

**ALLIANZ MALAYSIA BERHAD (12428-W)**

UNAUDITED QUARTERLY RESULTS  
FOR THE PERIOD ENDED 30 JUNE 2017

**ALLIANZ MALAYSIA BERHAD (12428-W)**

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**Condensed consolidated statement of financial position  
as at 30 June 2017 - unaudited**

	<b>30 June 2017 RM'000</b>	<b>&lt; Audited &gt; 31 December 2016 RM'000</b>
<b>Assets</b>		
Property, plant and equipment	112,679	118,864
Intangible assets	358,640	293,915
Investment properties	30,337	30,337
Deferred tax assets	9,818	14,613
Reinsurance assets	903,074	980,910
Investments	12,956,868	12,218,075
Derivative financial assets	23,828	15,425
Current tax assets	7,169	170
Insurance receivables	302,335	270,173
Other receivables, deposits and prepayments	276,380	257,663
Deferred acquisitions costs	95,683	86,928
Cash and cash equivalents	786,393	625,304
<b>Total assets</b>	<b>15,863,204</b>	<b>14,912,377</b>

**ALLIANZ MALAYSIA BERHAD (12428-W)****Condensed consolidated statement of financial position  
as at 30 June 2017 - unaudited (continued)**

	<b>30 June 2017 RM'000</b>	<b>&lt; Audited &gt; 31 December 2016 RM'000</b>
<b>Equity</b>		
Share capital:		
Ordinary Shares	174,192	173,707
Irredeemable Convertible Preference Shares ("ICPS")	172,014	172,499
Reserves	2,681,649	2,533,317
<b>Total equity attributable to owners of the Company</b>	<b>3,027,855</b>	<b>2,879,523</b>
<b>Liabilities</b>		
Insurance contract liabilities	11,495,608	10,768,504
Deferred tax liabilities	211,743	181,861
Derivative financial liabilities	7,175	13,873
Other financial liabilities	26,552	5,346
Insurance payables	391,329	372,450
Other payables and accruals	401,167	427,752
Benefits and claims liabilities	286,980	253,726
Current tax liabilities	14,795	9,342
<b>Total liabilities</b>	<b>12,835,349</b>	<b>12,032,854</b>
<b>Total equity and liabilities</b>	<b>15,863,204</b>	<b>14,912,377</b>
<b>Net asset per ordinary share (RM)</b>	<b>17.38</b>	<b>16.58</b>
<b>Diluted net asset per ordinary share (RM)</b>	<b>8.75</b>	<b>8.32</b>

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 period ended 30 June 2017 - unaudited**

	Note (Part B)	Individual period Three months ended 30 June		Cumulative period Six months ended 30 June	
		2017	2016	2017	2016
		RM'000	RM'000	RM'000	RM'000
Operating revenue *		1,193,797	1,148,446	2,402,734	2,315,739
Gross earned premiums		1,051,821	1,025,837	2,130,967	2,076,493
Premiums ceded to reinsurers		(105,078)	(127,480)	(227,470)	(249,290)
<b>Net earned premiums</b>		<b>946,743</b>	<b>898,357</b>	<b>1,903,497</b>	<b>1,827,203</b>
Investment income	4	141,976	122,609	271,767	239,246
Realised gains and losses	5	35,705	12,148	69,092	42,685
Fair value gains and losses	6	51,624	(27,071)	164,914	49,303
Fee and commission income		7,639	17,125	17,983	29,764
Other operating income		3,877	4,876	10,699	10,046
<b>Other income</b>		<b>240,821</b>	<b>129,687</b>	<b>534,455</b>	<b>371,044</b>
Gross benefits and claims paid		(535,285)	(504,017)	(1,108,931)	(1,022,308)
Claims ceded to reinsurers		48,139	104,744	150,479	191,771
Gross change in contract liabilities		(291,478)	(167,630)	(573,248)	(506,233)
Change in contract liabilities ceded to reinsurers		4,352	(66,610)	(66,400)	(77,574)
<b>Net benefits and claims</b>		<b>(774,272)</b>	<b>(633,513)</b>	<b>(1,598,100)</b>	<b>(1,414,344)</b>
Fee and commission expense		(158,064)	(152,069)	(320,216)	(305,504)
Management expenses		(141,935)	(123,088)	(290,060)	(236,424)
Other operating expenses		(8,306)	(10,055)	(15,926)	(17,659)
<b>Other expenses</b>		<b>(308,305)</b>	<b>(285,212)</b>	<b>(626,202)</b>	<b>(559,587)</b>
<b>Profit before tax</b>	7	<b>104,987</b>	<b>109,319</b>	<b>213,650</b>	<b>224,316</b>
Tax expense	8	(38,507)	(33,030)	(79,996)	(74,848)
<b>Profit for the period</b>		<b>66,480</b>	<b>76,289</b>	<b>133,654</b>	<b>149,468</b>

\* 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 period ended 30 June 2017 - unaudited**

	Note (Part B)	Individual period Three months ended 30 June		Cumulative period Six months ended 30 June	
		2017	2016	2017	2016
		RM'000	RM'000	RM'000	RM'000
<b>Profit for the period attributable to owners of the Company</b>		66,480	76,289	133,654	149,468
<b>Other comprehensive income, net of tax</b>					
<b>Items that are or may be reclassified subsequently to profit or loss</b>					
Fair value of available-for-sale ("AFS") financial assets		13,603	9,630	19,306	30,926
Tax effects thereon		(3,264)	(2,312)	(4,628)	(7,442)
		<u>10,339</u>	<u>7,318</u>	<u>14,678</u>	<u>23,484</u>
<b>Total other comprehensive income for the period, net of tax</b>		<u>10,339</u>	<u>7,318</u>	<u>14,678</u>	<u>23,484</u>
<b>Total comprehensive income for the period, net of tax</b>		<u>76,819</u>	<u>83,607</u>	<u>148,332</u>	<u>172,952</u>
Profit attributable to:					
Owners of the Company		<u>66,480</u>	<u>76,289</u>	<u>133,654</u>	<u>149,468</u>
Total comprehensive income for the period attributable to:					
Owners of the Company		<u>76,819</u>	<u>83,607</u>	<u>148,332</u>	<u>172,952</u>
<b>Basic earnings per ordinary share (sen)</b>	12(a)	<u>38.23</u>	<u>44.93</u>	<u>76.89</u>	<u>88.16</u>
<b>Diluted earnings per ordinary share (sen)</b>	12(b)	<u>19.22</u>	<u>22.22</u>	<u>38.65</u>	<u>43.56</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 period ended 30 June 2017 - unaudited**

	←————— Attributable to owners of the Company —————→							Total equity RM'000
	←————— Non-distributable —————→				Distributable			
	Ordinary shares RM'000	Preference shares RM'000	Share premium <sup>1</sup> RM'000	Revaluation reserve RM'000	Fair value reserve RM'000	Life non- participating fund surplus <sup>2</sup> RM'000	Retained earnings RM'000	
<b>At 1 January 2016</b>	169,309	176,897	424,823	34,058	(770)	449,104	1,367,899	2,621,320
Fair value of AFS financial assets	-	-	-	-	23,484	-	-	23,484
Total other comprehensive income for the period	-	-	-	-	23,484	-	-	23,484
Profit for the period	-	-	-	-	-	26,586	122,882	149,468
<b>Total comprehensive income for the period</b>	-	-	-	-	23,484	26,586	122,882	172,952
Contributions by and distributions to owners of the Company								
Conversion of ICPS to ordinary shares	3,278	(3,278)	-	-	-	-	-	-
Dividends to owners of the Company	-	-	-	-	-	-	(24,803)	(24,803)
<b>Total transactions with owners of the Company</b>	3,278	(3,278)	-	-	-	-	(24,803)	(24,803)
<b>At 30 June 2016</b>	172,587	173,619	424,823	34,058	22,714	475,690	1,465,978	2,769,469

**ALLIANZ MALAYSIA BERHAD (12428-W)**
**Condensed consolidated statement of changes in equity for the period ended 30 June 2017 - unaudited (continued)**

	←————— Attributable to owners of the Company —————→							Total equity
	←————— Non-distributable —————→					Distributable		
	Ordinary shares	Preference shares	Share premium <sup>1</sup>	Revaluation reserve	Fair value reserve	Life non- participating fund surplus <sup>2</sup>	Retained earnings	
RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
<b>At 1 January 2017</b>	173,707	172,499	424,823	41,934	(3,508)	524,516	1,545,552	2,879,523
Fair value of AFS financial assets	-	-	-	-	14,678	-	-	14,678
Total other comprehensive income for the period	-	-	-	-	14,678	-	-	14,678
Profit for the period	-	-	-	-	-	27,239	106,415	133,654
<b>Total comprehensive income for the period</b>	-	-	-	-	14,678	27,239	106,415	148,332
Contributions by and distributions to owners of the Company								
Conversion of ICPS to ordinary shares	485	(485)	-	-	-	-	-	-
Dividends to owners of the Company	-	-	-	-	-	-	-	-
<b>Total transactions with owners of the Company</b>	485	(485)	-	-	-	-	-	-
<b>At 30 June 2017</b>	174,192	172,014	424,823	41,934	11,170	551,755	1,651,967	3,027,855

<sup>1</sup> Pursuant to Section 618(3) of the Companies Act 2016 ("CA 2016"), the right to use the credit standing in the share premium account must be exercised within 24 months after the commencement of CA 2016.

<sup>2</sup> 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 period ended 30 June 2017 - unaudited**

	Three months ended 30 June 2017 RM'000	Three months ended 30 June 2016 RM'000
<b>Cash flows from operating activities</b>		
Profit before tax	213,650	224,316
<i>Adjustments for:</i>		
Investment income	(271,767)	(239,246)
Interest expense	2,364	4,349
Realised gains recorded in profit or loss	(68,982)	(42,681)
Fair value gains on financial investments recorded in profit or loss	(166,625)	(65,090)
Purchases of financial investments	(1,395,261)	(1,824,529)
Maturity of financial investments	185,000	420,000
Proceeds from sale of financial investments	887,520	1,090,978
Change in loans and receivables	(79,242)	(65,652)
<b>Non-cash items:</b>		
Change in fair value of AFS financial assets	(88,399)	(17,908)
Unrealised foreign exchange loss	127	-
Depreciation of property, plant and equipment	7,660	7,657
Amortisation of intangible assets	8,943	7,831
Gain on disposal of property, plant and equipment	(110)	(4)
Impairment loss on AFS financial investments	1,711	15,787
Property, plant and equipment written off	5	15
Insurance and other receivables:		
- Allowance for impairment loss	18,977	4,853
- Bad debts recovered	(152)	(64)
- Bad debts written off	206	340
<b>Changes in working capital:</b>		
Change in reinsurance assets	77,836	76,651
Change in insurance receivables	(51,193)	(48,861)
Change in other receivables, deposits and prepayments	(20,658)	(25,520)
Change in insurance contract liabilities	727,104	560,980
Change in deferred acquisition costs	(8,755)	(6,049)
Change in other financial liabilities	21,206	3,301
Change in insurance payables	18,879	(25,478)
Change in other payables and accruals	6,505	(5,103)
Change in benefits and claims liabilities	33,254	38,069
<b>Cash generated from operations</b>	59,803	88,942



**ALLIANZ MALAYSIA BERHAD (12428-W)****Condensed consolidated statement of cash flows  
For the period ended 30 June 2017 - unaudited (continued)**

	<b>Three months ended 30 June 2017 RM'000</b>	<b>Three months ended 30 June 2016 RM'000</b>
<b>Cash flows from operating activities (continued)</b>		
Tax paid	(59,180)	(56,519)
Dividends received	24,051	17,432
Interest income received	246,908	219,658
	<hr/>	<hr/>
<b>Net cash from operating activities</b>	<b>271,582</b>	<b>269,513</b>
	<hr/>	<hr/>
<b>Investing activities</b>		
Proceeds from disposal of property, plant and equipment	522	12
Acquisition of property, plant and equipment	(3,698)	(3,227)
Acquisition of intangible assets	(71,862)	(5,442)
	<hr/>	<hr/>
<b>Net cash used in investing activities</b>	<b>(75,038)</b>	<b>(8,657)</b>
	<hr/>	<hr/>
<b>Financing activities</b>		
Dividends paid to owners of the Company	(34,263)	(24,803)
Interest paid	(1,192)	(1,177)
	<hr/>	<hr/>
<b>Net cash used in financing activities</b>	<b>(35,455)</b>	<b>(25,980)</b>
	<hr/>	<hr/>
<b>Net increase in cash and cash equivalents</b>	<b>161,089</b>	<b>234,876</b>
Cash and cash equivalents at 1 January	625,304	621,648
	<hr/>	<hr/>
<b>Cash and cash equivalents at 30 June</b>	<b>786,393</b>	<b>856,524</b>
	<hr/>	<hr/>
<b>Cash and cash equivalents comprise:</b>		
Fixed and call deposits with licensed financial institutions (with maturity less than three months)	722,875	834,965
Cash and bank balances	63,518	21,559
	<hr/>	<hr/>
	<b>786,393</b>	<b>856,524</b>
	<hr/>	<hr/>

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 period ended 30 June 2017 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 accounting policies and presentation adopted by the Group for the Report are consistent with those adopted in the Group's consolidated audited financial statements for the financial year ended 31 December 2016, except for the adoption of the following:

<b>MFRSs/ Amendments/ Interpretation</b>	<b>Effective date</b>
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

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 upon their first adoption.

**3. Items of an unusual nature**

The results of the Group for the financial period 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 period ended 30 June 2017.

**5. Seasonal or cyclical factors**

The operations of the Group for the financial period 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 accumulated depreciation and accumulated impairment losses, if any. There were no changes in the valuation of property, plant and equipment that were brought forward from the Group's audited financial statements for the financial year ended 31 December 2016.

**7. Changes in group composition**

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

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

**8. Capital commitments**

<b>As at 30 June 2017</b>	<b>RM'000</b>
Property, plant and equipment:	
Approved but not contracted for	15,268
Contracted but not provided for	3,235
Software development:	
Approved but not contracted for	46,437
Contracted but not provided for	5,244

**9. Related party transactions**

Significant related party transactions are as follows:

	<b>Transactions value</b>	
	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2017</b>	<b>2016</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Related companies*</b>		
Reinsurance premium and commission	(137,379)	(149,336)

\* Related companies are companies within the Allianz SE Group.

**10. Changes in 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.

On 5 April and 25 April 2017, AGIC submitted the written representations as requested by MyCC. MyCC has fixed the first session of the Oral Representation on 16 October 2017 and 17 October 2017.

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 484,700 ordinary shares 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 period under review.

**12. Significant event**

AGIC and Standard Chartered Bank Malaysia Berhad ("SCB") entered into a 15-year bancassurance agreement for the distribution of general insurance products; the agreement was signed on 21 April 2017. The bancassurance arrangement commenced on 1 July 2017 as mutually agreed between AGIC and SCB.

**13. Subsequent event**

There were no significant events subsequent to the end of the financial period under review that have not been reported in the Report.

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

14. 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 period ended 30 June 2017 - unaudited

	Investment holding		General insurance		Life insurance		Consolidated	
	2017	2016	2017	2016	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Segment revenue	6,889	6,439	1,129,333	1,128,106	1,266,512	1,181,194	2,402,734	2,315,739
Inter-segment revenue	(1,212)	(26,244)	-	-	-	-	(1,212)	(26,244)
Segment results	(2,067)	(2,767)	148,842	172,674	66,875	54,409	213,650	224,316
Segment assets	408,038	376,199	5,892,645	5,761,422	9,562,521	8,217,693	15,863,204	14,355,314
Segment liabilities	73,158	69,950	3,754,102	3,776,538	9,008,089	7,739,357	12,835,349	11,585,845

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

**15. Dividend paid**

An interim ordinary share dividend of 9.00 sen per ordinary share under single tier system (2016: nil) and an interim preference share dividend of 10.80 sen per ICPS under single tier system (2016: 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.

The Company paid the first and final ordinary share dividend of 6.50 sen per ordinary share under single tier system and first and final preference share dividend of 7.80 sen per ICPS under single tier system for the financial year ended 31 December 2015 on 15 June 2016.

**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 Second Quarter 2017 versus YTD Second Quarter 2016)**

**Operating revenue**

The Group recorded an operating revenue of RM2.40 billion for the financial period ended 30 June 2017, an increase of 3.8% or RM87.0 million as compared to the preceding financial period ended 30 June 2016 of RM2.32 billion due to higher gross earned premiums and investment income by RM54.5 million and RM32.5 million respectively.

The general insurance operation recorded an operating revenue of RM1.13 billion for the financial period ended 30 June 2017, similar to the preceding financial period ended 30 June 2016 of RM1.13 billion. Although there was an increase in investment income of RM4.9 million, it was set off by the decrease in gross earned premiums by RM3.7 million. The increase in investment income was due mainly to higher investment asset base.

The life insurance operation recorded an operating revenue of RM1.27 billion for the financial period ended 30 June 2017, an increase of 7.2% or RM85.3 million as compared to the preceding financial period ended 30 June 2016 of RM1.18 billion due to the increase in gross earned premiums and investment income by RM58.2 million and RM27.1 million respectively.

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

**Profit before tax**

The Group recorded a profit before tax of RM213.7 million for the financial period ended 30 June 2017, a decrease of 4.7% or RM10.6 million as compared to the preceding financial period ended 30 June 2016 of RM224.3 million.

General insurance operation delivered a profit before tax of RM148.8 million for the financial period ended 30 June 2017, a decrease of 13.8% or RM23.9 million as compared to the preceding financial period ended 30 June 2016 of RM172.7 million. The decrease in profit was due mainly to lower underwriting profit as a consequence of higher expense ratio.

The higher expense ratio is due mainly to investment in digital assets and provision for impairment on insurance receivables.

The life insurance operation recorded a higher profit before tax of RM66.9 million for the financial period ended 30 June 2017, an increase of 23.0% or RM12.5 million as compared to a profit before tax of the preceding financial period ended 30 June 2016 of RM54.4 million due mainly to profit contribution from 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 First Quarter 2017 versus YTD First Quarter 2016) (continued)**

**Profit before tax (continued)**

The investment holding segment registered a loss before tax of RM2.0 million for the financial period ended 30 June 2017 as compared to a loss of RM2.7 million for the preceding financial period ended 30 June 2016 due to lower operating expenses for the financial period under review.

**1.2 Results of the current quarter against the preceding quarter (Second Quarter 2017 versus First Quarter 2017)**

**Operating revenue**

The Group recorded an operating revenue of RM1.19 billion for the quarter under review, a decrease of 1.2% or RM15.1 million as compared to the preceding quarter ended 31 March 2017 of RM1.21 billion due to lower gross earned premiums of RM27.3 million.

The general insurance operation recorded an operating revenue of RM563.9 million for the quarter under review, a decrease of 0.2% or RM1.4 million as compared to the preceding quarter ended 31 March 2017 of RM565.3 million due mainly to lower gross earned premiums in the current quarter.

The life insurance operation registered an operating revenue of RM626.4 million for the quarter under review, a decrease of 2.2% or RM13.8 million as compared to the preceding quarter ended 31 March 2017 of RM640.2 million due mainly to decrease of gross earned premiums by RM25.5 million in the current quarter. This is mainly due to lower single premiums in the current quarter.

**Profit before tax**

The Group recorded a profit before tax of RM105.0 million for the quarter under review, a decrease of 3.4% or RM3.7 million as compared to a profit before tax of the preceding quarter ended 31 March 2017 of RM108.7 million due mainly to lower contribution from life insurance operation.

The profit before tax of general insurance operation for the quarter under review of RM75.3 million, an increase of 2.4% or RM1.8 million as compared to the preceding quarter ended 31 March 2017 of RM73.5 million due mainly to improvement in underwriting profit and higher investment income.

The profit before tax of life insurance operation for the quarter under review of RM30.7 million, a decrease of 15.4% or RM5.6 million as compared to the preceding quarter ended 31 March 2017 of RM36.3 million due mainly to higher medical claims in the current quarter.

The investment holding segment registered a loss before tax of RM1.0 million as compared to a loss before tax of the preceding quarter ended 31 March 2017 of RM1.1 million due to lower management 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 Malaysian economy registered a strong growth of 5.6% during the first quarter of 2017 (First quarter of 2016: 4.1%) mainly supported by higher domestic demand and is expected to record a steady growth for the rest of the year.

The second phase of motor and fire detariff commenced in July 2017 where insurers have the flexibility to deviate pricing for the motor and fire portfolios within certain regulatory allowances. The pricing for both lines of business is expected to move towards a risk-based pricing approach. Competition is expected to intensify for the general insurance business.

The general insurance subsidiary has taken key initiatives to remain competitive in this environment including building a technical pricing model, active portfolio and claims management as well as disciplined expense management.

The life insurance subsidiary will focus on strengthening its distribution channels through the professionalisation and increased productivity of its agency force. It will generate growth from its investment-linked business with rider attachments which cater for customers' protection needs.

Both insurance subsidiaries continue to invest in digital initiatives and upgrading of operational infrastructure. The Group focuses on customer centricity by emphasising excellent service and delivery to customers and intermediaries.

The Board is confident that the insurance operations will continue to deliver satisfactory results to its stakeholders in the remaining year.

**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		Six months ended	
	30 June		30 June	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Interest income	123,306	109,626	240,819	216,074
Dividend income	15,656	10,196	24,051	17,432
Accretion of discounts	2,173	1,558	4,576	3,182
Amortisation of premiums	(1,008)	(964)	(1,827)	(1,883)
Rental income	53	53	106	103
Other income	1,796	2,140	4,042	4,338
	<b>141,976</b>	<b>122,609</b>	<b>271,767</b>	<b>239,246</b>

**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		Six months ended	
	30 June		30 June	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
<b>Property, plant and equipment</b>				
Realised gains on disposal	16	4	129	4
Realised losses on disposal	(19)	-	(19)	-
<b>Total net realised (losses)/gains for property, plant and equipment</b>	<b>(3)</b>	<b>4</b>	<b>110</b>	<b>4</b>
<b>Financial assets</b>				
Realised gains on disposal:				
Malaysian government securities	1,864	1,619	4,061	10,577
Quoted equity securities of corporations in Malaysia	39,222	7,909	75,574	58,386
Quoted equity securities of corporations outside Malaysia	931	18	3,605	137
Quoted unit trusts in Malaysia	-	710	1,048	3,281
Unquoted unit trusts outside Malaysia	183	9,446	290	9,583
Realised losses on disposal:				
Malaysian government securities	-	(2,333)	-	(2,333)
Quoted equity securities of corporations in Malaysia	(5,837)	(5,149)	(11,174)	(36,642)
Quoted equity securities of corporations outside Malaysia	(584)	(10)	(4,213)	(126)
Unquoted unit trusts outside Malaysia	(71)	(66)	(133)	(182)
Unquoted bonds of corporations in Malaysia	-	-	(76)	-
<b>Total net realised gains for financial assets</b>	<b>35,708</b>	<b>12,144</b>	<b>68,982</b>	<b>42,681</b>
<b>Total net realised gains</b>	<b>35,705</b>	<b>12,148</b>	<b>69,092</b>	<b>42,685</b>

**6. Fair value gains and losses**

	Individual period		Cumulative period	
	Three months ended		Six months ended	
	30 June		30 June	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
<b>Financial assets</b>				
Held for trading financial assets	34,118	(35,586)	138,878	13,211
Designated upon initial recognition financial assets	13,442	8,348	20,123	32,704
Derivatives	4,336	4,481	7,624	19,175
<b>Total fair value gains/(losses) on financial assets at Fair Value Through Profit or Loss</b>	<b>51,896</b>	<b>(22,757)</b>	<b>166,625</b>	<b>65,090</b>
Impairment loss on AFS financial investments	(272)	(4,314)	(1,711)	(15,787)
<b>Total net fair value gains/(losses)</b>	<b>51,624</b>	<b>(27,071)</b>	<b>164,914</b>	<b>49,303</b>



**Part B: Explanatory notes pursuant to the Main Market Listing Requirements of Bursa Securities (continued)**
**7. Profit before tax**

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

	Individual period		Cumulative period	
	Three months ended		Six months ended	
	30 June		30 June	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Amortisation of intangible assets	4,550	3,991	8,943	7,831
Depreciation of property, plant and equipment	3,875	3,900	7,660	7,657
Insurance and other receivables:				
- Allowance for impairment loss	8,085	2,163	18,977	4,853
- Bad debts recovered	(134)	(31)	(152)	(64)
- Bad debts written off	206	188	206	340
Interest expense	2,569	3,504	2,364	4,349
Property, plant and equipment written off	1	11	5	15
Unrealised foreign exchange loss	80	-	127	-

Other than as disclosed in Notes 6 and 7, there are no exceptional items for the financial period ended 30 June 2017.

**8. Tax expense**

	Individual period		Cumulative period	
	Three months ended		Six months ended	
	30 June		30 June	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Profit before tax	104,987	109,319	213,650	224,316
<b>Tax expense</b>				
Income tax	26,403	23,643	57,634	56,356
Deferred tax	12,104	9,387	22,362	18,492
Total tax expense	38,507	33,030	79,996	74,848
Effective tax rate	37%	30%	37%	33%

The Group's consolidated effective tax rate for the financial period under review is higher than the statutory tax rate of 24% (2016: 24%) 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.

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

**9. Status of corporate proposal announced/implemented**

As at the date of the Report, there are no corporate proposals announced but not completed.

**10. Borrowings and debts securities**

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

<b>As at 30 June 2017</b>	<b>RM'000</b>
<u>Interest Bearing</u>	
Amount due to holding company	54,300

**11. Changes in material litigation**

Virginia Surety Company Labuan Branch ("VSC") had provided reinsurance support to Commerce Assurance Berhad (now known as Bright Mission Berhad) ("CAB") previously in respect of CAB's Extended Warranty Program ("EWP").

AGIC took over the general insurance business of CAB on 1 January 2009 and this included the reinsurance business relating to the EWP.

A dispute arose between both parties on the continuing subsistence of the reinsurance agreement from 1 October 2011 onwards. AGIC's legal position is that the reinsurance continued to remain in force from 1 October 2011 and determined only on 30 September 2013. This is disputed by VSC who claim that the treaty reinsurance lapsed on 30 September 2011.

On 11 December 2013, AGIC commenced arbitration proceedings against VSC seeking, inter alia:

- (a) A declaration that the reinsurance subsisted until 30 September 2013;
- (b) A declaration that VSC will pay and/or indemnify AGIC for its claims and losses arising from the reinsurance for the period from 1 October 2011 to 30 September 2013; and
- (c) Damages to be assessed including for loss of profits and breach of contract.

The hearing on liability has concluded and the latest timelines for filing and exchange of the Closing Submissions and Reply Submissions are 30 August 2017 and 27 September 2017. The Oral Submissions will take place from 11 October 2017 to 13 October 2017.

AGIC's solicitors, Niru & Co LLC of Singapore and Sufflan TH Liew & Partners in Kuala Lumpur, have advised that AGIC has reasonably good prospects of succeeding in the action against VSC.

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		Six months ended	
		30 June		30 June	
		2017	2016	2017	2016
Profit attributable to ordinary shareholders	(RM'000)	66,480	76,289	133,654	149,468
Weighted average number of ordinary shares in issue	('000)	173,906	169,789	173,836	169,546
Basic earnings per ordinary share	(sen)	38.23	44.93	76.89	88.16

(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		Six months ended	
		30 June		30 June	
		2017	2016	2017	2016
Profit attributable to ordinary shareholders	(RM'000)	66,480	76,289	133,654	149,468
Weighted average number of ordinary shares in issue	('000)	173,906	169,789	173,836	169,546
Effect of conversion of ICPS	('000)	172,014	173,619	172,014	173,619
Diluted weighted average number of ordinary shares during the period	('000)	345,920	343,408	345,850	343,165
Diluted earnings per ordinary share	(sen)	19.22	22.22	38.65	43.56

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

**13. Dividend**

No dividend has been proposed or declared for the second quarter of 2017 (2016: Nil).

**14. Disclosure of realised and unrealised earnings**

The breakdown of the retained earnings of the Group as at 30 June 2017, into realised and unrealised profit or loss, is as follow:

	As at 30.06.2017 RM'000	As at 31.12.2016 RM'000
Total retained earnings of the Group:		
- Realised	2,360,319	2,217,954
- Unrealised	(156,597)	(147,886)
	2,203,722	2,070,068

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  
17 August 2017