

ALLIANZ MALAYSIA BERHAD (12428-W)

AUDITED QUARTERLY RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2016

ALLIANZ MALAYSIA BERHAD (12428-W)

**Condensed consolidated statement of financial position
as at 31 December 2016 - audited**

	31 December 2016 RM'000	31 December 2015 RM'000
Assets		
Property, plant and equipment	118,864	96,750
Intangible assets	293,915	301,246
Investment properties	30,337	50,026
Deferred tax assets	14,613	19,051
Reinsurance assets	980,910	1,129,305
Investments	12,218,075	10,822,550
Derivative financial assets	15,425	5,724
Current tax assets	170	195
Insurance receivables	270,173	258,845
Other receivables, deposits and prepayments	257,663	229,885
Deferred acquisitions costs	86,928	82,199
Cash and cash equivalents	625,304	621,648
Total assets	14,912,377	13,617,424

ALLIANZ MALAYSIA BERHAD (12428-W)**Condensed consolidated statement of financial position
as at 31 December 2016 - audited (continued)**

	31 December 2016 RM'000	31 December 2015 RM'000
Equity		
Share capital:		
Ordinary Shares	173,707	169,309
Irredeemable Convertible Preference Shares ("ICPS")	172,499	176,897
Reserves	2,533,317	2,275,114
Total equity attributable to owners of the Company	2,879,523	2,621,320
Liabilities		
Insurance contract liabilities	10,768,504	9,888,621
Deferred tax liabilities	181,861	158,135
Derivative financial liabilities	13,873	3,454
Other financial liabilities	5,346	959
Insurance payables	372,450	393,168
Other payables and accruals	427,752	345,068
Benefits and claims liabilities	253,726	194,563
Current tax liabilities	9,342	12,136
Total liabilities	12,032,854	10,996,104
Total equity and liabilities	14,912,377	13,617,424
Net asset per ordinary share (RM)	16.58	15.48
Diluted net asset per ordinary share (RM)	8.32	7.57

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

ALLIANZ MALAYSIA BERHAD (12428-W)
**Condensed consolidated statement of profit or loss
For the year ended 31 December 2016**

	Note (Part B)	← Audited →			
		Individual period Three months ended 31 December		Cumulative period Twelve months ended 31 December	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Operating revenue *		1,210,975	1,170,329	4,678,486	4,519,074
Gross earned premiums		1,082,059	1,054,383	4,182,779	4,088,113
Premiums ceded to reinsurers		(117,435)	(133,746)	(492,279)	(583,786)
Net earned premiums		964,624	920,637	3,690,500	3,504,327
Investment income	4	128,916	115,946	495,707	430,961
Realised gains and losses	5	2,485	5,486	60,857	48,317
Fair value gains and losses	6	(134,246)	76,017	(27,258)	(55,644)
Fee and commission income		12,182	17,031	62,930	69,911
Other operating income		4,649	4,261	19,559	17,200
Other income		13,986	218,741	611,795	510,745
Gross benefits and claims paid		(485,262)	(461,045)	(2,024,262)	(1,684,894)
Claims ceded to reinsurers		86,267	119,707	363,906	403,612
Gross change in contract liabilities		(104,746)	(338,664)	(887,952)	(1,040,310)
Change in contract liabilities ceded to reinsurers		(41,989)	(29,765)	(129,610)	(148,141)
Net benefits and claims		(545,730)	(709,767)	(2,677,918)	(2,469,733)
Fee and commission expense		(160,840)	(162,164)	(623,698)	(612,999)
Management expenses		(143,122)	(130,957)	(513,252)	(464,761)
Other operating expenses		(7,914)	(9,490)	(32,836)	(29,358)
Other expenses		(311,876)	(302,611)	(1,169,786)	(1,107,118)
Profit before tax	7	121,004	127,000	454,591	438,221
Tax expense	8	(31,025)	(40,736)	(142,460)	(129,350)
Profit for the year		89,979	86,264	312,131	308,871

* Operating revenue consists of gross earned premiums and investment income.

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

ALLIANZ MALAYSIA BERHAD (12428-W)
**Condensed consolidated statement of profit or loss and other comprehensive income
For the year ended 31 December 2016**

	Note (Part B)	← Audited →			
		Individual period		Cumulative period	
		Three months ended 31 December		Twelve months ended 31 December	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Profit for the year attributable to owners of the Company		89,979	86,264	312,131	308,871
Other comprehensive income/(loss), net of tax					
Items that will not be reclassified subsequently to profit or loss					
Revaluation of property, plant and equipment		9,342	1,861	9,342	11,050
Tax effects thereon		(1,466)	53	(1,466)	(2,103)
		<u>7,876</u>	<u>1,914</u>	<u>7,876</u>	<u>8,947</u>
Items that are or may be reclassified subsequently to profit or loss					
Fair value of available-for-sale ("AFS") financial assets		(62,203)	22,152	(3,604)	18,313
Tax effects thereon		14,946	(5,313)	866	(4,590)
		<u>(47,257)</u>	<u>16,839</u>	<u>(2,738)</u>	<u>13,723</u>
Total other comprehensive (loss)/income for the year, net of tax		<u>(39,381)</u>	<u>18,753</u>	<u>5,138</u>	<u>22,670</u>
Total comprehensive income for the year, net of tax		<u>50,598</u>	<u>105,017</u>	<u>317,269</u>	<u>331,541</u>
Profit attributable to: Owners of the Company		<u>89,979</u>	<u>86,264</u>	<u>312,131</u>	<u>308,871</u>
Total comprehensive income for the year attributable to: Owners of the Company		<u>50,598</u>	<u>105,017</u>	<u>317,269</u>	<u>331,541</u>
Basic earnings per ordinary share (sen)	12(a)	<u>52.95</u>	<u>51.50</u>	<u>182.27</u>	<u>183.08</u>
Diluted earnings per ordinary share (sen)	12(b)	<u>26.28</u>	<u>25.05</u>	<u>90.80</u>	<u>89.37</u>

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

ALLIANZ MALAYSIA BERHAD (12428-W)
Condensed consolidated statement of changes in equity for the year ended 31 December 2016 - audited

	←————— Attributable to owners of the Company —————→							Total equity RM'000
	←————— Non-distributable —————→					Distributable		
	Ordinary shares RM'000	Preference shares RM'000	Share premium RM'000	Revaluation reserve RM'000	Fair value reserve RM'000	Life non- participating fund surplus* RM'000	Retained earnings RM'000	
At 1 January 2015	167,488	178,718	424,823	25,111	(14,493)	378,554	1,129,578	2,289,779
Revaluation of property, plant and equipment	-	-	-	8,947	-	-	-	8,947
Fair value of AFS financial assets	-	-	-	-	13,723	-	-	13,723
Total other comprehensive income for the year	-	-	-	8,947	13,723	-	-	22,670
Profit for the year	-	-	-	-	-	70,550	238,321	308,871
Total comprehensive income for the year	-	-	-	8,947	13,723	70,550	238,321	331,541
Contributions by and distributions to owners of the Company								
Conversion of Irredeemable Convertible Preference Shares to ordinary shares	1,821	(1,821)	-	-	-	-	-	-
Total transactions with owners of the Company	1,821	(1,821)	-	-	-	-	-	-
At 31 December 2015	169,309	176,897	424,823	34,058	(770)	449,104	1,367,899	2,621,320

ALLIANZ MALAYSIA BERHAD (12428-W)
Condensed consolidated statement of changes in equity for the year ended 31 December 2016 - audited (continued)

	←————— Attributable to owners of the Company —————→							Total equity RM'000
	←————— Non-distributable —————→					Distributable		
	Ordinary shares RM'000	Preference shares RM'000	Share premium RM'000	Revaluation reserve RM'000	Fair value reserve RM'000	Life non- participating fund surplus* RM'000	Retained earnings RM'000	
At 1 January 2016	169,309	176,897	424,823	34,058	(770)	449,104	1,367,899	2,621,320
Revaluation of property, plant and equipment	-	-	-	7,876	-	-	-	7,876
Fair value of AFS financial assets	-	-	-	-	(2,738)	-	-	(2,738)
Total other comprehensive income/(loss) for the year	-	-	-	7,876	(2,738)	-	-	5,138
Profit for the year	-	-	-	-	-	75,412	236,719	312,131
Total comprehensive income/(loss) for the year	-	-	-	7,876	(2,738)	75,412	236,719	317,269
Contributions by and distributions to owners of the Company								
Conversion of Irredeemable Convertible Preference Shares to ordinary shares	4,398	(4,398)	-	-	-	-	-	-
Dividends to owners of the Company	-	-	-	-	-	-	(59,066)	(59,066)
Total transactions with owners of the Company	4,398	(4,398)	-	-	-	-	(59,066)	(59,066)
At 31 December 2016	173,707	172,499	424,823	41,934	(3,508)	524,516	1,545,552	2,879,523

* The Life non-participating fund surplus amount is net of deferred tax. This amount is only distributable when the surplus is transferred from the life fund to the shareholders' fund.

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

ALLIANZ MALAYSIA BERHAD (12428-W)

Condensed consolidated statement of cash flows For the year ended 31 December 2016

	Year ended 31 December 2016 RM'000	Year ended 31 December 2015 RM'000
Cash flows from operating activities		
Profit before tax	454,591	438,221
<i>Adjustments for:</i>		
Investment income	(495,707)	(430,961)
Interest income	(636)	(423)
Interest expense	6,161	5,393
Realised gains recorded in profit or loss	(60,807)	(48,262)
Fair value gains on financial investments recorded in profit or loss	(4,154)	(296)
Purchases of financial investments	(3,796,227)	(3,040,315)
Maturity of financial investments	668,000	659,960
Proceeds from sale of financial investments	1,915,808	974,988
Change in loans and receivables	(155,271)	(215,884)
Non-cash items:		
Change in fair value of investment properties	2,008	(540)
Change in fair value of AFS financial assets	7,890	22,316
Unrealised foreign exchange gain	(205)	-
Depreciation of property, plant and equipment	17,339	17,014
Amortisation of intangible assets	16,256	15,294
Gain on disposal of property, plant and equipment	(50)	(55)
Impairment loss on AFS financial investments	29,404	56,480
Property, plant and equipment written off	29	501
Insurance and other receivables:		
- Allowance for/ (Reversal of) impairment loss	1,813	(6,904)
- Bad debts recovered	(160)	(144)
- Bad debts written off	1,284	6,885
Changes in working capital:		
Change in reinsurance assets	148,395	188,908
Change in insurance receivables	(13,020)	(60,063)
Change in other receivables, deposits and prepayments	(22,433)	22,954
Change in insurance contract liabilities	879,883	1,062,530
Change in deferred acquisition costs	(4,729)	(4,773)
Change in other financial liabilities	4,387	(10,122)
Change in insurance payables	(20,718)	36,006
Change in other payables and accruals	43,437	(13,199)
Change in benefits and claims liabilities	59,163	26,861
Cash used in operations	(318,269)	(297,630)

ALLIANZ MALAYSIA BERHAD (12428-W)**Condensed consolidated statement of cash flows
For the year ended 31 December 2016 (continued)**

	Year ended 31 December 2016 RM'000	Year ended 31 December 2015 RM'000
Cash flows from operating activities (continued)		
Tax paid	(116,979)	(115,322)
Dividends received	39,843	30,857
Interest income received	446,375	393,641
	<hr/>	<hr/>
Net cash from operating activities	50,970	11,546
	<hr/>	<hr/>
Investing activities		
Proceeds from disposal of property, plant and equipment	57	56
Acquisition of property, plant and equipment	(13,164)	(30,491)
Acquisition of intangible assets	(8,227)	(4,605)
	<hr/>	<hr/>
Net cash used in investing activities	(21,334)	(35,040)
	<hr/>	<hr/>
Financing activities		
Dividends paid to owners of the Company	(24,803)	(19,098)
Repayment of finance lease liabilities	-	(3)
Interest paid	(1,177)	(2,340)
	<hr/>	<hr/>
Net cash used in financing activities	(25,980)	(21,441)
	<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents	3,656	(44,935)
Cash and cash equivalents at 1 January	621,648	666,583
	<hr/>	<hr/>
Cash and cash equivalents at 31 December	625,304	621,648
	<hr/>	<hr/>
Cash and cash equivalents comprise:		
Fixed and call deposits with licensed financial institutions (with maturity less than three months)	558,972	598,079
Cash and bank balances	66,332	23,569
	<hr/>	<hr/>
	625,304	621,648
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The accompanying notes form an integral part of these condensed consolidated financial statements.

Part A: Explanatory notes to the condensed consolidated financial statements

1. Basis of preparation

These condensed consolidated quarterly financial statements ("the Report") of Allianz Malaysia Berhad ("AMB" or "the Company") and its subsidiaries (AMB and its subsidiaries are collectively referred to as the "Group") as at and for the financial year ended 31 December 2016 have been prepared in accordance with:

- (a) The requirements of Malaysian Financial Reporting Standard ("MFRS") 134: Interim Financial Reporting and with IAS 34: Interim Financial Reporting; and
- (b) Paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities").

The Report does not include all information required for disclosure in the annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the financial year ended 31 December 2016.

2. Statement of compliance

The following are accounting standards, amendments and interpretations of the MFRS framework that have been issued by the Malaysian Accounting Standards Board ("MASB") but have not been adopted by the Group and the Company:

MFRSs/ Amendments/ Interpretation	Effective date
Amendments to MFRS 12, <i>Disclosure of Interests in Other Entities (Annual Improvements to MFRS Standards 2014-2016 Cycle)</i>	1 January 2017
Amendments to MFRS 107, <i>Statement of Cash Flows – Disclosure Initiative</i>	1 January 2017
Amendments to MFRS 112, <i>Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses</i>	1 January 2017
MFRS 9, <i>Financial Instruments (2014)</i>	1 January 2018
MFRS 15, <i>Revenue from Contracts with Customers</i>	1 January 2018
Clarifications to MFRS 15, <i>Revenue from Contracts with Customers</i>	1 January 2018
IC Interpretation 22, <i>Foreign Currency Transactions and Advance Consideration</i>	1 January 2018
Amendments to MFRS 1, <i>First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2014-2016 Cycle)</i>	1 January 2018
Amendments to MFRS 2, <i>Share-based Payment – Classification and Measurement of Share-based Payment Transactions</i>	1 January 2018
Amendments to MFRS 4, <i>Insurance Contracts – Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts</i>	1 January 2018
Amendments to MFRS 128, <i>Investments in Associates and Joint Ventures (Annual Improvements to MFRS Standards 2014-2016 Cycle)</i>	1 January 2018
Amendments to MFRS 140, <i>Investment Property – Transfers of Investment Property</i>	1 January 2018
MFRS 16, <i>Leases</i>	1 January 2019
Amendments to MFRS 10, <i>Consolidated Financial Statements and MFRS 128, Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Yet to be confirmed

The Group and the Company plan to apply the abovementioned accounting standards, amendments and interpretations:

- from the annual period beginning on 1 January 2017 for those amendments that are effective for annual periods beginning on or after 1 January 2017, except for Amendments to MFRS 12 which is not applicable to the Group and the Company.
- from the annual period beginning on 1 January 2018 for those accounting standards, amendments and interpretation that are effective for annual periods beginning on or after 1 January 2018, except for Amendments to MFRS 1 and Amendments to MFRS 2 which are not applicable to the Group and the Company.
- from the annual period beginning on 1 January 2019 for the accounting standard that is effective for annual periods beginning on or after 1 January 2019.

Part A: Explanatory notes to the condensed consolidated financial statements (continued)

2. Statement of compliance (continued)

The initial application of the abovementioned accounting standards, amendments or interpretations are not expected to have any material financial impact to the current period and prior period financial statements of the Group and the Company except as mentioned below:

MFRS 15, Revenue from Contracts with Customers

MFRS 15 replaces the guidance in MFRS 111, *Construction Contracts*, MFRS 118, *Revenue*, IC Interpretation 13, *Customer Loyalty Programmes*, IC Interpretation 15, *Agreements for Construction of Real Estate*, IC Interpretation 18, *Transfer of Assets from Customers* and IC Interpretation 131, *Revenue – Barter Transactions Involving Advertising Services*. Upon adoption of MFRS 15, it is expected that the timing of revenue recognition for non-insurance contracts might be different as compared with current practices.

The Group and the Company are currently assessing the financial impact of adopting MFRS 15.

MFRS 9, Financial Instruments

MFRS 9 replaces the guidance in MFRS 139, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets and financial liabilities, and on hedge accounting.

The Group and the Company are currently assessing the financial impact that may arise from the adoption of MFRS 9.

MFRS 16, Leases

MFRS 16 replaces the guidance in MFRS 117, *Leases*, IC Interpretation 4, *Determining whether an Arrangement contains a Lease*, IC Interpretation 115, *Operating Leases – Incentives* and IC Interpretation 127, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The Group and the Company are currently assessing the financial impact that may arise from the adoption of MFRS 16.

Companies Act, 2016

The Companies Act, 2016 (“New Act”) was enacted to replace the Companies Act, 1965 in Malaysia with the objectives of creating a legal and regulatory structure that will facilitate business and promote accountability as well as protection of corporate directors and shareholders, taking into consideration the interest of other stakeholders. The New Act was passed on 4 April 2016 by the Dewan Rakyat (House of Representatives) and gazetted on 15 September 2016. On 26 January 2017, the Minister of Domestic Trade, Co-operatives and Consumerism announced that the date on which the New Act comes into operation, except section 241 and Division 8 of Part III of the New Act, would be 31 January 2017.

There is no impact on the financial statements of the Group and the Company for financial year ended 31 December 2016 as adoption of the New Act will only be applied prospectively.

3. Items of an unusual nature

The results of the Group for the financial year under review were not substantially affected by any item, transaction or event of a material and unusual nature.

4. Changes in estimates

There were no material changes in the basis used for accounting estimates for the financial year ended 31 December 2016.

5. Seasonal or cyclical factors

The operations of the Group for the financial year under review were not significantly affected by seasonality or cyclical factors.

6. Property, plant and equipment

The Group's property, plant and equipment are stated at cost/valuation less any accumulated depreciation and any accumulated impairment losses. During the financial year under review, the Group has revalued its property, plant and equipment and the revaluation surpluses amounting to:

	RM'000
General insurance operation	9,342

Part A: Explanatory notes to the condensed consolidated financial statements (continued)

7. Changes in group composition

There were no changes in the composition of the Group during the financial year under review.

8. Capital commitments

As at 31 December 2016	RM'000
Property, plant and equipment:	
Approved but not contracted for	20,823
Contracted but not provided for	3,614
Software development:	
Approved but not contracted for	51,742
Contracted but not provided for	3,121

9. Related party transactions

Significant related party transactions are as follows:

	Transactions value	
	Twelve months ended	
	31 December	
	2016	2015
	RM'000	RM'000
Related companies*		
Reinsurance premium and commission	(281,410)	(303,350)

* Related companies are companies within the Allianz SE Group.

10. Contingent liabilities

On 10 August 2016, the Malaysia Competition Commission ("MyCC") commenced an investigation into an alleged infringement by Persatuan Insurans Am Malaysia ("PIAM") and all 22 general insurers including the Company's general insurance subsidiary, Allianz General Insurance Company (Malaysia) Berhad ("AGIC") of Section 4(2)(a) of the Competition Act 2010 ("CA"). The alleged infringement is in relation to the agreement reached between PIAM and the Federation Of Automobile Workshop Owners' Association Of Malaysia ("FAWOAM") in relation to trade discount rates for parts for certain vehicle makes and labour hourly rates for PIAM Approved Repairers Scheme workshops. These rates were applied by AGIC pursuant to a members' circular issued by PIAM, which arose from Bank Negara Malaysia's ("BNM") directive to PIAM to engage FAWOAM to resolve the issues of parts trade discounts and labour hourly rate.

On 22 February 2017, AGIC received MyCC's notice of proposed decision ("Proposed Decision") that AGIC and all the other 21 general insurers who are members of PIAM have infringed one of the prohibitions under Part II of the CA. The Proposed Decision includes a proposed financial penalty of RM213,454,814 on all the 22 general insurers. AGIC, as one of the members of PIAM, will have a share of RM27,480,883 of the proposed penalty. The Proposed Decision is not final as at the date of this report and AGIC in consultation with its legal advisers will take such appropriate actions to defend its position that it has not been in infringement of Section 4(2)(a) of the CA.

11. Debt and equity securities

Save for the issuance of 4,397,861 ordinary shares of RM1.00 each pursuant to the conversion of the ICPS, there were no other issuances of shares, shares buy-backs and repayment of debt and equity securities by the Group during the financial year under review.

12. Subsequent event

The Allianz SE and Standard Chartered Bank entered into a 15-year bancaassurance agreement for the distribution of Allianz's general insurance products, including travel, personal accident, fire and motor insurance products, to Standard Chartered's Retail Banking clients in five key markets across Asia, namely Malaysia, Singapore, Indonesia, Hong Kong and China.

The new partnership arrangements in the respective countries will be implemented during the course of 2017.

Part A: Explanatory notes to the condensed consolidated financial statements (continued)

13. Operating segments

The Group has three reportable segments, as described below, which are the Group's strategic business units. For each of the strategic business units, the Chief Executive Officer of the Company reviews internal management reports on a monthly basis. The following summary describes the operations in each of the Group's reportable segments:

Reportable segments	Principal activities
Investment holding	Investment holding
General insurance	Underwriting of all classes of general insurance business
Life insurance	Underwriting of all classes of life insurance and investment-linked business

Information about reportable segments

For the year ended 31 December 2016 - audited

	Investment holding		General insurance		Life insurance		Consolidated	
	2016	2015	2016	2015	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Segment revenue	13,054	12,506	2,242,665	2,277,997	2,422,767	2,228,571	4,678,486	4,519,074
Inter-segment revenue	(87,763)	(21,694)	-	-	-	-	(87,763)	(21,694)
Segment results	(4,296)	(723)	320,520	322,327	138,367	116,617	454,591	438,221
Segment assets	443,649	375,016	5,789,498	5,707,128	8,679,230	7,535,280	14,912,377	13,617,424
Segment liabilities	107,476	67,245	3,773,312	3,845,326	8,152,066	7,083,533	12,032,854	10,996,104

Part A: Explanatory notes to the condensed consolidated financial statements (continued)

14. Dividend paid

- (a) A first and final ordinary share dividend of 6.50 sen per ordinary share under single tier system (2014: nil) and a first and final preference share dividend of 7.80 sen per ICPS under single tier system (2014: nil) for the financial year ended 31 December 2015 were paid on 15 June 2016 to the entitled ordinary shareholders and ICPS holders of the Company respectively whose names appeared on the Register of Members and/or Record of Depositors on 31 May 2016.
- (b) An interim ordinary share dividend of 9.00 sen per ordinary share under single tier system (2015: nil) and an interim preference share dividend of 10.80 sen per ICPS under single tier system (2015: nil) for the financial year ended 31 December 2016 were paid on 21 February 2017 to the entitled ordinary shareholders and ICPS holders of the Company respectively whose names appeared on the Register of Members and/or Record of Depositors on 3 February 2017.

Part B: Explanatory notes pursuant to the Main Market Listing Requirements of Bursa Securities

1. Review of results

1.1 Results of the current year-to-date (YTD) against preceding YTD (YTD Fourth Quarter 2016 versus YTD Fourth Quarter 2015)

Operating revenue

The Group recorded an operating revenue of RM4.68 billion for the financial year ended 31 December 2016, an increase of 3.5% or RM159.4 million as compared to the preceding financial year ended 31 December 2015 of RM4.52 billion due to higher gross earned premiums and investment income by RM94.7 million and RM64.7 million respectively.

The general insurance operation recorded an operating revenue of RM2.24 billion for the financial year ended 31 December 2016, a marginal decrease of 1.5% or RM35.3 million as compared to the preceding financial year ended 31 December 2015 of RM2.28 billion due to the decrease in gross earned premiums by RM52.9 million. The lower gross earned premiums of the general insurance operation was due mainly to lower motor insurance caused by lower car sales in 2016. The increase in investment income was due mainly to the higher investment asset base.

The life insurance operation recorded an operating revenue of RM2.42 billion for the financial year ended 31 December 2016, an increase of 8.7% or RM194.2 million as compared to the preceding financial year ended 31 December 2015 of RM2.23 billion due to the increase in gross earned premiums and investment income by RM147.6 million and RM46.7 million respectively.

The increase in gross earned premiums of the life insurance operation was mainly contributed by growth in premium from agency channel and single premium from bancassurance channel.

Profit before tax

The Group recorded a profit before tax of RM454.6 million for the financial year ended 31 December 2016, an increase of 3.7% or RM16.4 million as compared to the preceding financial year ended 31 December 2015 of RM438.2 million.

General insurance operation delivered a profit before tax of RM320.5 million for the financial year ended 31 December 2016, a decrease of 0.6% or RM1.8 million as compared to the preceding financial year ended 31 December 2015 of RM322.3 million. The decrease in profit was due mainly to lower underwriting profit, contributed by higher claims ratio.

The life insurance operation recorded a higher profit before tax of RM138.4 million for the financial year ended 31 December 2016, an increase of 18.7% or RM21.8 million as compared to a profit before tax of the preceding financial year ended 31 December 2015 of RM116.6 million due to higher contribution from investment-linked protection business.

Part B: Explanatory notes pursuant to the Main Market Listing Requirements of Bursa Securities (continued)

1. Review of results (continued)

1.1 Results of the current year-to-date (YTD) against preceding YTD (YTD Fourth Quarter 2016 versus YTD Fourth Quarter 2015) (continued)

Profit before tax (continued)

The investment holding segment registered a loss before tax of RM4.3 million for the financial year ended 31 December 2016 as compared to a loss of RM0.7 million for the preceding financial year ended 31 December 2015 due to higher operating expenses for the financial year under review.

1.2 Results of the current quarter against the preceding quarter (Fourth Quarter 2016 versus Third Quarter 2016)

Operating revenue

The Group recorded an operating revenue of RM1.21 billion for the quarter under review, an increase of 5.1% or RM59.0 million as compared to the preceding quarter ended 30 September 2016 of RM1.15 billion due to higher gross earned premiums of RM57.9 million.

The general insurance operation recorded an operating revenue of RM555.9 million for the quarter under review, a marginal decrease of 0.5% or RM2.8 million as compared to the preceding quarter ended 30 September 2016 of RM558.7 million due mainly to lower of gross earned premiums from motor business in current quarter.

The life insurance operation registered an operating revenue of RM651.9 million for the quarter under review, an increase of 10.5% or RM61.9 million as compared to the preceding quarter ended 30 September 2016 of RM590.0 million due mainly to increase of gross earned premiums by RM62.2 million in the current quarter as a result of higher premiums generated from agency channel.

Profit before tax

The Group recorded a profit before tax of RM121.0 million for the quarter under review, an increase of 10.7% or RM11.7 million as compared to the preceding quarter ended 30 September 2016 of RM109.3 million due mainly to higher profit from life insurance operation.

The profit before tax of general insurance operation for the quarter under review of RM73.9 million, remained stable and as same level compared to the preceding quarter ended 30 September 2016 of RM73.9 million. The lower profit before tax was due mainly to lower underwriting profit in the current quarter arising from higher expenses incurred.

The profit before tax of life insurance operation for the quarter under review of RM48.4 million, an increase of 35.6% or RM12.7 million as compared to the preceding quarter ended 30 September 2016 of RM35.7 million due mainly to higher contribution from protection business and lower insurance contract liabilities arising from higher interest rate in the current quarter.

The investment holding segment registered a loss before tax of RM1.3 million for the quarter under review as compared to a loss of RM0.3 million for the preceding quarter ended 30 September 2016 due to higher operating expenses in the current quarter.

Part B: Explanatory notes pursuant to the Main Market Listing Requirements of Bursa Securities (continued)

2. Current year prospect

The Malaysia economy is expected to expand about 4% in 2017 as a result of subdued consumer and investment spending amid increased uncertainty and volatility in the global economy and financial markets.

In tandem with the subdued outlook of the economy, we can also expect an equally subdued outlook for the general insurance industry. Further, the motor business will likely witness more intense competition with the phased detarification of the motor and fire products which began last year as a result of continued lower automotive sales. The life insurance industry will witness continued growth in 2017 with increasing consumer awareness on the needs for insurance protection and the current low insurance penetration rate.

To remain ahead of competition, the Group will continue to focus on offering innovative products to meet protection needs and service differentiation to provide greater value proposition to customers. Both the insurance subsidiaries will continue to strengthen its distribution networks. The general insurance subsidiary expanded in non-agency distribution with the recent tied-up with Standard Chartered Bank via a regional 15 years bancassurance arrangement. The life insurance subsidiary will focus on expanding its agency force and building professional agency force to service customers. The Group will also continue its digital ambition to drive simplification across all processes and to create scalable operation platform. Investments will continue to be made in areas of digital initiatives.

Whilst the Group continues to operate in a difficult macroeconomic environment, the Board is confident that with the Group's focus on optimizing the performance of its insurance businesses it will continue its growth momentum and deliver sustainable returns to all stakeholders in 2017.

3. Profit forecast

The Group did not issue any profit forecast or profit guarantee as at the date of the Report.

4. Investment income

	Individual period		Cumulative period	
	Three months ended		Twelve months ended	
	31 December		31 December	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Interest income	116,056	103,863	443,696	389,229
Dividend income	9,609	9,228	39,843	30,857
Accretion of discounts	2,057	1,544	7,208	5,689
Amortisation of premiums	(908)	(946)	(3,673)	(4,004)
Rental income	108	118	209	913
Other income	1,994	2,139	8,424	8,277
	128,916	115,946	495,707	430,961

Part B: Explanatory notes pursuant to the Main Market Listing Requirements of Bursa Securities (continued)

5. Realised gains and losses

	Individual period		Cumulative period	
	Three months ended		Twelve months ended	
	31 December		31 December	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment				
Realised gains on disposal	45	7	50	55
Financial assets				
Realised gains on disposal:				
Malaysian government securities	194	650	12,527	5,985
Quoted equity securities of corporations in Malaysia	9,399	19,634	86,983	69,383
Quoted equity securities of corporations outside Malaysia	87	46	416	171
Quoted unit trusts in Malaysia	1	3,117	3,546	6,494
Unquoted bonds of corporations in Malaysia	330	-	955	-
Unquoted unit trusts outside Malaysia	160	95	9,835	5,314
Realised losses on disposal:				
Malaysian government securities	2,016	(9)	(3,840)	(368)
Malaysian government guaranteed bonds	(1,963)	-	(2,373)	-
Quoted equity securities of corporations in Malaysia	(5,956)	(17,157)	(45,004)	(34,907)
Quoted equity securities of corporations outside Malaysia	(161)	(14)	(330)	(101)
Unquoted unit trusts outside Malaysia	(118)	(135)	(359)	(2,071)
Put options	(1,549)	(748)	(1,549)	(1,638)
Total net realised gains for financial assets	2,440	5,479	60,807	48,262
Total net realised gains	2,485	5,486	60,857	48,317

Part B: Explanatory notes pursuant to the Main Market Listing Requirements of Bursa Securities (continued)
6. Fair value gains and losses

	Individual period		Cumulative period	
	Three months ended		Twelve months ended	
	31 December		31 December	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Investment properties				
Fair value (losses)/gains on investment properties	(1,204)	540	(2,008)	540
Financial assets				
Held for trading financial assets	(57,294)	67,836	(9,322)	7,637
Designated upon initial recognition financial assets	(48,973)	7,847	11,551	(4,232)
Derivatives	(18,039)	8,140	1,925	(3,109)
Total fair value (losses)/gains on financial assets at Fair Value Through Profit or Loss	(124,306)	83,823	4,154	296
Impairment loss on AFS financial investments	(8,736)	(8,346)	(29,404)	(56,480)
Total net fair value (losses)/gains	(134,246)	76,017	(27,258)	(55,644)

7. Profit before tax

Profit before tax for the financial year under review is arrived at after charging/(crediting):

	Individual period		Cumulative period	
	Three months ended		Twelve months ended	
	31 December		31 December	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Amortisation of intangible assets	4,331	4,021	16,256	15,294
Depreciation of property, plant and equipment	5,138	5,452	17,339	17,014
Insurance and other receivables:				
- Allowance for/(Reversal of) impairment loss	(5,168)	(10,018)	1,813	(6,904)
- Bad debts recovered	(61)	(45)	(160)	(144)
- Bad debts written off	921	3,253	1,284	6,885
Interest expense	840	810	6,161	5,393
Interest income	(228)	(124)	(636)	(423)
Property, plant and equipment written off	6	381	29	501
Unrealised foreign exchange gain	(205)	-	(205)	-

Other than as disclosed in Notes 6 and 7, there are no exceptional items for the financial year ended 31 December 2016.

Part B: Explanatory notes pursuant to the Main Market Listing Requirements of Bursa Securities (continued)

8. Tax expense

	Individual period		Cumulative period	
	Three months ended		Twelve months ended	
	31 December		31 December	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Profit before tax	121,004	127,000	454,591	438,221
Tax expense				
Income tax	30,853	35,036	114,210	116,807
Deferred tax	172	5,700	28,250	12,543
Total tax expense	31,025	40,736	142,460	129,350
Effective tax rate	26%	32%	31%	30%

The Group's consolidated effective tax rate for the financial period under review is higher than the statutory tax rate of 24% (2015: 25%) due mainly to the following:

- In addition to the 24% income tax on the assessable income of the Shareholders' Fund, there is also an 8% income tax on the assessable investment income net of allowable deductions of the Life Fund; and
- Effects of certain non-deductible expenses.

9. Status of corporate proposal announced

Bank Negara Malaysia ("BNM") has via its letter dated 26 October 2016 ("BNM Letter") stated it has no objection in principle for the Company to commence negotiations with HSBC Insurance (Asia Pacific) Holdings Limited, JAB Capital Berhad and the Employees Provident Fund Board on the proposed acquisition of up to 100% equity interest in HSBC Amanah Takaful (Malaysia) Berhad ("Proposed Acquisition"). The Group is currently in the process of negotiation with the parties concerned on the Proposed Acquisition.

10. Borrowings and debts securities

Save as disclosed below, the Group has no other outstanding borrowings and debts securities for the financial year under review.

As at 31 December 2016	RM'000
<u>Interest Bearing</u>	
Amount due to holding company	54,300

A 5-year term loan from its holding company, Allianz SE, is unsecured and subject to interest of 4.3% per annum.

11. Changes in material litigations

There are no material litigations pending at the date of the Report.

Part B: Explanatory notes pursuant to the Main Market Listing Requirements of Bursa Securities (continued)

12. Earnings per ordinary share

(a) Basic earnings per ordinary share

Basic earnings per ordinary share of the Group are calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue.

		Individual period		Cumulative period	
		Three months ended		Twelve months ended	
		31 December		31 December	
		2016	2015	2016	2015
Profit attributable to ordinary shareholders	(RM'000)	89,979	86,264	312,131	308,871
Weighted average number of ordinary shares in issue	('000)	169,938	167,488	171,251	168,712
Basic earnings per ordinary share	(sen)	52.95	51.50	182.27	183.08

(b) Diluted earnings per ordinary share

Diluted earnings per ordinary share of the Group are calculated by dividing the net diluted profit attributable to shareholders by the diluted weighted average number of ordinary shares in issue.

		Individual period		Cumulative period	
		Three months ended		Twelve months ended	
		31 December		31 December	
		2016	2015	2016	2015
Profit attributable to ordinary shareholders	(RM'000)	89,979	86,264	312,131	308,871
Weighted average number of ordinary shares in issue	('000)	169,938	167,488	171,251	168,712
Effect of conversion of ICPS	('000)	172,499	176,897	172,499	176,897
Diluted weighted average number of ordinary shares during the year	('000)	342,437	344,385	343,750	345,609
Diluted earnings per ordinary share	(sen)	26.28	25.05	90.80	89.37

Part B: Explanatory notes pursuant to the Main Market Listing Requirements of Bursa Securities (continued)

13. Dividend

The Board of Directors declared an interim ordinary share dividend of 9.00 sen per ordinary share under single tier system (2015: nil) and an interim preference share dividend of 10.80 sen per ICPS under single tier system (2015: nil) for the financial year ended 31 December 2016 which were paid on 21 February 2017 to the entitled shareholders and ICPS holders of the Company respectively whose names appeared on the Register of Members and/or Record of Depositors on 3 February 2017.

The Board of Directors does not recommend any payment of final dividend for the financial year ended 31 December 2016.

14. Disclosure of realised and unrealised earnings

The breakdown of the retained earnings of the Group as at 31 December 2016, into realised and unrealised profit or loss, is as follow:

	As at 31.12.2016 RM'000	As at 31.12.2015 RM'000
Total retained earnings of the Group:		
- Realised	2,217,954	1,937,022
- Unrealised	(147,886)	(120,019)
	2,070,068	1,817,003

The disclosure of realised and unrealised profit or loss above is solely for complying with the disclosure requirements of Bursa Securities and should not be applied for any other purposes.

The determination of realised and unrealised profit or loss is based on the Guidance of Special Matter No. 1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Securities' Listing Requirements*, issued by Malaysian Institute of Accountants on 20 December 2010.

15. Auditors' report on preceding annual financial statements

The auditors' report of the Group's audited financial statements for the financial year ended 31 December 2016 was not qualified.

BY ORDER OF THE BOARD

Ng Siew Gek
Company Secretary

Kuala Lumpur
 24 February 2017