

ALLIANZ MALAYSIA BERHAD (12428-W)

AUDITED QUARTERLY RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2018

ALLIANZ MALAYSIA BERHAD (12428-W)

**Condensed consolidated statement of financial position
as at 31 December 2018 - audited**

	31 December 2018 RM'000	← Audited → 31 December 2017 RM'000
Assets		
Property, plant and equipment	113,528	119,853
Intangible assets	359,264	360,600
Investment properties	19,914	19,914
Deferred tax assets	14,051	23,275
Reinsurance assets	904,004	908,436
Investments	14,249,398	13,732,581
Derivative financial assets	26,059	25,537
Current tax assets	6,461	803
Insurance receivables	228,103	250,125
Other receivables, deposits and prepayments	149,117	126,600
Deferred acquisitions costs	95,060	94,056
Cash and cash equivalents	1,239,635	934,897
Total assets	17,404,594	16,596,677

ALLIANZ MALAYSIA BERHAD (12428-W)

**Condensed consolidated statement of financial position
as at 31 December 2018 - audited (continued)**

	31 December 2018 RM'000	← Audited → 31 December 2017 RM'000
Equity		
Share capital:		
Ordinary Shares	231,964	225,268
Irredeemable Convertible Preference Shares ("ICPS")	539,065	545,761
Reserves	2,590,668	2,364,484
Total equity attributable to owners of the Company	3,361,697	3,135,513
Liabilities		
Insurance contract liabilities	12,323,590	11,957,065
Deferred tax liabilities	250,267	234,743
Derivative financial liabilities	2,413	5,251
Insurance payables	427,770	430,764
Other payables and accruals	569,367	494,455
Life insurance benefits and claims liabilities	466,283	331,296
Current tax liabilities	3,207	7,590
Total liabilities	14,042,897	13,461,164
Total equity and liabilities	17,404,594	16,596,677
Net asset per ordinary share (RM)	19.03	17.96
Diluted net asset per ordinary share (RM)	9.71	9.06

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

**Condensed consolidated statement of profit or loss
For the year ended 31 December 2018 - audited**

	Note (Part B)	Individual period Three months ended 31 December		Cumulative period Twelve months ended 31 December	
		2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Operating revenue *		1,302,173	1,209,867	5,181,929	4,800,990
Gross earned premiums		1,141,555	1,057,987	4,547,016	4,233,736
Premiums ceded to reinsurers		(89,441)	(67,790)	(366,724)	(305,453)
Net earned premiums		1,052,114	990,197	4,180,292	3,928,283
Investment income	4	160,618	151,880	634,913	567,254
Realised gains and losses	5	(39,204)	(17,031)	(21,192)	51,774
Fair value gains and losses	6	(166,181)	20,795	(313,675)	193,821
Fee and commission income		4,338	14,474	28,675	37,926
Other operating income		6,590	6,993	29,363	25,741
Other income		(33,839)	177,111	358,084	876,516
Gross benefits and claims paid		(642,619)	(574,701)	(2,448,915)	(2,340,172)
Claims ceded to reinsurers		54,480	95,061	211,441	366,091
Gross change in contract liabilities		(12,867)	(158,350)	(503,073)	(1,035,123)
Change in contract liabilities ceded to reinsurers		32,476	(53,254)	(104)	(65,168)
Net benefits and claims		(568,530)	(691,244)	(2,740,651)	(3,074,372)
Fee and commission expense		(170,650)	(169,910)	(685,462)	(651,756)
Management expenses		(141,683)	(166,496)	(554,879)	(603,825)
Other operating expenses		(9,575)	(13,273)	(38,400)	(37,563)
Other expenses		(321,908)	(349,679)	(1,278,741)	(1,293,144)
Profit before tax	7	127,837	126,385	518,984	437,283
Tax expense	8	(27,797)	(39,603)	(141,963)	(149,321)
Profit for the year		100,040	86,782	377,021	287,962
Profit for the year attributable to: Owners of the Company		100,040	86,782	377,021	287,962
Basic earnings per ordinary share (sen)	12(a)	10.69	35.77	167.90	151.19
Diluted earnings per ordinary share (sen)	12(b)	29.07	25.13	109.09	83.28

* 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 2018 - audited**

	Note (Part B)	Individual period		Cumulative period	
		Three months ended		Twelve months ended	
		2018	2017	2018	2017
		RM'000	RM'000	RM'000	RM'000
Profit for the year attributable to owners of the Company		100,040	86,782	377,021	287,962
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					
- Net gain/(loss) arising during the year		3,554	(275)	(72,290)	154,172
- Net realised (gain)/loss transferred to income statement		(62,353)	9,837	(31,922)	(22,319)
(Loss)/Gains on cash flow hedge		(748)	(825)	3,220	(3,246)
Tax effects thereon		5,040	124	7,813	(13,160)
Change in insurance contract liabilities arising from net fair value change on:					
- AFS financial assets		57,028	(14,696)	105,813	(113,866)
- Cash flow hedge reserve		748	825	(3,220)	3,246
Tax effects thereon		(4,622)	1,110	(8,207)	8,850
		<u>(1,353)</u>	<u>(3,900)</u>	<u>1,207</u>	<u>13,677</u>
Total other comprehensive income for the year, net of tax		<u>(1,353)</u>	<u>(3,900)</u>	<u>1,207</u>	<u>13,677</u>
Total comprehensive income for the year, net of tax		<u>98,687</u>	<u>82,882</u>	<u>378,228</u>	<u>301,639</u>
Total comprehensive income for the year attributable to:					
Owners of the Company		<u>98,687</u>	<u>82,882</u>	<u>378,228</u>	<u>301,639</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 2018 - audited

	←————— Attributable to owners of the Company —————→							Total equity
	←————— Non-distributable —————→					Distributable		
	Ordinary shares	Irredeemable Convertible Preference Shares	Share premium ¹	Revaluation reserve	Fair value reserve	Retained earnings Life non-participating fund surplus ²	Retained earnings	
RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
At 1 January 2017	173,707	172,499	424,823	41,934	(3,508)	524,516	1,545,552	2,879,523
Total other comprehensive income for the year	-	-	-	-	13,677	-	-	13,677
Profit for the year	-	-	-	-	-	87,329	200,633	287,962
Total comprehensive income for the year	-	-	-	-	13,677	87,329	200,633	301,639
Contributions by and distributions to owners of the Company								
Conversion of ICPS to ordinary shares	2,786	(2,786)	-	-	-	-	-	-
Transfer in accordance with Section 618(2) of the Companies Act 2016 ²	48,775	376,048	(424,823)	-	-	-	-	-
Dividends to owners of the Company	-	-	-	-	-	-	(45,649)	(45,649)
Total transactions with owners of the Company	51,561	373,262	(424,823)	-	-	-	(45,649)	(45,649)
At 31 December 2017	225,268	545,761	-	41,934	10,169	611,845	1,700,536	3,135,513

ALLIANZ MALAYSIA BERHAD (12428-W)
Condensed consolidated statement of changes in equity for the year ended 31 December 2018 - audited (continued)

	←————— Attributable to owners of the Company —————→							Total equity
	←————— Non-distributable —————→				Distributable			
	Ordinary shares	Irredeemable Convertible Preference Shares	Share premium ¹	Revaluation reserve	Fair value reserve	Retained earnings Life non- participating fund surplus ²	Retained earnings	
RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
At 1 January 2018	225,268	545,761	-	41,934	10,169	611,845	1,700,536	3,135,513
Total other comprehensive income for the year	-	-	-	-	1,207	-	-	1,207
Profit for the year	-	-	-	-	-	141,058	235,963	377,021
Total comprehensive income for the year	-	-	-	-	1,207	141,058	235,963	378,228
Contributions by and distributions to owners of the Company								
Conversion of ICPS to ordinary shares	6,696	(6,696)	-	-	-	-	-	-
Dividends to owners of the Company	-	-	-	-	-	-	(152,044)	(152,044)
Total transactions with owners of the Company	6,696	(6,696)	-	-	-	-	(152,044)	(152,044)
At 31 December 2018	231,964	539,065	-	41,934	11,376	752,903	1,784,455	3,361,697

¹ With the Companies Act 2016 coming into effect on 31 January 2017, the credits standing in the share premium account of RM424,823,000 has been transferred to the share capital account in the fourth quarter of 2017.

² Non-distributable retained earnings comprise of non-participating fund surplus, net of deferred tax, which is wholly attributable to the shareholders. This amount is only distributable upon the actual transfer of surplus from the life non-participating fund to the Shareholder's fund as recommended by the Appointed Actuary and approved by the Board of Directors of the life insurance subsidiary.

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 2018 - audited**

	Year ended 31 December 2018 RM'000	Year ended 31 December 2017 RM'000
Cash flows from operating activities		
Profit before tax	518,984	437,283
<i>Adjustments for:</i>		
Investment income	(634,913)	(567,254)
Interest income	(662)	(905)
Interest expense	3,520	4,689
Realised losses/(gains) recorded in profit or loss	21,190	(51,567)
Fair value losses/(gains) on financial assets recorded in profit or loss	236,871	(202,812)
Purchases of financial assets	(2,830,058)	(3,129,742)
Maturity of financial assets	916,988	540,000
Proceeds from sale of financial assets	1,096,200	1,301,277
Change in loans and receivables	(132,287)	269,199
Change in fair value of investment properties	-	2,409
Unrealised foreign exchange loss	902	2,008
Depreciation of property, plant and equipment	16,618	16,776
Amortisation of intangible assets	17,631	18,412
Loss/(Gain) on disposal of property, plant and equipment	2	(207)
Impairment loss on AFS financial assets	76,804	6,582
Property, plant and equipment written off	509	12
Insurance and other receivables:		
- (Reversal of)/Allowance for impairment loss	(13)	37,557
- Bad debts recovered	(83)	(193)
- Bad debts written off	3,080	1,517
Changes in working capital:		
Change in reinsurance assets	4,432	72,474
Change in insurance receivables	20,308	(18,798)
Change in other receivables, deposits and prepayments	(23,791)	7,467
Change in insurance contract liabilities	460,911	1,086,791
Change in deferred acquisition costs	(1,004)	(7,128)
Change in insurance payables	(2,994)	58,314
Change in other payables and accruals	20,549	47,631
Change in life insurance benefits and claims liabilities	134,987	77,570
Cash (used in)/generated from operations	(75,319)	9,362

ALLIANZ MALAYSIA BERHAD (12428-W)

Condensed consolidated statement of cash flows
For the year ended 31 December 2018 - audited (continued)

	Year ended 31 December 2018 RM'000	Year ended 31 December 2017 RM'000		
Cash flows from operating activities (continued)				
Tax paid	(119,443)	(120,646)		
Dividends received	57,687	52,824		
Interest income received	570,115	499,185		
Net cash from operating activities	433,040	440,725		
Investing activities				
Proceeds from disposal of property, plant and equipment	173	510		
Acquisition of property, plant and equipment	(14,823)	(13,666)		
Acquisition of intangible assets	(12,449)	(81,497)		
Net cash used in investing activities	(27,099)	(94,653)		
Financing activities				
Dividends paid to owners of the Company	(45,649)	(34,263)		
Interest paid	(1,254)	(2,349)		
Repayment of advance to holding company	(54,300)	-		
Net cash used in financing activities	(101,203)	(36,612)		
Net increase in cash and cash equivalents	304,738	309,460		
Cash and cash equivalents at 1 January	934,897	625,437		
Cash and cash equivalents at 31 December	1,239,635	934,897		
Cash and cash equivalents comprise:				
Fixed and call deposits with licensed financial institutions (with maturity less than three months)	1,163,241	837,022		
Cash and bank balances	76,394	97,875		
	1,239,635	934,897		
Reconciliation of liabilities arising from financing activities				
	2018	2018	2017	2017
	RM'000	RM'000	RM'000	RM'000
	Principal	Interest payable	Principal	Interest payable
<u>Advance from holding company</u>				
At 1 January	54,300	1,139	54,300	1,126
Interest charge	-	115	-	2,362
Interest paid	-	(1,254)	-	(2,349)
Repayment of advance to holding company	(54,300)	-	-	-
At 31 December	-	-	54,300	1,139

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 2018 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 2018.

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 2018. The following are accounting standards, amendments to standards and interpretations that have been issued by Malaysian Accounting Standards Board ("MASB") for the financial year beginning on or after 1 January 2018 and adopted by the Group:

MFRSs/ Amendments/ Interpretation	Effective date
MFRS 15, <i>Revenue from Contracts with Customers</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 2, <i>Share-based Payment – Classification and Measurement of Share-based Payment Transactions</i>	1 January 2018
Amendments to MFRS 140, <i>Investment Property – Transfers of Investment Property</i>	1 January 2018
IC Interpretation 22, <i>Foreign Currency Transactions and Advance Consideration</i>	1 January 2018
Annual Improvements to MFRSs 2014 – 2016 Cycle: MFRS 128, <i>Investments in Associates and Joint Ventures</i>	1 January 2018

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, *Transfers of Assets from Customers* and IC Interpretation 131, *Revenue - Barter Transactions Involving Advertising Services*. MFRS 15 provides a single model for accounting for revenue arising from contracts with customers, focusing on the identification and satisfaction of performance obligation. The standard specifies that the revenue is to be recognised when control over the goods or services is transferred to customer, moving from the transfer of risks and rewards.

The initial application of MFRS 15 does not have any material financial impacts to the current period and prior period financial statements of the Group.

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, effective for annual periods beginning on or after 1 January 2018. The standard eliminates the existing MFRS 139 categories of held to maturity, loans and receivables and available for sale.

The Group has applied the temporary exemption under Amendments to MFRS 4 - Applying MFRS 9, *Financial Instruments* with MFRS 4, *Insurance Contracts* which enables eligible entities to defer the implementation date of MFRS 9 to annual periods beginning before 1 January 2021 at the latest. Hence, the Group has not adopted MFRS 9 for the financial year beginning on or after 1 January 2018.

Part A: Explanatory notes to the condensed consolidated financial statements

2. Statement of compliance (continued)

Amendments to MFRS 4 - Applying MFRS 9, *Financial Instruments* with MFRS 4, *Insurance Contract*

The amendments allow entities to avoid temporary volatility in profit or loss that might result from adopting MFRS 9 before the forthcoming new insurance contracts standard.

The amendments provide 2 different approaches for the Group:

- (i) temporary exemption from MFRS 9 for entities that meet specific requirements; and
- (ii) the overlay approach. Both approaches are optional.

The temporary exemption enables eligible entities to defer the implementation date of MFRS 9 to annual periods beginning before 1 January 2021 at the latest. An entity may apply the temporary exemption from MFRS 9 if its activities are predominantly connected with insurance whilst the overlay approach allows an entity to adjust profit or loss for eligible financial assets by removing any accounting volatility to other comprehensive income that may arise from applying MFRS 9.

An entity can apply the temporary exemption from MFRS 9 from annual periods beginning on or after 1 January 2018 and may start applying the overlay approach when it applies MFRS 9 for the first time.

The Group's business activity is predominantly insurance as the liabilities connected with the Group's insurance businesses made up of more than 90% of the Group's total liabilities. Hence, the Group qualifies for the temporary exemption from applying MFRS 9 and will defer and adopt MFRS 9 together with MFRS 17 for the financial year beginning on or after 1 January 2021.

The following additional disclosures, required by Amendments to MFRS 4 for entity qualified and elected the temporary exemption from applying MFRS 9, present the Group's financial assets by their contractual cash flows characteristics, which indicate if they are solely payments of principal and interest on the principal outstanding ("SPPI"):

	Financial assets with SPPI cash flows RM'000	All other financial assets RM'000	Total* RM'000
Fair value as at 31 December 2018			
Investments	6,455,109	7,703,026	14,158,135
Malaysian government securities and government guaranteed bonds	4,263,836	2,708,220	6,972,056
Unquoted bonds of corporations	1,606,998	3,185,717	4,792,715
Quoted equity securities and unit trusts	-	1,462,377	1,462,377
Unquoted equity securities and unit trusts	-	244,031	244,031
Negotiable certificates of deposits and structured deposits	61,606	102,681	164,287
Government guaranteed loans	190,504	-	190,504
Mortgage loans	165	-	165
Fixed and call deposits with licensed banks	332,000	-	332,000
Derivative financial assets	-	26,059	26,059
Other receivables, deposits and prepayments	149,117	-	149,117
Cash and cash equivalents	1,239,635	-	1,239,635
	<u>7,843,861</u>	<u>7,729,085</u>	<u>15,572,946</u>

* Insurance receivables, reinsurance assets, policy loans, automatic premium loans and deferred acquisition cost have been excluded from the above assessment as they will be under the scope of MFRS 17, *Insurance Contracts*. Other than the financial assets listed in the table above and the assets that are within the scope of MFRS 17, *Insurance Contracts*, all other assets in the statement of financial position are non-financial assets.

Part A: Explanatory notes to the condensed consolidated financial statements

2. Statement of compliance (continued)

Amendments to MFRS 4 - Applying MFRS 9, *Financial Instruments* with MFRS 4, *Insurance Contract* (continued)

	Financial assets with SPPI cash flows RM'000	All other financial assets RM'000	Total* RM'000
Changes in fair value during the year			
Investments			
Malaysian government securities and government guaranteed bonds	10,739	12,269	23,008
Unquoted bonds of corporations	4,158	13,113	17,271
Quoted equity securities and unit trusts	-	(382,253)	(382,253)
Unquoted equity securities and unit trusts	-	(826)	(826)
Negotiable certificates of deposits and structured deposits	(96)	(1,307)	(1,403)
Government guaranteed loans	-	-	-
Mortgage loans	(1,952)	-	(1,952)
Fixed and call deposits with licensed banks	-	-	-
Derivative financial assets	-	6,071	6,071
Other receivables, deposits and prepayments	-	-	-
Cash and cash equivalents	-	-	-
	<u>12,849</u>	<u>(352,933)</u>	<u>(340,084)</u>

ALLIANZ MALAYSIA BERHAD (12428-W)

Part A: Explanatory notes to the condensed consolidated financial statements

2. Statement of compliance (continued)

Amendments to MFRS 4 - Applying MFRS 9, *Financial Instruments* with MFRS 4, *Insurance Contracts* (continued)

Financial assets with SPPI cash flows*

	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Non- investment grade RM'000	Non-rated RM'000	Investment- linked funds RM'000	Total RM'000
Gross carrying amounts under MFRS 139 by credit risk rating grades								
Investments								
Malaysian government securities and government guaranteed bonds	-	-	-	-	-	4,263,836	-	4,263,836
Unquoted bonds of corporations	891,908	711,341	-	11,097	-	-	-	1,614,346
Negotiable certificates of deposits and structured deposits	61,606	-	-	-	-	-	-	61,606
Government guaranteed loans	-	-	-	-	-	190,504	-	190,504
Mortgage loans	-	-	-	-	-	165	-	165
Fixed and call deposits with licensed banks	193,095	80,808	-	-	-	-	58,097	332,000
Other receivables and deposits	-	-	-	-	-	149,117	-	149,117
Cash and cash equivalents	612,604	419,209	2,663	-	-	537	204,622	1,239,635
	<u>1,759,213</u>	<u>1,211,358</u>	<u>2,663</u>	<u>11,097</u>	<u>-</u>	<u>4,604,159</u>	<u>262,719</u>	<u>7,851,209</u>

* Credit risk of these financial assets is considered low for the purpose of MFRS 9.

Except as disclosed above, the adoption of new standards, amendments to standards and interpretations by the Group for the first time for the financial year beginning on or after 1 January 2018 did not have any material impact on the current and/or prior periods and is not likely to affect future periods.

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

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 2018.

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 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 2018.

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 2018

RM'000

Property, plant and equipment:

Contracted but not provided for

3,917

Software development:

Contracted but not provided for

2,720

9. Related party transactions

Significant related party transactions are as follows:

	Transactions value	
	Twelve months ended	
	31 December	
	2018	2017
	RM'000	RM'000
Related companies*		
Payment of reinsurance premium ceded, net of commission income	(191,982)	(142,637)

* Related companies are companies within the Allianz SE Group.

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

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 second session took place on 12 December 2017 and 14 December 2017 wherein other insurers had submitted their Oral Representations. AGIC's Oral Representation took place on 29 January 2018 and the remaining insurers submitted their Oral Representations on 30 January 2018, bringing the Oral Representations of all insurers to a close. Due to the changes of the Members of Commission who heard AGIC's Oral Representation, AGIC's solicitors had requested MyCC to hold *de novo* (new) proceedings in relation to the AGIC's Oral Representation before the new Members of Commission. AGIC's Oral Representation sessions which took place on 19 and 20 February 2019 have concluded. PIAM is expected to submit its Oral Representation on 21 February 2019.

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.

Saved as disclosed above, the Group does not have any other contingent assets and liabilities since the last annual balance sheet date.

11. Debt and equity securities

Save for the issuance of 2,105,501 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 year under review.

12. Subsequent event

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

13. Dividend paid

- (a) A single tier interim dividend of 12.00 sen per ordinary share and a single tier interim dividend of 14.40 sen per ICPS for the financial year ended 31 December 2017 were paid on 14 February 2018 to the entitled ordinary shareholders and ICPS holders of the Company respectively.
- (b) A single tier interim dividend of 40.00 sen per ordinary share and a single tier interim dividend of 48.0 sen per ICPS for the financial year ended 31 December 2018 were paid on 15 February 2019 to the entitled ordinary shareholders and ICPS holders of the Company respectively.

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 year ended 31 December 2018 - audited

	Investment holding		General insurance		Life insurance		Consolidated	
	2018	2017	2018	2017	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Segment operating revenue	13,557	14,191	2,345,789	2,253,969	2,822,583	2,532,830	5,181,929	4,800,990
Inter-segment operating revenue	(162,074)	(82,069)	-	-	-	-	(162,074)	(82,069)
Segment results	(6,027)	(2,460)	320,569	266,879	204,442	172,864	518,984	437,283
Segment assets	553,340	498,435	6,053,386	5,959,009	10,797,868	10,139,233	17,404,594	16,596,677
Segment liabilities	164,558	121,557	3,836,004	3,814,906	10,042,335	9,524,701	14,042,897	13,461,164

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 year to date

RM'million	Individual Period				Cumulative period			
	Three months ended		Changes		Twelve months ended		Changes	
	2018	2017	Amount	%	2018	2017	Amount	%
	31 December				31 December			
Operating revenue	1,302.2	1,209.9	92.3	7.6%	5,181.9	4,801.0	380.9	7.9%
Profit before tax	127.8	126.4	1.4	1.1%	519.0	437.3	81.7	18.7%
Profit after tax	100.0	86.8	13.2	15.2%	377.0	288.0	89.0	30.9%
Profit for the period attributable to owners of the Company	100.0	86.8	13.2	15.2%	377.0	288.0	89.0	30.9%

RM'million	Individual Period				Cumulative period			
	Three months ended		Changes		Twelve months ended		Changes	
	2018	2017	Amount	%	2018	2017	Amount	%
	31 December				31 December			
Operating Revenue by segments								
General insurance	580.2	554.3	25.9	4.7%	2,345.8	2,254.0	91.8	4.1%
Gross earned premiums	532.5	510.5	22.0	4.3%	2,163.5	2,084.1	79.4	3.8%
Investment income	47.7	43.8	3.9	8.9%	182.3	169.9	12.4	7.3%
Life insurance	718.7	652.0	66.7	10.2%	2,822.6	2,532.8	289.8	11.4%
Gross earned premiums	609.1	547.5	61.6	11.3%	2,383.5	2,149.6	233.9	10.9%
Investment income	109.6	104.5	5.1	4.9%	439.1	383.2	55.9	14.6%
Investment holding								
Investment income	3.3	3.6	(0.3)	(8.3%)	13.5	14.2	(0.7)	(4.9%)
Total Operating Revenue	1,302.2	1,209.9	92.3	7.6%	5,181.9	4,801.0	380.9	7.9%

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 (Fourth Quarter 2018 versus Fourth Quarter 2017)

For the fourth quarter ended 31 December 2018, the Group recorded an operating revenue of RM1.30 billion, an increase of 7.6% or RM92.3 million as compared to the preceding year quarter ended 31 December 2017 of RM1.21 billion due mainly to higher gross earned premiums and investment income by RM83.6 million and RM8.7 million respectively.

For the quarter under review, the general insurance segment recorded an operating revenue of RM580.2 million, an increase of 4.7% or RM25.9 million as compared to the preceding year quarter ended 31 December 2017 of RM554.3 million due to increase in gross earned premiums and investment income by RM22.0 million and RM3.9 million respectively.

The increase in gross earned premiums of the general insurance segment was attributable to higher premiums from motor business.

For the quarter under review, the life insurance segment registered an operating revenue of RM718.7 million, an increase of 10.2% or RM66.7 million as compared to the preceding year quarter ended 31 December 2017 of RM652.0 million due to increase in gross earned premiums and investment income by RM61.6 million and RM5.1 million respectively.

The increase in gross earned premiums of the life insurance segment was mainly contributed by higher 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 RM5.18 billion for the financial year ended 31 December 2018, an increase of 7.9% or RM380.9 million as compared to the preceding financial year ended 31 December 2017 of RM4.80 billion due mainly to higher gross earned premiums and investment income by RM313.3 million and RM67.6 million respectively.

The general insurance segment recorded an operating revenue of RM2.35 billion for the financial year ended 31 December 2018, an increase of 4.1% or RM91.8 million as compared to the preceding financial year ended 31 December 2017 of RM2.25 billion due mainly to increase in gross earned premiums and investment income by RM79.4 million and RM12.4 million respectively.

The increase in gross earned premiums of the general insurance segment was attributable to higher premiums from motor business. The increase in investment income was due mainly to higher investment asset base.

The life insurance segment recorded an operating revenue of RM2.82 billion for the financial year ended 31 December 2018, an increase of 11.4% or RM289.8 million as compared to the preceding financial year ended 31 December 2017 of RM2.53 billion due to increase in gross earned premiums and investment income by RM233.9 million and RM55.9 million respectively.

The increase in gross earned premiums of the life insurance segment was mainly contributed by growth in agency, bancassurance and employee benefits 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 year to date (continued)

RM'million	Individual Period		Changes		Cumulative period		Changes	
	Three months ended 31 December 2018	2017	Amount	%	Twelve months ended 31 December 2018	2017	Amount	%
Profit Before Tax by segments								
General insurance	78.0	67.4	10.6	15.7%	320.6	266.9	53.7	20.1%
Life Insurance	50.3	59.5	(9.2)	(15.5%)	204.4	172.9	31.5	18.2%
Investment holding	(0.5)	(0.5)	0.0	(0.0%)	(6.0)	(2.5)	(3.5)	>100%
Total Profit before tax	127.8	126.4	1.4	1.1%	519.0	437.3	81.7	18.7%
General Insurance								
Commission ratio	12.6%	11.2%	N/A	(1.4 pts)	12.3%	12.2%	N/A	(0.1 pts)
Claims ratio	61.0%	62.0%	N/A	1.0 pts	62.1%	62.0%	N/A	(0.1 pts)
Expense ratio	20.0%	21.4%	N/A	1.4 pts	18.4%	20.3%	N/A	1.9 pts
Combined ratio	93.6%	94.6%	N/A	1.0 pts	92.8%	94.5%	N/A	1.7 pts
Life Insurance								
Annualised new premium ("ANP")	135.3	127.7	7.6	6.0%	512.8	452.5	60.3	13.3%
Expense ratio	8.4%	13.4%	N/A	5.0 pts	10.0%	12.1%	N/A	2.1 pts
Lapse ratio	10.5%	16.4%	N/A	5.9 pts	12.9%	15.2%	N/A	2.3 pts

pts - percentage points

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 year quarter against preceding year corresponding quarter (Fourth Quarter 2018 versus Fourth Quarter 2017)

For the fourth quarter ended 31 December 2018, the Group recorded a profit before tax of RM127.8 million, an increase of 1.1% or RM1.4 million as compared to the preceding year quarter ended 31 December 2017 of RM126.4 million.

For the quarter under review, the general insurance segment recorded a profit before tax of RM78.0 million, an increase of 15.7% or RM10.6 million as compared to profit before tax of the preceding year quarter ended 31 December 2017 of RM67.4 million. The higher profit before tax was mainly contributed by higher underwriting profit from motor business. The better underwriting profit was due to lower claims and lower management expenses.

For the quarter under review, the life insurance segment recorded a profit before tax of RM50.3 million, a decrease of 15.5% or RM9.2 million as compared to profit before tax of the preceding year quarter ended 31 December 2017 of RM59.5 million due mainly to higher group claims in the current quarter.

For the quarter under review, the investment holding segment registered loss before tax of RM0.5 million, similar to the preceding year quarter ended 31 December 2017.

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

The Group recorded a profit before tax of RM519.0 million for the financial year ended 31 December 2018, an increase of 18.7% or RM81.7 million as compared to the preceding financial year ended 31 December 2017 of RM437.3 million due mainly to higher profit contribution from both insurance segments.

General insurance segment delivered a profit before tax of RM320.6 million for the financial year ended 31 December 2018, an increase of 20.1% or RM53.7 million as compared to the preceding financial year ended 31 December 2017 of RM266.9 million. The higher profit before tax was due mainly to higher underwriting profit as a result of lower management expenses. The decrease in management expenses was due mainly to lower impairment of insurance receivables.

The life insurance segment recorded a higher profit before tax of RM204.4 million for the financial year ended 31 December 2018, an increase of 18.2% or RM31.5 million as compared to profit before tax of the preceding financial year ended 31 December 2017 of RM172.9 million due mainly to higher contribution from protection business.

The investment holding segment registered a loss before tax of RM6.0 million for the financial year ended 31 December 2018 as compared to loss before tax of RM2.5 million for the preceding financial year ended 31 December 2017 due mainly to agency commission being paid from the Shareholder's fund for the financial year 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'million	Current Year Quarter 31 December 2018	Immediate Preceding Quarter 30 September 2018	Changes	
			Amount	%
Operating revenue	1,302.2	1,301.6	0.6	0.0%
Profit before tax	127.8	147.7	(19.9)	(13.5%)
Profit after tax	100.0	99.9	0.1	0.1%
Profit for the period attributable to owners of the Company	100.0	99.9	0.1	0.1%

1.5 Operating revenue of the current quarter against the preceding quarter (Fourth Quarter 2018 versus Third Quarter 2018)

The Group recorded an operating revenue of RM1.30 billion for the quarter under review, similar to the preceding quarter ended 30 September 2018 of RM1.30 billion.

The general insurance segment recorded an operating revenue of RM580.2 million for the quarter under review, a decrease of 1.2% or RM6.8 million as compared to the preceding quarter ended 30 September 2018 of RM587.0 million due mainly to lower gross earned premiums in the current quarter.

The life insurance segment registered an operating revenue of RM718.6 million for the quarter under review, an increase of 1.0% or RM7.4 million as compared to the preceding quarter ended 30 September 2018 of RM711.2 million due mainly to higher premiums generated from agency channel.

1.6 Profit before tax of the current quarter against the preceding quarter (Fourth Quarter 2018 versus Third Quarter 2018)

The Group recorded a profit before tax of RM127.8 million for the quarter under review, a decrease of 13.5% or RM19.9 million as compared to the preceding quarter ended 30 September 2018 of RM147.7 million due mainly to lower profit contribution from life insurance segment.

The profit before tax of general insurance segment for the quarter under review of RM78.0 million, an increase of 1.0% or RM0.8 million as compared to the preceding quarter ended 30 September 2018 of RM77.2 million. The higher profit before tax was due to lower claims ratio in current quarter.

The profit before tax of life insurance segment for the quarter under review of RM50.3 million, a decrease of 30.2% or RM21.8 million as compared to the preceding quarter ended 30 September 2018 of RM72.1 million due mainly to higher claims in the current quarter.

The investment holding segment registered a loss before tax of RM0.5 million as compared to a loss before tax of the preceding quarter ended 30 September 2018 of RM1.6 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 year to date

RM'million	Individual period		Cumulative period	
	Three months ended 31 December		Twelve months ended 31 December	
	2018	2017	2018	2017
Other comprehensive (loss)/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				
- Net gain/(loss) arising during the year	3.6	(0.3)	(72.3)	154.2
- Net realised (gain)/loss transferred to income statement	(62.4)	9.9	(31.9)	(22.3)
Gains/(Loss) on cash flow hedge	(0.7)	(0.8)	3.2	(3.2)
Tax effects thereon	5.0	0.1	7.8	(13.2)
	<u>(54.5)</u>	<u>8.9</u>	<u>(93.2)</u>	<u>115.5</u>
Items that will not be reclassified subsequently to profit or loss				
Change in insurance contract liabilities arising from net fair value change on:				
- AFS financial assets	57.0	(14.7)	105.8	(113.9)
- Cash flow hedge reserve	0.7	0.8	(3.2)	3.2
Tax effects thereon	(4.6)	1.1	(8.2)	8.9
	<u>53.1</u>	<u>(12.8)</u>	<u>94.4</u>	<u>(101.8)</u>
Total other comprehensive (loss)/income for the year, net of tax	<u>(1.4)</u>	<u>(3.9)</u>	<u>1.2</u>	<u>13.7</u>

The Group recorded a total other comprehensive income of RM1.2 million for the financial year ended 31 December 2018, a decrease of RM12.5 million as compared to the total other comprehensive income of the preceding financial year ended 31 December 2017 of RM13.7 million due to lower fair value gains from AFS financial assets, mainly from the general insurance segment for the financial year 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'million	As at	As at	Changes	
	31 December 2018	31 December 2017	Amount	%
Total assets	17,404.6	16,596.7	807.9	4.9%
Total liabilities	14,042.9	13,461.2	581.7	4.3%
Total equity	3,361.7	3,135.5	226.2	7.2%

Total assets

As at 31 December 2018, the Group's total assets increased by RM807.9 million to RM17.40 billion from RM16.60 billion as at 31 December 2017, mainly attributable to increase in financial investments for the financial year under review. The increase was in line with the Group's business growth.

Total liabilities

As at 31 December 2018, the Group's total liabilities increased by RM581.7 million to RM14.04 billion from RM13.46 billion as at 31 December 2017 due mainly to increase in insurance contract liabilities from both insurance segments. The increase in insurance contract liabilities was in line with the Group's business growth.

Total equity

The Group's total equity as at 31 December 2018 increased by 7.2% or RM226.2 million to RM3.36 billion from RM3.14 billion in 2017. This is mainly attributable to the net profit generated for the year ended 31 December 2018.

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

2. Current year prospect

The general insurance industry reported a marginal growth of 1.5% in Gross Written Premium for the year ended 31 December 2018 and we anticipate similar trend in the medium term given the economic uncertainty and subdued consumer sentiments. However, the general insurance segment will continue to offer innovative products and services in anticipation of a fully liberalised insurance market while further expanding its multi-distribution model to maintain market leadership.

The life insurance industry reported a marginal growth of 1.0% in Annualised New Premium for the year ended 31 December 2018. The life insurance segment will continue to leverage on the strength of its multi-distribution channels and increase productivity across distribution channels to generate growth. It will also maintain growth momentum by continuing to focus on improving operational efficiency and digital capabilities to meet the evolving demands of consumers.

The Group will continue to focus on optimising the performance of its insurance businesses and expect to maintain satisfactory results in 2019.

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	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Interest income	149,480	133,576	566,353	501,127
Dividend income	8,550	15,287	57,446	52,824
Accretion of discounts	3,344	3,950	9,999	11,266
Amortisation of premiums	(2,610)	(2,601)	(5,675)	(5,699)
Rental income	126	52	443	212
Other income	1,728	1,616	6,347	7,524
	160,618	151,880	634,913	567,254

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	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment				
Realised gains on disposal	55	97	55	226
Realised losses on disposal	(15)	-	(57)	(19)
Total net realised gains/(losses) for property, plant and equipment	40	97	(2)	207
Financial assets				
Realised gains on disposal:				
Malaysian government securities	538	181	577	4,283
Malaysian government guaranteed bonds	73	137	73	137
Quoted equity securities of corporations in Malaysia	12,317	15,100	96,157	100,534
Quoted equity securities of corporations outside Malaysia	-	34	790	5,890
Quoted unit trusts in Malaysia	15	-	15	1,048
Unquoted unit trusts in Malaysia	318	-	318	-
Unquoted unit trusts outside Malaysia	20	55	20	434
Unquoted bonds of corporations in Malaysia	(108)	5	-	5
Realised losses on disposal:				
Malaysian government securities	(9)	(641)	(9)	(641)
Malaysian government guaranteed bonds	(6)	-	(6)	-
Quoted equity securities of corporations in Malaysia	(52,349)	(31,309)	(118,632)	(53,768)
Quoted equity securities of corporations outside Malaysia	(14)	(667)	(365)	(6,069)
Unquoted unit trusts outside Malaysia	(2)	(23)	(91)	(210)
Unquoted bonds of corporations in Malaysia	(37)	-	(37)	(76)
Total net realised (losses)/gains for financial assets	(39,244)	(17,128)	(21,190)	51,567
Total net realised (losses)/gains	(39,204)	(17,031)	(21,192)	51,774

6. Fair value gains and losses

	Individual period		Cumulative period	
	Three months ended		Twelve months ended	
	31 December		31 December	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Investment properties				
Fair value losses on investment properties	-	(2,409)	-	(2,409)
Financial instruments				
Held for trading financial assets	(135,595)	48,353	(247,818)	184,209
Designated upon initial recognition financial assets	2,721	(9,982)	8,096	10,588
Derivatives financial asset	(3,589)	(9,624)	2,126	6,919
Derivatives financial liabilities	725	(3,394)	725	1,096
Total fair value (losses)/gains on financial instruments at Fair Value Through Profit or Loss	(135,738)	25,353	(236,871)	202,812
Impairment loss on AFS financial investments	(30,443)	(2,149)	(76,804)	(6,582)
Total net fair value (losses)/gains	(166,181)	20,795	(313,675)	193,821

The gains or losses arising from fair value changes of derivative financial asset/(liabilities) are based on the indicative market prices from the issuing banks.

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 year under review is arrived at after charging/(crediting):

	Individual period		Cumulative period	
	Three months ended		Twelve months ended	
	31 December		31 December	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Amortisation of intangible assets	5,051	4,155	17,631	18,412
Depreciation of property, plant and equipment	4,770	4,855	16,618	16,776
Insurance and other receivables:				
- (Reversal of)/Allowance for impairment loss	(10,683)	7,466	(13)	37,557
- Bad debts recovered	(6)	(14)	(83)	(193)
- Bad debts written off	1,727	805	3,080	1,517
Interest expense	905	1,640	3,520	4,689
Interest income	(159)	(905)	(662)	(905)
Property, plant and equipment written off	401	3	509	12
Unrealised foreign exchange (gains)/ losses	(136)	2,008	902	2,008

Other than as disclosed in Notes 6 and 7, there are no exceptional items for the financial year ended 31 December 2018.

8. Tax expense

	Individual period		Cumulative period	
	Three months ended		Twelve months ended	
	31 December		31 December	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Profit before tax	127,837	126,385	518,984	437,283
Tax expense				
Income tax	15,539	33,681	109,402	118,261
Deferred tax	12,258	5,922	32,561	31,060
Total tax expense	27,797	39,603	141,963	149,321
Effective tax rate	22%	31%	27%	34%

The Group's consolidated effective tax rate for the financial year under review is higher than the statutory tax rate of 24% (2017: 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 by the Group.

10. Borrowings and debts securities

The Group has on 19 January 2018 fully repaid the 5-year term loan facility of up to the principal amount of Euro equivalent of RM54.3 million to its holding company, Allianz SE.

Saved as disclosed above, the Group has no outstanding borrowings and debts securities for the financial year under review.

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 and which has since been wound up) ("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 Closing Submissions and Reply Submissions were filed on 30 August 2017 and 27 September 2017 respectively. The Oral Submissions took place on 12 October 2017 and 13 October 2017, during which the Tribunal sought some clarification in response to which AGIC's solicitors prepared and filed AGIC's Further Written Submissions. VSC's solicitors then responded with VSC's Further Written Submissions. AGIC's solicitors then prepared and filed AGIC's Rebuttal Submissions to clarify VSC's citation of certain cases.

An Arbitration Award dated 8 February 2018 was received on 20 February 2018. The award, made by 2 arbitrators of the Panel of 3 arbitrators, was in favour of VSC (the "Award") whilst the Dissenting Arbitrator found in favour of AGIC.

The Award ordered AGIC to pay the following:

1. RM30,593.64 as reimbursement of payment in respect of the Kuala Lumpur Regional Centre for Arbitration's administrative expenses;
2. RM425,324.32 as reimbursement of payment in respect of fees and expenses of the arbitral tribunal;
3. RM668,160.69 for costs and expenses incurred by VSC; and
4. USD10,969.31 as reimbursement for costs incurred in respect of VSC's ex-employee.

AGIC's solicitors are of the view that there are reasonable grounds to seek a review of the majority decision, including to set aside the Award.

On this basis, an Originating Summons has been filed in the Kuala Lumpur High Court on 29 March 2018 to set aside the Award under section 37(2)(b)(ii) of the Arbitration Act 2005 ("the Act") and for a Reference of Questions of law under section 42 of the Act. The Court has fixed the latest Hearing Date on 18 February 2019 and has also directed parties to file and exchange their respective Written Submissions by 11 February 2019. AGIC's solicitors presented their Oral Submissions (partially) at the Hearing on 18 February 2019. Two further dates have been fixed for continued Hearing, namely 13 March 2019 and 18 April 2019.

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 adjusted for preference dividends by the weighted average number of ordinary shares in issue.

		Individual period		Cumulative period	
		Three months ended		Twelve months ended	
		31 December		31 December	
		2018	2017	2018	2017
Profit attributable to ordinary shareholders	(RM'000)	100,040	86,782	377,021	287,962
Adjustment:					
- Preference dividends		(81,368)	(24,627)	(81,368)	(24,627)
Adjusted profit attributable to ordinary shareholders		18,672	62,155	295,653	263,335
Weighted average number of ordinary shares in issue	('000)	174,596	173,764	176,090	174,171
Basic earnings per ordinary share	(sen)	10.69	35.77	167.90	151.19

(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	
		2018	2017	2018	2017
Profit attributable to ordinary shareholders	(RM'000)	100,040	86,782	377,021	287,962
Weighted average number of ordinary shares in issue	('000)	174,596	173,764	176,090	174,171
Effect of conversion of ICPS	('000)	169,518	171,623	169,518	171,623
Diluted weighted average number of ordinary shares during the period	('000)	344,114	345,387	345,608	345,794
Diluted earnings per ordinary share	(sen)	29.07	25.13	109.09	83.28

13. Dividend

The Board of Directors declared a single tier interim dividend of 40.00 sen per ordinary share and a single tier interim dividend of 48.00 sen per ICPS for the financial year ended 31 December 2018 which were paid on 15 February 2019 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 25 January 2019.

The Board of Directors does not recommend any payment of final dividend for the financial year ended 31 December 2018.

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

14. Derivatives Financial Instruments

(i) Derivative financial instruments measured at their fair values together with their corresponding contract/notional amounts are as follows:

As at 31 December 2018

	Nominal value				Assets				Liabilities			
	< 1 year RM'000	1 - 3 years RM'000	>3 years RM'000	Total RM'000	< 1 year RM'000	1 - 3 years RM'000	>3 years RM'000	Total RM'000	< 1 year RM'000	1 - 3 years RM'000	>3 years RM'000	Total RM'000
Derivatives held for trading at fair value through profit or loss												
Collateralised interest rate swap	-	-	400,000	400,000	-	-	19,481	19,481	-	-	-	-
Cross currency swap	-	21,010	98,740	119,750	-	949	4,033	4,982	-	-	819	819
Derivatives used for hedging												
Forward purchase agreements	30,000	100,000	60,000	190,000	182	-	1,414	1,596	121	1,473	-	1,594
Total	30,000	121,010	558,740	709,750	182	949	24,928	26,059	121	1,473	819	2,413

As at 31 December 2017

	Nominal value				Assets				Liabilities			
	< 1 year RM'000	1 - 3 years RM'000	>3 years RM'000	Total RM'000	< 1 year RM'000	1 - 3 years RM'000	>3 years RM'000	Total RM'000	< 1 year RM'000	1 - 3 years RM'000	>3 years RM'000	Total RM'000
Derivatives held for trading at fair value through profit or loss												
Collateralised forward starting interest rate swap	-	-	400,000	400,000	-	-	21,086	21,086	-	-	-	-
Cross currency swap	-	-	119,750	119,750	-	-	4,352	4,352	-	-	1,933	1,933
Derivatives used for hedging												
Forward purchase agreements	30,000	90,000	100,000	220,000	-	-	99	99	225	1,231	1,862	3,318
Total	30,000	90,000	619,750	739,750	-	-	25,537	25,537	225	1,231	3,795	5,251

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

14. Derivatives Financial Instruments (continued)

As at 31 December 2018, the Group has positions in the following types of derivative financial instruments:

Swaps

Swaps are contractual agreements between two parties to exchange exposures in foreign currency or interest rates.

Forwards

Forwards are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted over-the-counter market.

(ii) The Group's derivative financial instruments are subject to market, credit and liquidity risk, as follows:

Market Risk

The Group takes positions in derivatives for hedging purposes based on certain assumptions, analysis, outlook and other factors into consideration to conclude how an investment will likely perform in future. Risk of losses or opportunity cost occurs when market parameters moves in different directions from positions taken.

Credit Risk

Credit risk is the risk of a financial loss if the counterparties to the derivative financial instruments fail to meet its contractual obligations. As at the reporting date, the amount of credit risk in the Group, measured in terms of the cost to replace the profitable contracts, was RM26,059,000 (2017: RM25,537,000). This amount will increase or decrease over the life of the contracts, mainly as a function of maturity dates and market rates or prices. The credit risk exposure will be partly mitigated by collateral posting.

Liquidity Risk

Liquidity risk on derivatives is the risk that the derivative position cannot be closed out promptly. Exposure to liquidity risk is reduced through contracting derivatives where the underlying items are widely traded.

(iii) Cash Requirements of the Derivatives

Cash requirements of the derivatives may arise from margin requirements to post or receive cash collateral with counterparties as the fair value moves beyond the agreed upon threshold limits in the counterparties' favour. As at the reporting date, the Group had received cash collateral of RM20,864,000 (2017: RM12,128,000) on the derivative contracts.

(iv) There have been no changes since the end of the previous financial period in respect of the following:

- the types of derivative financial contracts entered into and the rationale for entering into such contracts, as well as the expected benefits accruing from these contracts;
- the risk management policies in place for mitigating and controlling the risks associated with these financial derivative contracts; and
- the related accounting policies.

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

15. Insurance receivables

Additional Disclosure Information

The Group has not provided the credit risk analysis for the financial assets of the investment-linked funds. 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	Total RM'000
31 December 2018					
Insurance receivables	7,004	11,150	2,190	10,577	30,921
31 December 2017					
Insurance receivables	3,523	589	591	3,191	7,894

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

15. Insurance receivables (continued)

Additional Disclosure Information (continued)

(ii) Past-due and impaired financial assets

As at 31 December 2018, based on combination of collective and individual assessment of receivables, there are impaired insurance receivables amounting to RM59,704,000 (2017: RM59,166,000), reinsurance assets of RM2,615,000 (2017: Nil) and other receivables of RM1,471,000 (2017: RM2,022,000) 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 the aforesaid insurance receivables and other receivables are as follows:

	Insurance receivables		Reinsurance assets		Other receivables	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
At 1 January	59,166	21,644	-	-	2,022	1,987
Impairment loss recognised	2,373	39,039	2,615	-	694	35
Written off during the year	(1,835)	(1,517)	-	-	(1,245)	-
At 31 December	59,704	59,166	2,615	-	1,471	2,022

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

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 2018 was not qualified.

BY ORDER OF THE BOARD

Ng Siew Gek
Company Secretary

Kuala Lumpur
21 February 2019