

ALLIANZ MALAYSIA BERHAD (12428-W)

UNAUDITED QUARTERLY RESULTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2017

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

	30 September 2017 RM'000	< Audited > 31 December 2016 RM'000
Assets		
Property, plant and equipment	109,523	118,864
Intangible assets	357,396	293,915
Investment properties	30,337	30,337
Deferred tax assets	16,496	14,613
Reinsurance assets	954,743	980,910
Investments	13,397,304	12,218,075
Derivative financial assets	26,766	15,425
Current tax assets	10,743	170
Insurance receivables	327,018	270,173
Other receivables, deposits and prepayments	254,643	257,663
Deferred acquisitions costs	95,157	86,928
Cash and cash equivalents	748,407	625,304
Total assets	16,328,533	14,912,377

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

	30 September 2017 RM'000	← Audited → 31 December 2016 RM'000
Equity		
Share capital:		
Ordinary Shares	174,503	173,707
Irredeemable Convertible Preference Shares ("ICPS")	171,703	172,499
Reserves	2,752,074	2,533,317
Total equity attributable to owners of the Company	3,098,280	2,879,523
Liabilities		
Insurance contract liabilities	11,797,180	10,768,504
Deferred tax liabilities	222,165	181,861
Derivative financial liabilities	6,160	13,873
Other financial liabilities	5,317	5,346
Insurance payables	435,633	372,450
Other payables and accruals	415,347	427,752
Benefits and claims liabilities	336,951	253,726
Current tax liabilities	11,500	9,342
Total liabilities	13,230,253	12,032,854
Total equity and liabilities	16,328,533	14,912,377
Net asset per ordinary share (RM)	17.75	16.58
Diluted net asset per ordinary share (RM)	8.95	8.32

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 September 2017 - unaudited**

	Note (Part B)	Individual period Three months ended 30 September		Cumulative period Nine months ended 30 September	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Operating revenue *		1,188,389	1,152,180	3,591,123	3,467,919
Gross earned premiums		1,044,782	1,024,227	3,175,749	3,100,720
Premiums ceded to reinsurers		(10,193)	(125,554)	(237,663)	(374,844)
Net earned premiums		1,034,589	898,673	2,938,086	2,725,876
Investment income	4	143,607	127,953	415,374	367,199
Realised gains and losses	5	(287)	15,687	68,805	58,372
Fair value gains and losses	6	8,112	57,685	173,026	106,988
Fee and commission income		5,469	20,984	23,452	50,748
Other operating income		8,049	4,456	18,748	14,502
Other income		164,950	226,765	699,405	597,809
Gross benefits and claims paid		(656,540)	(516,692)	(1,765,471)	(1,539,000)
Claims ceded to reinsurers		120,551	85,868	271,030	277,639
Gross change in contract liabilities		(303,525)	(276,973)	(876,773)	(783,206)
Change in contract liabilities ceded to reinsurers		54,486	(10,047)	(11,914)	(87,621)
Net benefits and claims		(785,028)	(717,844)	(2,383,128)	(2,132,188)
Fee and commission expense		(161,630)	(157,354)	(481,846)	(462,858)
Management expenses		(147,269)	(133,706)	(437,329)	(370,130)
Other operating expenses		(8,364)	(7,263)	(24,290)	(24,922)
Other expenses		(317,263)	(298,323)	(943,465)	(857,910)
Profit before tax	7	97,248	109,271	310,898	333,587
Tax expense	8	(29,722)	(36,587)	(109,718)	(111,435)
Profit for the period		67,526	72,684	201,180	222,152

* 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 September 2017 - unaudited**

	Note (Part B)	Individual period		Cumulative period	
		Three months ended		Nine months ended	
		2017	2016	2017	2016
		RM'000	RM'000	RM'000	RM'000
Profit for the period attributable to owners of the Company					
		67,526	72,684	201,180	222,152
Other comprehensive income, net of tax					
Items that are or may be reclassified subsequently to profit or loss					
Fair value of available-for-sale ("AFS") financial assets		3,815	27,673	23,121	58,599
Tax effects thereon		(916)	(6,638)	(5,544)	(14,080)
		2,899	21,035	17,577	44,519
Total other comprehensive income for the period, net of tax		2,899	21,035	17,577	44,519
Total comprehensive income for the period, net of tax		70,425	93,719	218,757	266,671
Profit attributable to:					
Owners of the Company		67,526	72,684	201,180	222,152
Total comprehensive income for the period attributable to:					
Owners of the Company		70,425	93,719	218,757	266,671
Basic earnings per ordinary share (sen)	12(a)	38.73	42.92	115.59	130.25
Diluted earnings per ordinary share (sen)	12(b)	19.51	21.20	58.19	64.57

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 September 2017 - unaudited (continued)

	←————— Attributable to owners of the Company —————→							Total equity RM'000
	←————— Non-distributable —————→					Distributable		
	Ordinary shares RM'000	Preference shares RM'000	Share premium ¹ RM'000	Revaluation reserve RM'000	Fair value reserve RM'000	Life non- participating fund surplus ² RM'000	Retained earnings RM'000	
At 1 January 2017	173,707	172,499	424,823	41,934	(3,508)	524,516	1,545,552	2,879,523
Fair value of AFS financial assets	-	-	-	-	17,577	-	-	17,577
Total other comprehensive income for the period	-	-	-	-	17,577	-	-	17,577
Profit for the period	-	-	-	-	-	56,969	144,211	201,180
Total comprehensive income for the period	-	-	-	-	17,577	56,969	144,211	218,757
Contributions by and distributions to owners of the Company								
Conversion of ICPS to ordinary shares	796	(796)	-	-	-	-	-	-
Dividends to owners of the Company	-	-	-	-	-	-	-	-
Total transactions with owners of the Company	796	(796)	-	-	-	-	-	-
At 30 September 2017	174,503	171,703	424,823	41,934	14,069	581,485	1,689,763	3,098,280

¹ 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.

² 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 September 2017 - unaudited

	Nine months ended 30 September 2017 RM'000	Nine months ended 30 September 2016 RM'000
Cash flows from operating activities		
Profit before tax	310,898	333,587
<i>Adjustments for:</i>		
Investment income	(415,374)	(367,199)
Interest expense	3,049	5,321
Realised gains recorded in profit or loss	(68,695)	(58,367)
Fair value gains on financial investments recorded in profit or loss	(177,459)	(128,460)
Purchases of financial investments	(2,479,817)	(2,446,559)
Maturity of financial investments	460,412	520,000
Proceeds from sale of financial investments	988,571	1,646,223
Change in loans and receivables	198,326	(100,873)
Non-cash items:		
Change in fair value of investment properties	-	804
Change in fair value of AFS financial assets	(88,976)	(62,132)
Depreciation of property, plant and equipment	11,921	12,201
Amortisation of intangible assets	14,257	11,925
Gain on disposal of property, plant and equipment	(110)	(5)
Impairment loss on AFS financial investments	4,433	20,668
Property, plant and equipment written off	9	23
Insurance and other receivables:		
- Allowance for impairment loss	30,091	6,981
- Bad debts recovered	(179)	(99)
- Bad debts written off	712	363
Changes in working capital:		
Change in reinsurance assets	26,167	94,788
Change in insurance receivables	(87,469)	(46,737)
Change in other receivables, deposits and prepayments	67	(72,890)
Change in insurance contract liabilities	1,028,676	891,993
Change in deferred acquisition costs	(8,229)	(7,486)
Change in other financial liabilities	(29)	10,475
Change in insurance payables	63,183	(5,288)
Change in other payables and accruals	20,001	33,797
Change in benefits and claims liabilities	83,225	57,288
Cash (used in)/ generated from operations	(82,339)	350,342

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

	Nine months ended 30 September 2017 RM'000	Nine months ended 30 September 2016 RM'000
Cash flows from operating activities (continued)		
Tax paid	(92,995)	(89,074)
Dividends received	37,537	30,390
Interest income received	376,572	336,520
	<hr/>	<hr/>
Net cash from operating activities	238,775	628,178
	<hr/>	<hr/>
Investing activities		
Proceeds from disposal of property, plant and equipment	1,586	14
Acquisition of property, plant and equipment	(6,469)	(9,063)
Acquisition of intangible assets	(75,334)	(4,444)
	<hr/>	<hr/>
Net cash used in investing activities	(80,217)	(13,493)
	<hr/>	<hr/>
Financing activities		
Dividends paid to owners of the Company	(34,263)	(24,803)
Interest paid	(1,192)	(1,177)
	<hr/>	<hr/>
Net cash used in financing activities	(35,455)	(25,980)
	<hr/>	<hr/>
Net increase in cash and cash equivalents	123,103	588,705
Cash and cash equivalents at 1 January	625,304	621,648
	<hr/>	<hr/>
Cash and cash equivalents at 30 September	748,407	1,210,353
	<hr/>	<hr/>
Cash and cash equivalents comprise:		
Fixed and call deposits with licensed financial institutions (with maturity less than three months)	679,191	1,171,107
Cash and bank balances	69,216	39,246
	<hr/>	<hr/>
	748,407	1,210,353
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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 ("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 September 2017 have been prepared in accordance with:

- (a) The requirements of Malaysian Financial Reporting Standard ("MFRS") 134: Interim Financial Reporting and with International Accounting Standard ("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:

MFRSs/ Amendments/ Interpretation	Effective date
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 September 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

The final general meeting for the members' voluntary winding-up ("Final Meeting") of AMB's wholly-owned subsidiary, Bright Mission Berhad ("BMB") has been duly held on 25 September 2017. BMB will be dissolved after the expiration of 3 months from the lodgement of the Return by Liquidator relating to Final Meeting of BMB on 26 September 2017 with the Companies Commission of Malaysia and Official Receiver.

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

8. Capital commitments

As at 30 September 2017	RM'000
Property, plant and equipment:	
Approved but not contracted for	14,954
Contracted but not provided for	3,447
Software development:	
Approved but not contracted for	44,127
Contracted but not provided for	5,773

9. Related party transactions

Significant related party transactions are as follows:

	Transactions value Nine months ended 30 September	
	2017 RM'000	2016 RM'000
Related companies*		
Reinsurance premium and commission	(109,260)	(210,792)

* 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. The first session for the Hearing of the Oral Representation took place on 16 October 2017 (on preliminary issues) and 17 October 2017 (on PIAM's Oral Representation). The next session is fixed on 12 December 2017 and 14 December 2017, for all insurers to submit their Oral Representations.

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 796,350 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 September 2017 - unaudited

	Investment holding		General insurance		Life insurance		Consolidated	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Segment revenue	10,607	9,832	1,699,720	1,686,829	1,880,796	1,771,258	3,591,123	3,467,919
Inter-segment revenue	(1,828)	(26,860)	-	(54)	-	-	(1,828)	(26,914)
Segment results	(1,997)	(2,971)	199,452	246,588	113,443	89,970	310,898	333,587
Segment assets	407,436	376,600	6,037,967	5,879,009	9,883,130	8,625,359	16,328,533	14,880,968
Segment liabilities	72,906	69,832	3,858,381	3,818,683	9,298,966	8,129,265	13,230,253	12,017,780

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.

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

Table 1: Financial review for current quarter and financial period to date

RM'mil	Individual Period		Changes		Cumulative period		Changes	
	Three months ended		Amount	%	Nine months ended		Amount	%
	30 September				30 September			
	2017	2016			2017	2016		
Operating revenue	1,188.4	1,152.2	36.2	3.1%	3,591.1	3,467.9	123.2	3.6%
Profit before tax	97.2	109.3	(12.1)	(11.1%)	310.9	333.6	(22.7)	(6.8%)
Profit after tax	67.5	72.7	(5.2)	(7.2%)	201.2	222.2	(21.0)	(9.5%)
Profit for the period attributable to owners of the Company	67.5	72.7	(5.2)	(7.2%)	201.2	222.2	(21.0)	(9.5%)

RM'mil	Individual Period		Changes		Cumulative period		Changes	
	Three months ended		Amount	%	Nine months ended		Amount	%
	30 September				30 September			
	2017	2016			2017	2016		
Operating Revenue by segments								
General insurance	570.4	558.7	11.7	2.1%	1,699.7	1,686.8	12.9	0.8%
Gross earned premiums	527.1	518.7	8.4	1.6%	1,573.6	1,568.9	4.7	0.3%
Investment income	43.3	40.0	3.3	8.3%	126.1	117.9	8.2	7.0%
Life insurance	614.3	590.1	24.2	4.1%	1,880.8	1,771.3	109.5	6.2%
Gross earned premiums	517.7	505.5	12.2	2.4%	1,602.1	1,531.8	70.3	4.6%
Investment income	96.6	84.6	12.0	14.2%	278.7	239.5	39.2	16.4%
Investment holding								
Investment income	3.7	3.4	0.3	8.8%	10.6	9.8	0.8	8.2%
Total Operating Revenue	1,188.4	1,152.2	36.2	3.1%	3,591.1	3,467.9	123.2	3.6%

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

1. Review of results (continued)

1.1 Operating revenue of the current year quarter against preceding year corresponding quarter (Third Quarter 2017 versus Third Quarter 2016)

For the third quarter ended 30 September 2017, the Group recorded an operating revenue of RM1.19 billion, an increase of 3.1% or RM36.2 million as compared to the preceding year quarter ended 30 September 2016 of RM1.15 billion due to higher gross earned premiums and investment income by RM20.6 million and RM15.6 million respectively.

For the quarter under review, the general insurance operation recorded an operating revenue of RM570.4 million, an increase of 2.1% or RM11.7 million as compared to the preceding year quarter ended 30 September 2016 of RM558.7 million due to the increase in gross earned premiums and investment income by RM8.4 million and RM3.3 million respectively. The growth was mainly contributed by growth in premiums from agency and franchise business.

For the quarter under review, the life insurance operation registered an operating revenue of RM614.3 million, an increase of 4.1% or RM24.2 million as compared to the preceding year quarter ended 30 September 2016 of RM590.1 million due to increase in gross earned premiums by RM12.2 million and investment income by RM12.0 million.

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

1.2 Operating revenue of the current year-to-date (YTD) against preceding YTD

The Group recorded an operating revenue of RM3.59 billion for the nine months ended 30 September 2017, an increase of 3.6% or RM123.2 million as compared to the preceding nine months ended 30 September 2016 of RM3.47 billion due to higher gross earned premiums and investment income by RM75.0 million and RM48.2 million respectively.

The general insurance operation recorded an operating revenue of RM1.70 billion for the nine months ended 30 September 2017, an increase of 0.8% or RM12.9 million as compared to the preceding nine months ended 30 September 2016 of RM1.69 billion due to the increase in gross earned premiums and investment income by RM4.7 million and RM8.2 million respectively.

The increase in gross earned premiums of the general insurance operation was attributable to higher premiums from agency and franchise business. The increase in investment income was due mainly to higher investment asset base.

The life insurance operation recorded an operating revenue of RM1.88 billion for the nine months ended 30 September 2017, an increase of 6.2% or RM109.5 million as compared to the preceding nine months ended 30 September 2016 of RM1.77 billion due to the increase in gross earned premiums and investment income by RM70.3 million and RM39.2 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.

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

1. Review of results (continued)

Table 1: Financial review for current quarter and financial period to date (continued)

RM'mil	Individual Period		Changes		Cumulative period		Changes	
	Three months ended 30 September		Amount	%	Nine months ended 30 September		Amount	%
	2017	2016			2017	2016		
Profit Before Tax by segments								
General insurance	50.7	73.9	(23.2)	(31.4%)	199.5	246.6	(47.1)	(19.1%)
Life Insurance	46.5	35.7	10.8	30.3%	113.4	90.0	23.4	26.0%
Investment holding	-	(0.3)	0.3	(100.0%)	(2.0)	(3.0)	1.0	(33.3%)
Total Profit before tax	97.2	109.3	(12.1)	(11.1%)	310.9	333.6	(22.7)	(6.8%)
General Insurance								
Commission ratio	12.8%	10.1%	N/A	(2.7 pts)	12.5%	10.9%	N/A	(1.6 pts)
Claims ratio	65.6%	62.6%	N/A	(3.0 pts)	62.0%	62.1%	N/A	0.1 pts
Expense ratio	20.2%	18.7%	N/A	(1.5 pts)	19.9%	16.9%	N/A	(3.0 pts)
Combined ratio	98.6%	91.4%	N/A	(7.1 pts)	94.4%	89.9%	N/A	(4.5 pts)
Life Insurance								
Annualised new premium ("ANP")	102.3	93.7	8.6	9.2%	324.8	268.4	56.4	21.0%
Expense ratio	11.1%	11.6%	N/A	0.5 pts	11.6%	11.1%	N/A	(0.5 pts)
Lapse ratio	15.1%	12.3%	N/A	(2.8 pts)	14.7%	11.2%	N/A	(3.5 pts)

N/A - Not Applicable

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

1. Review of results (continued)

1.3 Profit before tax of the current quarter against preceding year corresponding quarter (Third Quarter 2017 versus Third Quarter 2016)

For the third quarter ended 30 September 2017, the Group recorded a profit before tax of RM97.2 million, a decrease of 11.1% or RM12.1 million as compared to the preceding year quarter ended 30 September 2016 of RM109.3 million.

For the quarter under review, the general insurance operation recorded a profit before tax of RM50.7 million, a decrease of 31.4% or RM23.2 million as compared to a profit before tax of the preceding year quarter ended 30 September 2016 of RM73.9 million. The decrease in profit was due mainly to lower underwriting profit. Combined ratio increased by 7.1 percentage points due mainly to higher claims and commission ratio. Higher Motor and Fire claims resulted the higher claims ratio while lower reinsurance commission income contributed higher commission ratio.

For the quarter under review, the life insurance operation recorded a higher profit before tax of RM46.5 million, an increase of 30.3% or RM10.8 million as compared to a profit before tax of the preceding year quarter ended 30 September 2016 of RM35.7 million due mainly to higher contribution from protection business.

The investment holding segment registered a profit before tax of RM0.1 million as compared to a loss before tax of the preceding year quarter ended 30 September 2016 of RM0.3 million due to lower operating expenses in the current quarter.

1.4 Profit before tax of the current year-to-date (YTD) against preceding YTD

The Group recorded a profit before tax of RM310.9 million for the nine months ended 30 September 2017, a decrease of 6.8% or RM22.7 million as compared to the preceding nine months ended 30 September 2016 of RM333.6 million.

General insurance operation recorded a profit before tax of RM199.5 million for the nine months ended 30 September 2017, a decrease of 19.1% or RM47.1 million as compared to the preceding nine months ended 30 September 2016 of RM246.6 million. The decrease in profit was due mainly to lower underwriting profit contributed by higher management expenses. The higher management expenses was 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 RM113.4 million for the nine months ended 30 September 2017, an increase of 26.0% or RM23.4 million as compared to a profit before tax of the preceding nine months ended 30 September 2016 of RM90.0 million due mainly to higher contribution from protection business and better investment results.

The investment holding segment registered a loss before tax of RM2.0 million for the nine months ended 30 September 2017 as compared to a loss of RM3.0 million for the preceding nine months ended 30 September 2016 due to higher investment income for the financial period under review.

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

1. Review of results (continued)

Table 2: Financial review for current quarter as compared with immediate preceding quarter

RM'mil	Current Year Quarter	Immediate Preceding Quarter	Changes	
	30.09.2017	30.06.2017	Amount	%
Operating revenue	1,188.4	1,193.8	(5.4)	(0.5%)
Profit before tax	97.2	105.0	(7.8)	(7.4%)
Profit after tax	67.5	66.5	1.0	1.5%
Profit for the period attributable to owners of the Company	67.5	66.5	1.0	1.5%

1.5 Operating revenue of the current quarter against the preceding quarter (Third Quarter 2017 versus Second Quarter 2017)

The Group recorded an operating revenue of RM1.19 billion for the quarter under review, a decrease of 0.5% or RM5.4 million as compared to the preceding quarter ended 30 June 2017 of RM1.19 billion due to lower gross earned premiums of RM7.0 million.

The general insurance operation recorded an operating revenue of RM570.4 million for the quarter under review, an increase of 1.2% or RM6.5 million as compared to the preceding quarter ended 30 June 2017 of RM563.9 million due to higher gross earned premiums and investment income in current quarter.

The life insurance operation registered an operating revenue of RM614.3 million for the quarter under review, a decrease of 1.9% or RM12.1 million as compared to the preceding quarter ended 30 June 2017 of RM626.4 million due mainly to decrease of gross earned premiums by RM11.8 million in the current quarter. This is mainly due to lower single premiums from bancassurance and group business in the current quarter.

1.6 Profit before tax of the current quarter against the preceding quarter (Third Quarter 2017 versus Second Quarter 2017)

The Group recorded a profit before tax of RM97.2 million for the quarter under review, a decrease of 7.4% or RM7.8 million as compared to the preceding quarter ended 30 June 2017 of RM105.0 million.

The profit before tax of general insurance operation for the quarter under review of RM50.7 million, a decrease of 32.7% or RM24.6 million as compared to the preceding quarter ended 30 June 2017 of RM75.3 million. The lower profit before tax was due mainly to higher insurance claims incurred from Fire business and higher management expenses arising from the provision of impairment on insurance receivables.

The profit before tax of life insurance operation for the quarter under review of RM46.5 million, an increase of 51.5% or RM15.8 million as compared to the preceding quarter ended 30 June 2017 of RM30.7 million due mainly to higher contribution from protection business and lower insurance contract liabilities caused by interest rate movement.

The investment holding segment registered a profit before tax of RM0.1 million as compared to a loss before tax of the preceding quarter ended 30 June 2017 of RM1.0 million due to lower management expenses in the current quarter.

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

1. Review of results (continued)

1.7 Review of other comprehensive income

Table 3: Other comprehensive income for current quarter and financial period to date

RM'mil	Individual Period		Cumulative period	
	Current Year Quarter 30.09.2017	Preceding Year Corresponding Quarter 30.09.2016	Current Year To Date 30.09.2017	Preceding Year Corresponding Period 30.09.2016
Other comprehensive income				
Items that are or may be reclassified subsequently to profit or loss				
AFS financial assets	3.8	27.7	23.1	58.6
Tax effects thereon	(0.9)	(6.6)	(5.5)	(14.1)
Total other comprehensive income for the period, net of tax	2.9	21.1	17.6	44.5

The Group recorded a total other comprehensive income of RM17.6 million for the nine months ended 30 September 2017, a decrease of 60.4% or RM26.9 million as compared to the preceding financial period ended 30 September 2016 due mainly to lower fair value gains from AFS financial assets in the financial period under review.

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

1. Review of results (continued)

1.8 Review of Statements of Financial Position

Table 4: Review of assets and liabilities

RM'mil	As at	As at	Changes	
	30.09.2017	31.12.2016	Amount	%
Total assets	16,328.5	14,912.4	1,416.1	9.5%
Total liabilities	13,230.3	12,032.9	1,197.4	10.0%
Total equity	3,098.3	2,879.5	218.8	7.6%

Total assets

As at 30 September 2017, the Group's total assets increased by RM1.42 billion to RM16.33 billion from RM14.91 billion as at 31 December 2016, mainly attributable to increase in financial investments of RM1.2 billion for the financial period under review. The increase was mainly attributable to new purchases as well as net gains in market value of financial investments.

Total liabilities

As at 30 September 2017, the Group's total liabilities increased by RM1.12 billion to RM13.23 billion from RM12.03 billion as at 31 December 2016 due mainly to increase in insurance contract liabilities from both insurance subsidiaries. The increase in insurance contract liabilities was in line with the Group's business growth.

Total equity

The Group's total equity as at 30 September 2017 increased by 7.6% or RM218.8 million to RM3.10 billion from RM2.88 billion in 2016. This is mainly attributable to increase in distributable retained earnings of RM144.2 million.

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

2. Current year prospect

Malaysia's economy has demonstrated strong growth momentum in 2017, with Gross Domestic Product ("GDP") growth estimated to be between 5.2% to 5.7%. It is expected that this buoyant momentum will continue into 2018, with GDP growth forecasted to be between 5.0% and 5.5% next year.

The Group continues with its strategy to diversify and manage its profitability. It continues to leverage on the strength of its diversified insurance portfolio. The general insurance operation will need to manage the detarrif environment by strengthening its product offerings and upgrading of operational infrastructure to uplift productivity.

The life insurance operation will remain focused on driving growth by expanding its distribution force. In view of the implementation of Balanced Scorecard under the Life Framework, it will focus on increasing agent productivity and bank sales staff productivity. The life insurance operation will continue to offer comprehensive products with additional value to cater for the needs of different customers.

To remain ahead of competition, the Group continues to drive productivity by going digital. This include strengthening sales management capabilities of its distribution channels through the use of digital platform for sales processes, digital communication and digital partnerships.

Despite short term challenges, the Board remains confident in the Group's long term prospect and its ability to deliver sustainable value to its stakeholders.

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		Nine months ended	
	30 September		30 September	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Interest income	126,732	111,974	367,551	328,048
Dividend income	13,486	12,802	37,537	30,234
Accretion of discounts	2,740	1,969	7,316	5,151
Amortisation of premiums	(1,271)	(882)	(3,098)	(2,765)
Rental income	54	(2)	160	101
Other income	1,866	2,092	5,908	6,430
	143,607	127,953	415,374	367,199

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		Nine months ended	
	30 September		30 September	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment				
Realised gains on disposal	-	1	129	5
Realised losses on disposal	-	-	(19)	-
Total net realised gains for property, plant and equipment	-	1	110	5
Financial assets				
Realised gains on disposal:				
Malaysian government securities	41	1,756	4,102	12,333
Quoted equity securities of corporations in Malaysia	9,860	19,198	85,434	77,584
Quoted equity securities of corporations outside Malaysia	2,251	192	5,856	329
Quoted unit trusts in Malaysia	-	264	1,048	3,545
Unquoted unit trusts outside Malaysia	89	92	379	9,675
Unquoted bonds of corporations in Malaysia	-	625	-	625
Realised losses on disposal:				
Malaysian government securities	-	(3,523)	-	(5,856)
Quoted equity securities of corporations in Malaysia	(11,285)	(2,406)	(22,459)	(39,048)
Quoted equity securities of corporations outside Malaysia	(1,189)	(43)	(5,402)	(169)
Unquoted unit trusts outside Malaysia	(54)	(59)	(187)	(241)
Unquoted bonds of corporations in Malaysia	-	(410)	(76)	(410)
Total net realised gains for financial assets	(287)	15,686	68,695	58,367
Total net realised gains	(287)	15,687	68,805	58,372

6. Fair value gains and losses

	Individual period		Cumulative period	
	Three months ended		Nine months ended	
	30 September		30 September	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Investment properties				
Fair value loss on investment properties	-	(804)	-	(804)
Financial assets				
Held for trading financial assets	5,221	34,761	144,099	47,972
Designated upon initial recognition financial assets	447	27,820	20,570	60,524
Derivatives	5,166	789	12,790	19,964
Total fair value gains on financial assets at Fair Value Through Profit or Loss	10,834	63,370	177,459	128,460
Impairment loss on AFS financial investments	(2,722)	(4,881)	(4,433)	(20,668)
Total net fair value gains	8,112	57,685	173,026	106,988

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		Nine months ended	
	30 September		30 September	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Amortisation of intangible assets	5,314	4,094	14,257	11,925
Depreciation of property, plant and equipment	4,261	4,544	11,921	12,201
Insurance and other receivables:				
- Allowance for impairment loss	11,114	2,128	30,091	6,981
- Bad debts recovered	(27)	(35)	(179)	(99)
- Bad debts written off	506	23	712	363
Interest expense	685	972	3,049	5,321
Property, plant and equipment written off	4	8	9	23

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

8. Tax expense

	Individual period		Cumulative period	
	Three months ended		Nine months ended	
	30 September		30 September	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Profit before tax	97,248	109,271	310,898	333,587
Tax expense				
Income tax	26,946	27,001	84,580	83,357
Deferred tax	2,776	9,586	25,138	28,078
Total tax expense	29,722	36,587	109,718	111,435
Effective tax rate	31%	33%	35%	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.

As at 30 September 2017

RM'000

Interest Bearing

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 BMB) ("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 Closing Submissions and Reply Submissions are 30 August 2017 and 27 September 2017. The Oral Submissions took place on 12 October 2017 and 13 October 2017. The tribunal has reserved its decision for a later date and no indicative timeline has been given for delivery of its decision.

AGIC's solicitors, Niru & Co LLC of Singapore and Suflan 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		Nine months ended	
		30 September		30 September	
		2017	2016	2017	2016
Profit attributable to ordinary shareholders	(RM'000)	67,526	72,684	201,180	222,152
Weighted average number of ordinary shares in issue	('000)	174,345	169,351	174,044	170,557
Basic earnings per ordinary share	(sen)	38.73	42.92	115.59	130.25

(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		Nine months ended	
		30 September		30 September	
		2017	2016	2017	2016
Profit attributable to ordinary shareholders	(RM'000)	67,526	72,684	201,180	222,152
Weighted average number of ordinary shares in issue	('000)	174,345	169,351	174,044	170,557
Effect of conversion of ICPS	('000)	171,703	173,487	171,703	173,487
Diluted weighted average number of ordinary shares during the period	('000)	346,048	342,838	345,747	344,044
Diluted earnings per ordinary share	(sen)	19.51	21.20	58.19	64.57

13. Dividend

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

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

14. Additional Disclosure Information

Insurance receivables

The Group has not provided the credit risk analysis for the financial assets of the investment-linked business. This is due to the fact that, in investment-linked business, the liability to policyholders is linked to the performance and value of the assets that back those liabilities and the shareholders have no direct exposure to any credit risk in those assets.

(i) Past-due but not impaired financial assets

Age analysis of financial assets past-due but not impaired

The Group maintains an ageing analysis in respect of insurance receivables only. The ageing of insurance receivables that are past-due but not impaired as at the reporting date is as follows:

	1 to 30 days RM'000	31 to 60 days RM'000	61 to 90 days RM'000	> 91 days RM'000	Investment-linked funds RM'000	Total RM'000
30.09.2017						
Insurance receivables	8,873	183	2,321	1,321	-	12,698
31.12.2016						
Insurance receivables	21,255	1,762	2,928	1,532	-	27,477

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

14. Additional Disclosure Information (continued)

Insurance receivables (continued)

(ii) Past-due and impaired financial assets

As at 30 September 2017, based on combination of collective and individual assessment of receivables, there are impaired insurance receivables of RM51,735,000 (31.12.2016: RM21,644,000) and other receivables of RM1,987,000 (31.12.2016: RM1,987,000) respectively. No collateral is held as security for any past-due or impaired financial assets. The Group records impairment allowance for insurance receivables and other receivables in separate allowance for impairment accounts. A reconciliation of the allowance for impairment losses for insurance receivables and other receivables are as follows:

	Insurance receivables		Other receivables	
	30.09.2017 RM'000	31.12.2016 RM'000	30.09.2017 RM'000	31.12.2016 RM'000
At 1 January	21,644	21,076	1,987	742
Impairment loss recognised	30,091	568	-	1,245
At 30 September	<u>51,735</u>	<u>21,644</u>	<u>1,987</u>	<u>1,987</u>

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

15. Disclosure of realised and unrealised earnings

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

	As at 30.09.2017 RM'000	As at 31.12.2016 RM'000
Total retained earnings of the Group:		
- Realised	2,429,594	2,217,954
- Unrealised	(158,346)	(147,886)
	2,271,248	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.

16. 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
22 November 2017