	Equity method	Provision of health insurance products

Management has assessed the level of influence that the Group has on certain associates, with a total carrying amount of RMB34,834 million as at 31 December 2017 (2016: RMB31,411 million), and determined that it has significant influence even though the respective shareholding is below 20% because of the board representation or other arrangements made. Consequently, these investments have been classified as associates.

Except for Hua Xia Bank, all the associates are private companies or structured entities, and there are no quoted market prices available for these shares. Hua Xia Bank is listed on the Shanghai Stock Exchange and the fair value of the Group's interests in Hua Xia Bank as at 31 December 2017 was RMB23,069 million.

16. PAYABLES TO REINSURERS

Payables to reinsurers are analysed as follows:

	31 December 2017	31 December 2016
	<i>RMB million</i>	<i>RMB million</i>
Reinsurance payables	17,319	16,443

The reinsurance payables are non-interest-bearing and are due within three months from the settlement dates or are repayable on demand.

Included in the Group's reinsurance payables are amounts due to a fellow subsidiary of RMB303 million (31 December 2016: RMB131 million) and an associate of RMB1,081 million (31 December 2016: Nil), respectively.

17. INSURANCE CONTRACT LIABILITIES

	31 December 2017	31 December 2016
	<i>RMB million</i>	<i>RMB million</i>
Unearned premium reserves	126,110	114,275
Loss and loss adjustment expense reserves	138,638	127,818
	264,748	242,093

The movements in insurance contract liabilities and their corresponding reinsurance assets are set out below:

	2017			2016		
	Gross amount	Reinsurers' share	Net amount	Gross amount	Reinsurers' share	Net amount
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Unearned premium reserves						
At 1 January	114,275	(10,154)	104,121	102,915	(9,307)	93,608
Increase during the year	266,011	(19,151)	246,860	238,846	(20,726)	218,120
Release during the year	(254,176)	19,558	(234,618)	(227,486)	19,879	(207,607)
At 31 December	126,110	(9,747)	116,363	114,275	(10,154)	104,121
Loss and loss adjustment expense reserves						
At 1 January	127,818	(20,553)	107,265	114,373	(17,119)	97,254
Increase during the year	210,573	(18,077)	192,496	193,926	(22,183)	171,743
Release during the year	(199,753)	18,967	(180,786)	(180,481)	18,749	(161,732)
At 31 December	138,638	(19,663)	118,975	127,818	(20,553)	107,265
Total insurance contract liabilities	264,748	(29,410)	235,338	242,093	(30,707)	211,386

DISCUSSION AND ANALYSIS OF OPERATING RESULTS AND FINANCIAL CONDITIONS

OVERVIEW

In 2017, the supply-side structural reform in China continued, and the shifting from old driving forces to the new ones accelerated. The scientific and technological innovation changed with each passing day, and the development strategy of the state featuring openness was deeply promoted. The national economy was stable with improvement, and the quality and efficiency of economic growth improved steadily. With the modernisation of state governance continuing to deepen, the formation of social pluralistic governance accelerating and efforts to improve the well-being of the people continuing to increase, the social development entered a new stage of growth. The new trend of economic and social development together with the market-oriented reform of the insurance sector had, on one hand, triggered more demand for insurance, facilitated the transformation and upgrading of the insurance sector and boosted the optimisation of the business structure, and, on the other hand, posed new challenges to the market players in terms of innovating business model, upgrading product supply, supporting the development of real economy and enhancing the ability of risk prevention and control, etc.

Facing the opportunities and challenges arising from the new era, new changes and new trends, the Company, in keeping with the vision of innovative, coordinated, green and open development that is for everyone, promoted proactively five major strategies, namely service upgrade, business going global, internet-oriented development, extension and integration of value chain and platformisation, and accelerated overall transformation and upgrading. The Company deepened the organisational reform, improved the operation and channel arrangement, developed and innovated product supply, improved service quality continuously, took the initiative to perform social responsibility and perfected the comprehensive risk management system, thereby accumulating more powerful driving forces, forming a more balanced development and establishing a firmer market leading position.

Market share remaining stable and business developing at the same pace with that of the market. In 2017, the Company and its subsidiaries developed a full range of sales channels and innovated new business development models, thereby achieving gross written premiums of RMB350,314 million, representing a year-on-year increase of 12.6% with the gross premiums maintaining No.1 ranking in the market. The Company's market share was 33.1% (*Note*) in the property and casualty insurance market of the PRC. Gross written premiums of the motor vehicle insurance business amounted to RMB249,232 million, representing a year-on-year increase of 10.5%. The new driving forces for development of the non-motor vehicle insurance business continued to grow and achieved gross written premiums of RMB101,082 million, representing a year-on-year increase of 18.2%.

Note: Calculated based on the PRC insurance industry data for 2017 published on the website of the CIRC.

Profitability surpassed that of the market and leading position was effectively strengthened. In 2017, the combined ratio of the Company and its subsidiaries was 97.0%, representing a year-on-year decrease of 1.1 percentage points; underwriting profit was RMB9,295 million, representing a year-on-year increase of 85.0%, which significantly outperformed that of the market; total investment income reached RMB21,093 million, representing a year-on-year increase of 11.4%; profit before tax reached RMB27,161 million, representing a year-on-year increase of 21.0%; profit for the year was RMB19,808 million, representing a year-on-year increase of 9.9%; return on equity ratio was 15.7%, maintaining at an industry leading level.

Continuous growth of assets and steady enhancement of comprehensive strengths. As at the end of 2017, the total assets of the Company and its subsidiaries reached RMB524,566 million, representing an increase of 10.2% over that of the beginning of the year. The total equity was RMB133,114 million, representing an increase of 11.6% over that of the beginning of the year. The total amount of investment assets grew steadily, reaching RMB415,508 million. The Company's core solvency margin ratio reached 229%, and the comprehensive solvency margin ratio was 278%. Attributable to its outstanding industry position and continuously increasing comprehensive strengths, the Company ranked top 100 Hong Kong stocks for five consecutive years and topped the list of the "Most Valuable Investments". The rating granted by Moody's Investors Service to the Company in terms of insurance financial strength is A1, which is the highest rating in Mainland China.

Prominence of value in our services and continuous increase of social influence. In 2017, the Company and its subsidiaries took the initiative to serve the construction of real economy and the modernisation of state governance, as a result of which the insurance coverage continued to expand. It dealt properly with severe catastrophes such as the earthquake in Jiuzhaigou and Typhoon Hato, receiving high recognition from local governments and customers. The Company actively promoted helicopter rescue service which is unique in the sector, and enhanced its scientific innovation and professionalism on claim settlement to streamline the claim settlement procedures and improve the claim settlement efficiency. In 2017, the Company's customer net promoter score (NPS) ranked first in the sector and received from the CIRC the highest rating of service evaluation of insurance companies. The Company also won several awards such as "Innovation in Poverty Alleviation by Financial Enterprises" and "Best Insurance Company of the Year 2017".

(I) Strengthening market benchmarking and promoting balanced development to create stronger development momentum

The Company firmly promoted the consolidation and reorganisation of institutions and optimised the organisational layout to improve the operational efficiency of organisations, creating a new competitive advantage of the Company. It strengthened the overall benchmarking assessment, improved the assessment index system, and incentivised and guided the benchmark development. The Company implemented proactive financial policies, adjusted the resources allocation model, and expanded the business operation autonomy at the basic level to bring out the vitality at the basic level and uplift the capability of responding to the market. It also took the initiative to adjust the marketing strategy and strengthened the management of the sales process in proactive response to the deregulation of premium rate of commercial motor vehicle insurance. The Company implemented differentiated sales strategy and boosted the interaction with the customers so as to develop a broader platform for the expansion of new room for development of the Company. Moreover, it developed a framework system for the strategic management of channels and regions so as to provide basic guides for the implementation of the collaborative development of channels and differentiated operations of regions. The Company integrated the regional coordinated development, accelerated the transformation and upgrading of branches in Western China, and formulated a general plan and policy for the development of the strategically significant cities and deepened the construction of channels for the county-level business for the purpose of a more balanced development. The Company also launched the globalisation strategy in its positive response to the Belt and Road Initiative. Overseas business work model and management system was established, which constituted initial efforts of the Company to further broaden the geographic coverage of our business.

(II) Serving the national economy and focusing on the well-being of the people to establish a firmer leading position

The Company adhered to serving the overall economic and social development as its mission. In terms of serving the agriculture, rural areas and farmers, the Company expanded the insurance coverage and protection, accelerated the development of featured agriculture insurance products and made efforts to develop commercial insurance business in rural areas. As to serving the alleviation of poverty, the Company launched the “Year of Joint Action against Poverty” jointly with the State Council Leading Group Office of Poverty Alleviation and Development to explore and develop featured products for poverty alleviation. The Company formed a specialised team of inclusive financing to innovate and promote the advanced model for inclusive financing. The Company contributed to the improvement of people’s well-being by strengthening its competitive advantage in critical illness insurance, accelerating the development of new business areas of the social security insurance, setting up a “one-stop” service platform and exploring health management services. The Company served the real economy and the major national strategies by strategically developing key insurance businesses such as insurance for the first set of major technical equipment, individual credit loan surety insurance, extended warranty liability insurance for motor vehicles and internet insurance. The Company served the national strategy of entrepreneurship and innovation by promoting insurance for entrepreneurship and innovation. In addition, it also initiated and promoted the “insurance + service” model and made efforts to develop insurance business relating to people’s well-being and social governance so as to open up room of new strategy. The Company deeply served the coordinated development of Beijing, Tianjin and Hebei, and the construction of Xiongan New Area. It made efforts to develop green insurance business, facilitated the construction of green finance reform and innovation pilot area. In 2017, the credit and surety insurance, liability insurance and accidental injury and health insurance of the Company became the new growth points for the non-motor vehicle commercial insurance business, facilitating the achievement of a new breakthrough in the Company’s business and effectively consolidating its leading position in the market.

(III) Accelerating the research and application of new technologies, committing to reducing cost and increasing efficiency to continuously enhance the value creation capability

The Company made efforts to implement the cost leadership strategy, enable the accurate allocation of resources, and optimise the reinsurance management. It strengthened the underwriting management and control, optimised the business structure, deepened the implementation of lean claims and promoted the model of integrated handling of traffic accidents, resulting in a significant decrease of the loss ratio. It also improved the asset allocation and enhanced the refined management, leading to a steady growth of the total investment income. It took the initiative to pursue reform of new technologies by proactively studying and exploring the application of mobile internet, big data, artificial intelligence (AI), block chain and other new technologies in the insurance sector. It innovated operation and management tools and applied AI technology to optimise the business processes, and upgraded and promoted the platform of “PICC V Alliance” (人保V盟), leading to the continuous improvement in the operational efficiency. It improved the PICC app and its Wechat subscription account to establish a mobile e-commerce platform and a mobile operation platform to provide customers with one-stop online services. It launched the service of “serving customers with heart and facilitating claims with technology”, pioneered air rescue by helicopter and improved the customer complaints management system so that the customer satisfaction continued to increase, and the value creation capability of the Company was continuously enhanced.

(IV) Strengthening the risk management and control, perfecting the comprehensive risk management system and enhancing the risk management and control capabilities

In keeping with the spirit of the Central Economic Work Conference and the National Financial Work Conference and meeting the regulatory requirements of the CIRC, the Company focused on the overall development strategy, implemented a steady underwriting, reinsurance and investment policy, upheld a prudent and rational approach in the management of significant risks to ensure that the underwriting ability and solvency of the Company being compatible to the business scale and development speed. By adhering to the risk management target of “compliance operation, effective management and control, asset security, and capital adequacy” and guided by the development strategy for a new era, the Company, taking the implementation of C-ROSS as an opportunity, updated the risk preference system, deeply pushed forward the construction of comprehensive risk management system and perfected the risk management and control mechanism. The Company continued to reinforce the foundation of the overall risk management, improved the basic procedures for the effective management of all major risks, improved the risk management skills, explored the introduction of advanced methods and instruments, constructed a sound closed-loop operating mechanism and practically enhanced its ability to manage and control major risks, thereby strengthening its risk identification and prevention capability. Moreover, the Company took the initiative to carry out self-review and rectification in terms of compliance to strengthen the monitoring of risks as well as forestall and defuse operational risk, resulting in a more steady and sound operation of the Company.

UNDERWRITING RESULTS

The following table sets forth the selected financial indicators of the insurance business of the Company and its subsidiaries and their percentages to net earned premiums for the relevant periods:

	Year ended 31 December			
	2017		2016	
	<i>RMB million</i>	<i>%</i>	<i>RMB million</i>	<i>%</i>
Net earned premiums	309,076	100.0	270,261	100.0
Net claims incurred	(192,520)	(62.3)	(171,759)	(63.5)
Total expenses	(107,261)	(34.7)	(93,478)	(34.6)
Underwriting profit	<u>9,295</u>	<u>3.0</u>	<u>5,024</u>	<u>1.9</u>

GROSS WRITTEN PREMIUMS

The following table sets forth the gross written premiums of the Company and its subsidiaries by insurance segments for the relevant periods:

	Year ended 31 December	
	2017	2016
	<i>RMB million</i>	<i>RMB million</i>
Motor vehicle insurance	249,232	225,640
Commercial property insurance	12,623	12,321
Accidental injury and health insurance	30,646	23,432
Liability insurance	16,975	13,703
Cargo insurance	3,232	2,977
Agriculture insurance	22,090	19,535
Other insurance	15,516	13,552
Total	350,314	311,160

The following table sets forth a breakdown of the direct written premiums of the Company and its subsidiaries by distribution channels for the relevant periods:

	Year ended 31 December			
	2017		2016	
	Amount	Percentage	Amount	Percentage
	<i>RMB million</i>	%	<i>RMB million</i>	%
Insurance agents	246,610	70.6	206,904	66.7
Among which:				
Individual insurance agents	124,548	35.7	109,044	35.1
Ancillary insurance agents	57,705	16.5	56,681	18.3
Professional insurance agents	64,357	18.4	41,179	13.3
Direct sales	82,859	23.7	87,968	28.3
Insurance brokers	19,821	5.7	15,581	5.0
Total	349,290	100.0	310,453	100.0

Gross written premiums of the Company and its subsidiaries were RMB350,314 million in 2017, representing an increase of RMB39,154 million (or 12.6%) from RMB311,160 million in 2016. The business growth was largely driven by the development of the motor vehicle insurance, accidental injury and health insurance, liability insurance, agriculture insurance and credit and surety insurance business. Amongst these segments:

Gross written premiums of the motor vehicle insurance segment were RMB249,232 million, representing an increase of RMB23,592 million (or 10.5%) from RMB225,640 million in 2016. In 2017, on the one hand the Company continued to strengthen the construction and consolidation of the sales channels, stepped up efforts to enhance pricing capability and improved the ability of resources allocation and the ability to acquire additional business; and on the other hand, the Company optimised the management mechanism of the existing business, strived to ensure the good quality of the key process indicators relating to business renewal and increased customer stickiness by provision of high quality service so as to drive up the renewal rate, thereby boosting the year-on-year increase in the underwriting policies of the motor vehicle insurance, effectively mitigating the impact of the drop in the average premiums per-vehicle of the motor vehicle insurance and realising a rapid growth of the motor vehicle insurance business.

The gross written premiums of the commercial property insurance segment were RMB12,623 million, representing an increase of RMB302 million (or 2.5%) from RMB12,321 million in 2016. In 2017, the Company took proactive measures to cope with the adverse effect of a decline in the premium rate resulting from the market competition, by strengthening market research and leveraging the opportunities presented by national policies, to continuously seek and foster new growth points and vigorously develop all risks insurance for property, machinery damage insurance and business interruption insurance; and meanwhile, the Company increased the technological content and service quality of the underwriting risk control service and fostered customer stickiness and loyalty, thereby achieving an overall steady growth of the commercial property insurance business.

Gross written premiums of the accidental injury and health insurance segment were RMB30,646 million, representing an increase of RMB7,214 million (or 30.8%) from RMB23,432 million in 2016. In 2017, by proactively serving the strategy of “Healthy China”, the Company reinforced its advantage in the critical illness insurance business, accelerated the development of new markets in the basic medical insurance management, social security insurance for nursing care and poverty alleviation and so on, established “one-stop” service platforms, explored the health management service, and speeded up the secondary development of customers, as a result of which the health insurance business developed rapidly. The Company further promoted digitalisation of the process of issuance of policies and the use of mobile integrated terminals in promoting businesses, accelerated the internal business consolidation and coordinated development, promoted diverse channels for insurance application in the traditional business, thereby boosting a rapid growth in the accidental insurance for drivers and passengers of motor vehicles and so on, while maintaining a sound and stable growth in the traditional business such as accidental injury insurance for corporations, school students and young children.

Gross written premiums of the liability insurance segment were RMB16,975 million, representing an increase of RMB3,272 million (or 23.9%) from RMB13,703 million in 2016. In 2017, the Company actively served the overall economic and social development, precisely identified and leveraged the opportunities presented by national policies, as a result of which the employer liability insurance, safe production liability insurance, insurance for the first set of major technical equipment, export product liability insurance, government aid insurance and such other insurance businesses showed a trend of sound development. Meanwhile, by leveraging its business network advantage, the Company strengthened the channel collaboration in marketing, as such, the extended warranty liability insurance for motor vehicle, the insurance for online shopping freight loss and such other insurance businesses brought new growth points to the Company’s liability insurance segment.

Gross written premiums of the cargo insurance segment were RMB3,232 million, representing an increase of RMB255 million (or 8.6%) from RMB2,977 million in 2016. In 2017, the economy in China was stable with improvement and the corporate production and investment activities stabilised and witnessed a rebound. There was a surge in both the volumes and prices of raw metals, minerals, building materials and other commodities directly linked to the recent round of inventory replenishment, which in turn led to a growth in the relevant traditional insurance business such as insurance for import, water transport, land and water transport and so on. At the same time, the Company continued to develop the individual disperse business and the insurance for baggage carried in the vehicle and insurance for carry-on baggage expanded tremendously.

Gross written premiums of the agriculture insurance segment were RMB22,090 million, representing an increase of RMB2,555 million (or 13.1%) from RMB19,535 million in 2016. In 2017, faced with increasingly fierce market competition, the Company increased the input of resources and, while maintaining a stable development of the existing business, stepped up efforts to develop the insurance for breeding or cultivation business, energetically explored the innovative insurance businesses relating to agricultural product price index and climate index, insurance products for new agriculture entities and poverty alleviation, agriculture insurance with special local features and other incremental business, all of which created new driving forces for the development of the agriculture insurance.

Gross written premiums of the other insurance segment were RMB15,516 million, representing an increase of RMB1,964 million (or 14.5%) from RMB13,552 million in 2016. In 2017, the Company's individual credit loan surety insurance and performance surety insurance segments achieved a relatively rapid growth, which drove the credit and surety insurance business to develop quickly. Meanwhile, the Company also achieved a balanced development of businesses including special risks insurance, construction insurance and homeowners property insurance.

NET EARNED PREMIUMS

The following table sets forth the net earned premiums of the Company and its subsidiaries for the relevant periods:

	Year ended 31 December	
	2017	2016
	<i>RMB million</i>	<i>RMB million</i>
Motor vehicle insurance	236,877	209,667
Commercial property insurance	7,148	7,527
Accidental injury and health insurance	25,622	19,833
Liability insurance	11,795	9,572
Cargo insurance	2,427	2,161
Agriculture insurance	16,489	14,428
Other insurance	8,718	7,073
Total	309,076	270,261

Net earned premiums of the Company and its subsidiaries were RMB309,076 million in 2017, representing an increase of RMB38,815 million (or 14.4%) from RMB270,261 million in 2016.

NET CLAIMS INCURRED

The following table sets forth the net claims incurred of the Company and its subsidiaries and their percentages to the net earned premiums of the corresponding insurance segments (the “loss ratio”) for the relevant periods:

	Year ended 31 December			
	2017		2016	
	Net claims incurred <i>RMB million</i>	Loss ratio %	Net claims incurred <i>RMB million</i>	Loss ratio %
Motor vehicle insurance	(139,407)	(58.9)	(124,718)	(59.5)
Commercial property insurance	(4,076)	(57.0)	(5,741)	(76.3)
Accidental injury and health insurance	(24,004)	(93.7)	(17,649)	(89.0)
Liability insurance	(6,929)	(58.7)	(5,767)	(60.2)
Cargo insurance	(1,227)	(50.6)	(1,149)	(53.2)
Agriculture insurance	(11,033)	(66.9)	(11,233)	(77.9)
Other insurance	(5,844)	(67.0)	(5,502)	(77.8)
Total	(192,520)	(62.3)	(171,759)	(63.5)

Net claims incurred of the Company and its subsidiaries in 2017 were RMB192,520 million, representing an increase of RMB20,761 million (or 12.1%) from RMB171,759 million in 2016. The loss ratio was 62.3% in 2017, decreased by 1.2 percentage points from 63.5% in 2016. Amongst these segments:

Net claims incurred of the motor vehicle insurance segment were RMB139,407 million, representing an increase of RMB14,689 million (or 11.8%) from RMB124,718 million in 2016. The loss ratio decreased by 0.6 percentage points from 59.5% in 2016 to 58.9% in 2017. In 2017, the Company further developed the potential of profitable insurance businesses, refined the risk classification and strengthened the management and control over high-risk businesses, thereby optimising the business structure of motor vehicle insurance. The deregulation of premium rate of commercial motor vehicle insurance resulted in the selective reporting for claims by policy holders, thus the valid claim cases and claim frequency for confirmed cases witnessed a continuous decrease. Meanwhile, the Company made achievement in terms of claim cost control after it continuously improved the pricing capability on claim settlement, strengthened the management on spare parts and working hours, improved the management on motor vehicle repairing resources, and reinforced the efforts on motor vehicle insurance inspection and claim recovery.

Net claims incurred of the commercial property insurance segment were RMB4,076 million, representing a decrease of RMB1,665 million (or -29.0%) from RMB5,741 million in 2016. The loss ratio decreased by 19.3 percentage points from 76.3% in 2016 to 57.0% in 2017. In 2017, both the net claims incurred and the loss ratio of the commercial property insurance segment dropped significantly on a year-on-year basis, as a result of the Company's continuous improvement of underwriting risk control capability, roll-out of various initiatives to decrease the claims payment and less catastrophes compared with the same period of the previous year.

Net claims incurred of the accidental injury and health insurance segment were RMB24,004 million, representing an increase of RMB6,355 million (or 36.0%) from RMB17,649 million in 2016. The loss ratio increased by 4.7 percentage points from 89.0% in 2016 to 93.7% in 2017. In 2017, the Company had seen a rapid growth of its social security insurance business such as the critical illness insurance with broader underwriting coverage and higher level of protection, leading to an increase of the overall loss ratio of the accidental injury and health insurance segment.

Net claims incurred of the liability insurance segment were RMB6,929 million, representing an increase of RMB1,162 million (or 20.1%) from RMB5,767 million in 2016. The loss ratio decreased by 1.5 percentage points from 60.2% in 2016 to 58.7% in 2017. In 2017, the Company optimised the business structure from the source of underwriting, reinforced the management and control over the claim settlement process and strengthened the management on personal injury cases, resulting in a decrease of loss ratio of the liability insurance segment on a year-on-year basis.

Net claims incurred of the cargo insurance segment were RMB1,227 million, representing an increase of RMB78 million (or 6.8%) from RMB1,149 million in 2016. The loss ratio decreased by 2.6 percentage points from 53.2% in 2016 to 50.6% in 2017. In 2017, there was a sound and steady growth in the cargo insurance segment of the Company, but the number of large amount claims and the claim amount remained stable on a year-on-year basis, resulting in a slight drop in the loss ratio.

Net claims incurred of the agriculture insurance segment were RMB11,033 million, representing a decrease of RMB200 million (or -1.8%) from RMB11,233 million in 2016. The loss ratio decreased by 11.0 percentage points from 77.9% in 2016 to 66.9% in 2017. In 2017, the Company continuously optimised the business structure of agriculture insurance and enhanced its control over underwriting and claim assessment. In addition, there was a year-on-year decrease in loss caused by nationwide natural catastrophes. As a result, the agriculture insurance segment witnessed a slight decrease in claim cost on the basis of a premium growth, leading to a remarkable drop in the loss ratio.

Net claims incurred of the other insurance segment were RMB5,844 million, representing an increase of RMB342 million (or 6.2%) from RMB5,502 million in 2016. The loss ratio decreased by 10.8 percentage points from 77.8% in 2016 to 67.0% in 2017. In 2017, the loss ratios of the homeowners insurance, credit and surety insurance, construction insurance and marine hull insurance all decreased as a result of efforts made by the Company to strengthen the management and control over underwriting and claim assessment as well as less natural disaster and accidents.

TOTAL EXPENSES

The following table sets forth the total expenses of the Company and its subsidiaries and their percentages to the net earned premiums of the corresponding insurance segments (the “expense ratio”) for the relevant periods:

	Year ended 31 December			
	2017		2016	
	Total expenses <i>RMB million</i>	Expense ratio %	Total expenses <i>RMB million</i>	Expense ratio %
Motor vehicle insurance	(88,722)	(37.5)	(77,924)	(37.2)
Commercial property insurance	(3,277)	(45.8)	(3,542)	(47.1)
Accidental injury and health insurance	(2,885)	(11.3)	(2,482)	(12.5)
Liability insurance	(4,280)	(36.3)	(3,277)	(34.2)
Cargo insurance	(904)	(37.2)	(785)	(36.3)
Agriculture insurance	(4,203)	(25.5)	(2,813)	(19.5)
Other insurance	(2,990)	(34.3)	(2,655)	(37.5)
Total	(107,261)	(34.7)	(93,478)	(34.6)

Total expenses of the Company and its subsidiaries were RMB107,261 million in 2017, increased by RMB13,783 million (or 14.7%) from RMB93,478 million in 2016, with the expense ratio increasing by 0.1 percentage point from 34.6% in 2016 to 34.7% in 2017. In 2017, the Company implemented the comprehensive budget management and continued the cost leadership strategy. On one hand, the Company further cut the costs and expenses at each managerial level, strictly controlled the management expenses, thereby reducing the management expenses ratio by 0.1 percentage point on a year-on-year basis to 2.6%; on the other hand, the Company implemented the proactive financial policies, optimised the resource allocation model, proactively responded to the deregulation of premium rate of commercial motor vehicle insurance, promoted the basic level business development, thereby achieving an underwriting expense ratio of 32.1%, representing a year-on-year increase of 0.2 percentage points.

UNDERWRITING PROFIT

The following table sets forth the underwriting profit/(loss) of the Company and its subsidiaries and their percentages to the net earned premiums of the corresponding insurance segments (the “underwriting profit/(loss) ratio”) for the relevant periods:

	Year ended 31 December			
	2017		2016	
	Underwriting profit/(loss) <i>RMB million</i>	Underwriting profit/(loss) ratio %	Underwriting profit/(loss) <i>RMB million</i>	Underwriting profit/(loss) ratio %
Motor vehicle insurance	8,748	3.6	7,025	3.3
Commercial property insurance	(205)	(2.8)	(1,756)	(23.4)
Accidental injury and health insurance	(1,267)	(5.0)	(298)	(1.5)
Liability insurance	586	5.0	528	5.6
Cargo insurance	296	12.2	227	10.5
Agriculture insurance	1,253	7.6	382	2.6
Other insurance	(116)	(1.3)	(1,084)	(15.3)
Total	9,295	3.0	5,024	1.9

The Company and its subsidiaries recorded an underwriting profit of RMB9,295 million in 2017, representing an increase of RMB4,271 million (or 85.0%) from RMB5,024 million in 2016; the underwriting profit ratio was 3.0%, representing an increase of 1.1 percentage points as compared with 2016.

INVESTMENT RESULTS

Composition of Investment Assets

	31 December 2017		31 December 2016	
	Balance <i>RMB million</i>	Percentage %	Balance <i>RMB million</i>	Percentage %
By category:				
Cash and cash equivalents	34,688	8.3	25,144	6.6
Term deposits	61,300	14.8	68,286	18.0
Debt securities	153,728	37.0	110,645	29.1
Equity securities and mutual funds	64,701	15.6	67,038	17.6
Investments classified as loans and receivables	51,180	12.3	63,855	16.8
Investment properties	4,976	1.2	4,902	1.3
Investments in associates	41,832	10.1	37,045	9.8
Other investment assets (<i>Note</i>)	3,103	0.7	3,061	0.8
Total investment assets	415,508	100.0	379,976	100.0

Note: Other investment assets mainly included derivative financial assets and capital security fund.

In 2017, the steady growth in the underwriting business and the increase in underwriting profit of the Company provided stable cash flow support for the investment business. As at the end of the reporting period, the investment assets increased by RMB35,532 million (or 9.4%) compared to the beginning of the year. In 2017, while maintaining the overall size of the investment assets, the Company timely adjusted its investment assets mix, improved the quality of its investment portfolio and achieved a balance between investment yield and risk based on the conditions of the money market and capital market as well as its own risk preferences.

In 2017, in response to the volatility and adjustment in the capital market, the Company proactively carried out risk management and control. While increasing moderately the investment in equity securities in the secondary market and preferred shares, the Company drastically reduced the size of its investment in mutual funds, leading to a decrease of RMB2,337 million (or -3.5%) in the size of equity securities and mutual funds compared to the end of 2016. In addition, subject to the strict control of credit risks, the Company made full use of the favorable opportunity arising from the relatively high interest rates environment to increase the investment in fixed income financial products such as bonds, and effectively increased the efficiency and expanded channels of capital utilisation.

Investment Income

	Year ended 31 December	
	2017	2016
	<i>RMB million</i>	<i>RMB million</i>
Operating lease income from investment properties	273	256
Interest income	13,278	12,351
Dividend income	1,831	2,466
Total of investment income	<u>15,382</u>	<u>15,073</u>

Investment income of the Company and its subsidiaries was RMB15,382 million in 2017, representing an increase of RMB309 million (or 2.1%) from RMB15,073 million in 2016. In 2017, as the Company strengthened the risk control of equity assets and increased the investment in fixed income assets, the dividend income decreased by RMB635 million (or -25.8%) while the interest income increased by RMB927 million (7.5%) on a year-on-year basis.

Net Realised and Unrealised Gains on Investments

	Year ended 31 December	
	2017	2016
	<i>RMB million</i>	<i>RMB million</i>
Realised gains on investments	1,532	1,176
Unrealised losses on investments	(158)	(304)
Impairment losses	(297)	(98)
Fair value gains on investment properties	59	148
Total of net realised and unrealised gains on investments	<u>1,136</u>	<u>922</u>

In 2017, the Company and its subsidiaries proactively made use of the opportunities in the capital market to control the level of its holdings of equity assets. As a result, the trading gains of investment products such as stocks and funds increased and the realised gains on investments of the Company and its subsidiaries increased by RMB356 million (or 30.3%), and the net unrealised losses on investments decreased by RMB146 million on a year-on-year basis.

OVERALL RESULTS

The following table sets forth the overall results of the Company and its subsidiaries for the relevant periods or as at the relevant dates:

	Year ended 31 December	
	2017	2016
	<i>RMB million</i>	<i>RMB million</i>
Profit before tax	27,161	22,451
Income tax expense	(7,353)	(4,430)
Profit for the year	19,808	18,021
Total assets (<i>Note</i>)	524,566	475,949

Note: Based on the data as at 31 December 2017 and 31 December 2016.

PROFIT BEFORE TAX

As a result of the foregoing, profit before tax of the Company and its subsidiaries was RMB27,161 million in 2017, representing an increase of RMB4,710 million (or 21.0%) from RMB22,451 million in 2016.

INCOME TAX EXPENSE

Income tax expense of the Company and its subsidiaries was RMB7,353 million in 2017, representing an increase of RMB2,923 million from RMB4,430 million in 2016.

PROFIT FOR THE YEAR

As a result of the foregoing, the profit for the year was RMB19,808 million in 2017, representing an increase of RMB1,787 million (or 9.9%) from RMB18,021 million in 2016. Basic earnings per share attributable to owners of the parent in 2017 was RMB1.336.

CASH FLOW

The following table sets forth the cash flows of the Company and its subsidiaries for the relevant periods:

	Year ended 31 December	
	2017	2016
	<i>RMB million</i>	<i>RMB million</i>
Net cash flows from operating activities	21,441	22,077
Net cash flows used in investing activities	(7,523)	(18,206)
Net cash flows used in financing activities	(4,374)	(1,555)
Net increase in cash and cash equivalents	<u>9,544</u>	<u>2,316</u>

In 2017, the net cash flows from operating activities of the Company and its subsidiaries amounted to RMB21,441 million, representing a decrease of RMB636 million from RMB22,077 million in 2016. In 2017, due to the cross-annual settlement of some policy-backed business and the rapid development of the individual credit loan surety insurance subject to settlement by installments and other business, there was an increase in the premiums receivable, resulting in a slight decrease in the net cash flows from operating activities on a year-on-year basis.

In 2017, the net cash flows used in investing activities of the Company and its subsidiaries amounted to RMB7,523 million, representing a decrease of RMB10,683 million from RMB18,206 million in 2016. This was mainly attributable to the fact that the investment in Hua Xia Bank in 2016 caused a decrease of RMB23,867 million in the cash flows used in investments in associates in 2017 on a year-on-year basis. Meanwhile, due to the year-on-year decrease in cash generated from sales of investment products in 2017, the above effect was partially offset.

In 2017, the net cash flows used in financing activities of the Company and its subsidiaries were RMB4,374 million, representing an increase of RMB2,819 million from RMB1,555 million in 2016. This was mainly attributable to the fact that in 2016 the Company's net cash flows from the issuance of capital supplementary bonds and the redemption of subordinated debts were RMB7,000 million, and that in 2017 the net cash flows from the transactions of securities sold under agreements to repurchase increased by RMB4,749 million on a year-on-year basis.

As at 31 December 2017, the cash and cash equivalents of the Company and its subsidiaries amounted to RMB34,688 million.

LIQUIDITY

The cash flows of the Company and its subsidiaries are primarily derived from cash generated from operating activities, which are principally insurance premiums received. Additional liquidity sources include interest and dividend incomes, proceeds from matured investments, disposal of assets and financing activities. The liquidity requirements of the Company and its subsidiaries consist principally of the payment of claims and performance of other obligations under outstanding insurance policies, capital expenditure, operating expenses, tax payments, dividend payments and investment needs.

In November 2016, the Company issued fixed-rate capital supplementary bonds of RMB15 billion and in October 2014, the Company issued fixed-rate subordinated term debts of RMB8 billion, each with a term of 10 years, to institutional investors in the PRC for the primary purposes of replenishing the capital and increasing the solvency margin of the Company.

Save for the capital supplementary bonds and subordinated term debts mentioned above, the Company and its subsidiaries did not obtain working capital by borrowing.

The Company and its subsidiaries expect that they can meet their working capital needs in the future with cash generated from operating activities. The Company and its subsidiaries have sufficient working capital.

CAPITAL EXPENDITURE

The capital expenditure of the Company and its subsidiaries primarily includes expenditure for operational properties under construction and acquisition of motor vehicles for operational purposes as well as development of the information system. Capital expenditure of the Company and its subsidiaries was RMB1,730 million in 2017.

SOLVENCY MARGIN REQUIREMENT

As at 31 December 2017, the actual capital of the Company and its subsidiaries was RMB154,590 million, the core capital was RMB127,326 million, the minimum capital was RMB55,552 million, the comprehensive solvency margin ratio was 278%, and the core solvency margin ratio was 229%.

GEARING RATIO

As at 31 December 2017, the gearing ratio (*Note*) of the Company and its subsidiaries was 70.2%, representing an increase of 0.1 percentage point from 70.1% as at 31 December 2016.

Note: Gearing ratio is represented by total liabilities (excluding bonds payable) divided by total assets under accounting principles generally accepted in Hong Kong.

CONTINGENT EVENT

Owing to the nature of the insurance business, the Company and its subsidiaries are involved in legal proceedings in the ordinary course of business, including being the plaintiff or the defendant in litigation and arbitration proceedings. Most of such legal proceedings involve claims on the insurance policies of the Company and its subsidiaries, and some losses arising therefrom will be indemnified by reinsurers or other recoveries including salvages and subrogation. While the outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present, the Company and its subsidiaries believe that any liabilities resulted therefrom will not have a material adverse effect on the financial position or operating results of the Company and its subsidiaries.

As at 31 December 2017, there were certain pending legal proceedings for the Company and its subsidiaries. After taking into account professional opinions, the management of the Company believes that such legal proceedings will not cause significant losses to the Company and its subsidiaries.

EVENTS AFTER THE REPORTING PERIOD

On 23 March 2018, the Board proposed a final dividend of RMB0.338 per ordinary share for the year ended 31 December 2017, an amount of RMB6 billion to be appropriated to discretionary surplus reserve, and a conversion from share premium account to issued capital in a proportion of 5 shares for every 10 shares held. Such proposals are subject to the approval of the shareholders' general meeting of the Company.

CREDIT RISK

Credit risk is the risk of economic loss incurred by the Company and its subsidiaries resulting from the inability of debtors of the Company and its subsidiaries to make any principal or interest payments when due. The assets of the Company and its subsidiaries which are subject to credit risk are substantially insurance receivables, reinsurance assets, debt securities and deposits with commercial banks.

The Company and its subsidiaries are committed to credit sales only to corporate customers or individual customers who purchase part of the insurance policies through insurance intermediaries. The ability to collect premiums in a timely manner remains one of the key performance indicators of the Company. The Company's premiums receivable involves a large number of diversified customers, therefore there are no major credit concentration risks in insurance receivables.

Other than from state-owned reinsurance companies, the Company and its subsidiaries purchase reinsurance primarily from reinsurance companies with A- rating or above by Standard & Poor's (or equivalent ratings given by other international rating agencies such as A.M. Best, Fitch and Moody's). The management of the Company and its subsidiaries regularly review the creditworthiness of the reinsurance companies in order to update the reinsurance strategies and determine reasonable impairment provision on reinsurance assets of the Company and its subsidiaries.

The Company and its subsidiaries diligently manage credit risk in debt securities mainly by analysing the creditworthiness of investee companies prior to making investments and by strictly conforming to the relevant regulations issued by the CIRC on the investment ratings of corporate bonds. The majority of the bonds held by the Company and its subsidiaries have credit ratings of AA or above.

The Company and its subsidiaries manage and lower credit risk affecting their bank deposits mainly by depositing most of their deposits with state-owned banks or state-controlled commercial banks.

EXCHANGE RATE RISK

The Company and its subsidiaries conduct their business primarily in RMB, which is also their functional and financial reporting currency. Parts of the business of the Company and its subsidiaries (including parts of commercial property insurance, international cargo insurance and aviation insurance business) are conducted in foreign currencies, primarily in US dollars. The Company and its subsidiaries are also exposed to exchange rate risks for assets which are valued based on foreign currencies such as parts of their bank deposits and debt securities and certain insurance business liabilities which are denominated in foreign currencies, primarily in US dollars.

Foreign exchange transactions under the capital accounts of the Company and its subsidiaries are subject to foreign exchange control and the approval of the administration authority for foreign exchange. Exchange rate fluctuations may arise as a result of the foreign exchange policies of the PRC government.

INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of the changes in market interest rates. The Company and its subsidiaries' interest rate risk policy requires the Company and its subsidiaries to manage interest rate risk by maintaining an appropriate match of fixed and floating interest rate instruments. The policy also requires the Company and its subsidiaries to manage the maturity of interest-bearing financial assets and interest-bearing financial liabilities, reprice interest on floating rate instruments at intervals of less than one year, and manage floating interest rate risk through interest rate swap and other instruments. Interest on fixed interest rate instruments is priced at inception of the financial instrument and is fixed until maturity.

INTEREST RATE SWAPS

The Company's financial assets which bear interest at different rates would generate uncertain cash flows. As such, interest rate swap contracts are used by the Company to hedge against such interest rate risk whereby fixed interests are received from, and floating interests are paid to, the counterparties. As at 31 December 2017, the Company did not hold any interest rate swap contracts.

DEVELOPMENT OF NEW PRODUCTS

In 2017, the Company focused on the hot spots of the market and the needs of customers, and registered 253 insurance provisions on the registration platform for products requiring filing of the Insurance Association of China, including 107 main insurance provisions and 146 rider provisions, 152 national provisions and 101 regional provisions. The Company filed 663 agriculture insurance provisions with the CIRC's Insurance Provisions Electronic Filing System, all of which are regional provisions, including 625 main insurance provisions and 38 rider provisions. The Company submitted 14 national provisions to the CIRC for approval, including 12 main insurance provisions and 2 rider provisions.

EMPLOYEES

As at the end of 2017, the Company had 180,078 employees. In 2017, the employees' remuneration paid by the Company and its subsidiaries amounted to RMB29,445 million, mainly including basic salaries, performance-related bonus, and various insurance and welfare contributed in accordance with the relevant PRC laws and regulations. The Company and its subsidiaries enhanced the performance and work efficiency of employees by providing various career development paths, strengthening employee training, implementing performance appraisal and other measures. The Company is of the view that the Company and its subsidiaries maintain a good relationship with their employees.

LOOKING FORWARD

In 2018, the Company will resolutely implement the national strategic plans, stick to the general working principle of pursuing progress while ensuring stability, thoroughly implement the new development philosophy, adhere to excellence in its main business and sophistication in its speciality, deepen the integration of policy-backed business and commercial business and the integration of business model transformation and technological reform, improve the quality, enhance efficiency and change driving forces of the Company's development, and promote the Company's transformation towards high quality development. The Company will also enhance its service capabilities, defuse operational risks, and better serve the development of the real economy, the modernisation of state governance and the people's ever-growing needs for a better life. We will strive for a full achievement of the annual operation objectives of the Company with high quality development.

- (1) **To transform the business model, enhance business capturing capabilities, and ensure the leading position in the motor vehicle insurance industry.** Efforts will be made to establish a business structure with a leading position in motor vehicle insurance by making use of scientific business layout, forward-looking and early warnings, and smart management; improve the motor vehicle insurance promotion strategy, reduce customer resource leakage, improve the efficiency of resource utilisation, and enhance the Company's business capturing capabilities; implement the motor vehicle insurance boost strategy, transform the development model with focus on service, and bring the motor vehicle insurance into a new stage of development, in which services and brands are the key to success; implement the motor vehicle insurance value chain strategy, upgrade insurance supply, and build new advantages in motor vehicle insurance.
- (2) **To accelerate the development of integration, upgrade insurance supply, enhance the ability to serve the overall economic and social development, and improve the development capability of non-motor vehicle insurance.** Efforts will be made to connect with the modern economic system construction, build an insurance development platform for new economy, and serve the revitalisation and development of the real economy; link up with rural rejuvenation strategies, upgrade the market layout of insurance for agriculture, rural areas and farmers, build a new development landscape for the "big agriculture insurance", or agriculture insurance in a broader context, and serve the modernisation of rural agriculture and areas; connect with the modernisation of state governance, innovate and upgrade insurance supply, and serve the comprehensive deepening of reform and the building of China under the rule of law; connect with the "Healthy China" strategy, build platforms, improve people's well-being, speed up the construction of the social security insurance service platform, and serve the improvement of medical security system.

- (3) **To implement regional strategies, accelerate overseas deployment, and promote coordinated regional development.** Efforts will be made to improve the regional strategic layout, implement regional strategic management, optimise the allocation of regional resources, build a differentiated regional management model, promote regional transformation and upgrading, and enhance regional market competitiveness; continue to promote the “countywide evergreen” action plan and accelerate the enhancement of countywide development capabilities; serve the country’s development strategy featuring openness, accelerate overseas deployment, and further promote the globalisation strategy.
- (4) **To actively pursue new technological reforms, optimise organisational structure, implement the big data strategy, and optimise the Company’s value chain with an excellent operational platform.** Efforts will be made to be customer-centric, optimise the management system and organisational structure, and improve organisational capabilities and operational efficiency; accelerate the promotion and utilisation of new technologies in all aspects of the Company’s value chain, and improve the Company’s market responsiveness, risk management capabilities and customer service capabilities; meet the needs for the Company’s transformation towards high quality development, and build an industry-leading IT system; implement the big data strategy, and enhance the Company’s customer identification, risk assessment, and targeted marketing capabilities.
- (5) **To enhance professional capabilities, prevent and control risks in key areas, and achieve quality improvement, cost reduction and efficiency increase.** Efforts will be made to improve strategic risk management capabilities, improve the strategic risk management system, forestall and defuse strategic risks, and ensure the effective implementation of strategies; improve refined management capabilities, strengthen underwriting pricing management, improve risk assessment and underwriting mechanisms, deepen the lean management of claims, improve the professional and management capabilities relating to claim settlement, improve investment management capabilities, strengthen asset and liability matching management, optimise asset allocation, deepen capital utilisation, enhance investment income, forestall and defuse operational risks, and ensure the industry-leading profitability; enhance compliant operation capabilities, establish and improve independent risk assessment mechanisms, improve the risk prevention system, deepen the construction of informatisation of risk management, comprehensively improve the effects of preventing and controlling strategic risks, operational risks and non-compliance risks, ensure that the Company does not have systemic risks, and ensure the stable and sound operation of the Company.

PROFIT DISTRIBUTION

On 23 March 2018, the Board proposed the distribution of a final dividend of RMB0.338 per share (inclusive of applicable tax) for the year ended 31 December 2017, an appropriation of RMB6 billion to discretionary surplus reserve, and a conversion from share premium account to issued capital in a proportion of 5 shares for every 10 shares held. Such proposals are subject to the approval of the Company’s annual general meeting. Detailed arrangements regarding the final dividend and the conversion from share premium account to issued capital will be disclosed separately.

The Company had not paid any interim dividend during the Year.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The Company and its subsidiaries did not purchase, sell or redeem any of the Company's listed securities during the Year.

CORPORATE GOVERNANCE

The Company complied with all the code provisions of the Corporate Governance Code during the Year.

AUDIT COMMITTEE

The Audit Committee has reviewed the audited financial statements of the Company and its subsidiaries for the Year.

DEFINITIONS

In this announcement, the following expressions shall have the following meanings unless the context otherwise requires:

“Board” or “Board of Directors”	the board of directors of the Company
“CIRC”	China Insurance Regulatory Commission
“Company”	PICC Property and Casualty Company Limited
“Corporate Governance Code”	the corporate governance code section contained in the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“C-ROSS”	China Risk Oriented Solvency System
“Hua Xia Bank”	Hua Xia Bank Co., Limited
“PICC Group”	The People's Insurance Company (Group) of China Limited
“PRC” or “China”	the People's Republic of China
“RMB”	Renminbi, the lawful currency of the PRC

“the Year”

the year ended 31 December 2017

“%”

per cent

By Order of the Board
Miao Jianmin
Chairman

Beijing, the PRC, 23 March 2018

As at the date of this announcement, the Chairman of the Board is Mr. Miao Jianmin (executive director), the Vice Chairman is Mr. Lin Zhiyong (executive director), the non-executive director is Mr. Li Tao, Mr. Yun Zhen and Mr. Wang Dedi are executive directors, and the independent non-executive directors are Mr. Lin Hanchuan, Mr. Lo Chung Hing, Mr. Na Guoyi, Mr. Ma Yusheng, Mr. Chu Bende and Ms. Qu Xiaohui.