

ALLIANZ MALAYSIA BERHAD (197201000819)

UNAUDITED QUARTERLY RESULTS
FOR THE PERIOD ENDED 30 JUNE 2020

ALLIANZ MALAYSIA BERHAD (197201000819)

**Condensed consolidated statement of financial position
as at 30 June 2020 - unaudited**

	30 June 2020 RM'000	← Audited → 31 December 2019 RM'000
Assets		
Property, plant and equipment	84,759	87,284
Right-of-use assets	65,071	74,335
Intangible assets	362,990	370,580
Investment properties	20,155	20,155
Reinsurance assets	925,902	926,586
Investments	17,089,000	16,085,347
Derivative financial assets	74,072	62,177
Current tax assets	21,836	12,584
Insurance receivables	341,164	195,352
Other receivables, deposits and prepayments	199,662	164,196
Deferred acquisitions costs	113,297	111,423
Cash and cash equivalents	1,211,313	1,600,053
Total assets	20,509,221	19,710,072

Condensed consolidated statement of financial position
as at 30 June 2020 - unaudited (continued)

	30 June 2020 RM'000	← Audited → 31 December 2019 RM'000
Equity		
Share capital:		
Ordinary Shares	232,601	232,597
Irredeemable Convertible Preference Shares ("ICPS")	538,428	538,432
Reserves	3,194,805	2,902,540
	3,965,834	3,673,569
Liabilities		
Insurance contract liabilities	15,088,668	14,422,224
Deferred tax liabilities	408,888	356,014
Derivative financial liabilities	4,340	1,244
Lease liabilities	48,754	57,124
Insurance payables	423,672	424,051
Other payables and accruals	563,449	769,750
Current tax liabilities	5,616	6,096
	16,543,387	16,036,503
Total equity and liabilities	20,509,221	19,710,072
Net asset per ordinary share (RM)	22.42	20.77
Diluted net asset per ordinary share (RM)	11.46	10.61

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

**Condensed consolidated statement of profit or loss
For the period ended 30 June 2020 - unaudited**

	Note (Part B)	Individual period Three months ended 30 June		Cumulative period Six months ended 30 June	
		2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Operating revenue *		1,404,105	1,366,015	2,888,811	2,710,310
Gross earned premiums		1,228,021	1,194,799	2,534,147	2,378,244
Premiums ceded to reinsurers		(87,985)	(89,913)	(166,426)	(173,104)
Net earned premiums		1,140,036	1,104,886	2,367,721	2,205,140
Investment income	4	176,084	171,216	354,664	332,066
Realised gains and losses	5	(4,082)	6,991	(75,138)	(20,878)
Fair value gains and losses	6	368,093	128,379	(118,008)	323,939
Fee and commission income		6,101	9,786	12,975	19,960
Other operating income		6,832	9,882	21,961	20,649
Investment and other income		553,028	326,254	196,454	675,736
Gross benefits and claims paid		(427,066)	(620,527)	(991,294)	(1,209,264)
Claims ceded to reinsurers		24,455	47,344	50,028	95,054
Gross change in contract liabilities		(699,884)	(368,171)	(574,196)	(790,369)
Change in contract liabilities ceded to reinsurers		(3,569)	15,549	5,105	20,307
Net benefits and claims		(1,106,064)	(925,805)	(1,510,357)	(1,884,272)
Fee and commission expense		(187,247)	(180,836)	(375,660)	(357,362)
Management expenses		(145,126)	(135,457)	(312,130)	(287,325)
Interest expense		(490)	(294)	(1,028)	(923)
Other operating expenses		(5,539)	(11,033)	(24,455)	(22,039)
Other expenses		(338,402)	(327,620)	(713,273)	(667,649)
Profit before tax	7	248,598	177,715	340,545	328,955
Tax expense	8	(80,866)	(60,048)	(93,313)	(112,371)
Profit for the period		167,732	117,667	247,232	216,584
Profit for the period attributable to: Owners of the Company		167,732	117,667	247,232	216,584
Basic earnings per ordinary share (sen)	12(a)	94.82	66.57	139.77	122.54
Diluted earnings per ordinary share (sen)	12(b)	48.45	33.99	71.41	62.56

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

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

Condensed consolidated statement of profit or loss and other comprehensive income
For the period ended 30 June 2020 - unaudited

	Note (Part B)	Individual period		Cumulative period	
		Three months ended		Six months ended	
		30 June		30 June	
		2020	2019	2020	2019
		RM'000	RM'000	RM'000	RM'000
Profit for the period attributable to owners of the Company		167,732	117,667	247,232	216,584
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 gains arising during the period		245,681	129,731	99,575	232,796
- Net realised gains transferred to profit or loss		(18,864)	(28,268)	(4,612)	(2,887)
(Loss)/gain on cash flow hedge		(5,670)	8,134	(5,472)	17,812
Tax effects thereon		(29,830)	(14,242)	(17,417)	(30,425)
Change in insurance contract liabilities of participating fund arising from net fair value change on:					
- AFS financial assets		(149,264)	(67,209)	(34,864)	(163,548)
- Cash flow hedge reserve		5,670	(8,134)	5,472	(17,812)
Tax effects thereon		11,487	6,028	2,351	14,509
Total other comprehensive income for the period, net of tax	1.5	59,210	26,040	45,033	50,445
Total comprehensive income for the period, net of tax		226,942	143,707	292,265	267,029
Total comprehensive income for the period attributable to:					
Owners of the Company		226,942	143,707	292,265	267,029

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

ALLIANZ MALAYSIA BERHAD (197201000819)

Condensed consolidated statement of changes in equity for the period ended 30 June 2020 - unaudited

	←————— Attributable to owners of the Company —————→						Total equity
	←————— <i>Non-distributable</i> —————→			—————→ <i>Distributable</i>			
	Ordinary shares	Irredeemable Convertible Preference Shares	Revaluation reserve	Fair value reserve	Retained earnings Life non-participating fund surplus ¹	Retained earnings	Total equity
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2019	231,964	539,065	41,934	11,376	752,903	1,784,455	3,361,697
Total other comprehensive income for the period	-	-	-	50,445	-	-	50,445
Profit for the period	-	-	-	-	91,274	125,310	216,584
Total comprehensive income for the period	-	-	-	50,445	91,274	125,310	267,029
Contributions by and distributions to owners of the Company							
Conversion of ICPS to ordinary shares	252	(252)	-	-	-	-	-
Total transactions with owners of the Company	252	(252)	-	-	-	-	-
At 30 June 2019	232,216	538,813	41,934	61,821	844,177	1,909,765	3,628,726

Condensed consolidated statement of changes in equity for the period ended 30 June 2020 - unaudited (continued)

	←————— Attributable to owners of the Company —————→						Total equity
	←————— <i>Non-distributable</i> —————→			————— <i>Distributable</i> —————→			
	Ordinary shares	Irredeemable Convertible Preference Shares	Revaluation reserve	Fair value reserve	Retained earnings Life non-participating fund surplus ¹	Retained earnings	Total equity
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2020	232,597	538,432	42,303	77,446	971,897	1,810,894	3,673,569
Total other comprehensive income for the period	-	-	-	45,033	-	-	45,033
Profit for the period	-	-	-	-	108,577	138,655	247,232
Total comprehensive income for the period	-	-	-	45,033	108,577	138,655	292,265
Contributions by and distributions to owners of the Company							
Conversion of ICPS to ordinary shares	4	(4)	-	-	-	-	-
Total transactions with owners of the Company	4	(4)	-	-	-	-	-
At 30 June 2020	232,601	538,428	42,303	122,479	1,080,474	1,949,549	3,965,834

¹ 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 interim financial statements.

Condensed consolidated statement of cash flows
For the period ended 30 June 2020 - unaudited

	Six months ended 30 June 2020 RM'000	Six months ended 30 June 2019 RM'000
Cash flows from operating activities		
Profit before tax	340,545	328,955
<i>Adjustments for:</i>		
Investment income	(354,664)	(332,066)
Interest income	(300)	(312)
Interest expense	1,028	923
Realised losses from financial assets recorded in profit or loss	75,137	20,882
Fair value losses/(gains) on financial assets recorded in profit or loss	22,880	(327,214)
Purchases of financial assets	(2,533,481)	(1,715,593)
Maturity of financial assets	285,391	422,000
Proceeds from sale of financial assets	1,114,282	674,586
Change in loans and receivables	17,828	(188,727)
Change in fair value of AFS financial assets	(2,675)	-
Unrealised foreign exchange gain	(193)	(337)
Depreciation of property, plant and equipment	6,297	6,871
Depreciation of right-of-use assets	9,029	9,286
Amortisation of intangible assets	11,211	9,259
Loss/(Gain) on disposal of property, plant and equipment	1	(4)
Impairment loss on AFS financial assets	95,128	3,275
Property, plant and equipment written off	26	935
Insurance and other receivables:		
- Allowance for impairment loss	2,920	8,231
- Bad debts recovered	(74)	(38)
- Bad debts written off	1,192	-
Changes in working capital:		
Change in reinsurance assets	684	1,013
Change in insurance receivables	(149,850)	(123,874)
Change in other receivables, deposits and prepayments	(32,543)	(42,113)
Change in insurance contract liabilities	639,403	855,327
Change in deferred acquisition costs	(1,874)	(4,304)
Change in insurance payables	(379)	(24,538)
Change in other payables and accruals	40,744	176,489
Cash used in operations	(412,307)	(241,088)

Condensed consolidated statement of cash flows
For the period ended 30 June 2020 - unaudited (continued)

	Six months ended 30 June 2020 RM'000	Six months ended 30 June 2019 RM'000
Cash flows from operating activities (continued)		
Dividends received	47,020	35,819
Interest income received	305,086	306,226
Interest paid on lease liabilities	(1,028)	(923)
Tax paid	(64,911)	(54,388)
Net cash (used in)/from operating activities	(126,140)	45,646
Investing activities		
Proceeds from disposal of property, plant and equipment	9	83
Acquisition of property, plant and equipment	(4,305)	(7,874)
Acquisition of intangible assets	(3,124)	(4,808)
Proceeds from disposal of intangible assets	-	6,394
Net cash used in investing activities	(7,420)	(6,205)
Financing activities		
Dividends paid	(247,045)	(152,044)
Repayment of lease liabilities	(8,135)	(8,294)
Net cash used in financing activities	(255,180)	(160,338)
Net decrease in cash and cash equivalents	(388,740)	(120,897)
Cash and cash equivalents at 1 January	1,600,053	1,239,635
Cash and cash equivalents at 30 June	1,211,313	1,118,738
Cash and cash equivalents comprise:		
Fixed and call deposits with licensed financial institutions (with maturity less than three months)	1,146,992	1,027,045
Cash and bank balances	64,321	91,693
	1,211,313	1,118,738

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

Part A: Explanatory notes to the condensed consolidated financial statements

1. Basis of preparation

These condensed consolidated interim financial statements ("the Report") of Allianz Malaysia Berhad ("AMB" or "the Company") and its subsidiaries (AMB and its subsidiaries are collectively referred to as the "Group") as at and for the financial period ended 30 June 2020 have been prepared in accordance with:

- (a) The requirements of Malaysian Financial Reporting Standard ("MFRS") 134: Interim Financial Reporting and 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 2019.

The preparation of the condensed consolidated interim financial statements/condensed consolidated quarterly financial statements in conformity with MFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities as at the date of the condensed consolidated interim financial statements, and the reported amount of income and expenses during the year. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

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 2019, except for the adoption of the following:

MFRSs/ Amendments/ Interpretation	Effective date
The Conceptual Framework for Financial Reporting (Revised 2018)	1 January 2020
Amendments to MFRS 101, Presentation of Financial Statements – Definition of Material	1 January 2020
Amendments to MFRS 108, Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material	1 January 2020
Amendments to MFRS 3, Business Combinations – Definition of a Business	1 January 2020
Amendments to MFRS 9, MFRS 139 and MFRS 7 – Interest Rate Benchmark Reform	1 January 2020

Part A: Explanatory notes to the condensed consolidated financial statements

2. Statement of compliance (continued)

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 2023 at the latest. Hence, the Group has not adopted MFRS 9 for the financial year beginning on or after 1 January 2018.

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 2023 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 approximately 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 2023.

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)

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 30 June 2020			
Investments	7,237,803	9,765,670	17,003,473
Malaysian government securities and government guaranteed bonds	4,822,461	3,636,286	8,458,747
Unquoted bonds of corporations	1,488,383	3,494,442	4,982,825
Quoted equity securities and unit trusts	-	1,801,470	1,801,470
Unquoted equity securities and unit trusts	-	759,819	759,819
Negotiable certificates of deposits and structured deposits	20,791	73,653	94,444
Government guaranteed loans	-	-	-
Fixed and call deposits with licensed banks	906,168	-	906,168
Derivative financial assets	-	74,072	74,072
Other receivables and deposits	199,662	-	199,662
Cash and cash equivalents	1,211,313	-	1,211,313
	<u>8,648,778</u>	<u>9,839,742</u>	<u>18,488,520</u>
	Financial assets with SPPI cash flows RM'000	All other financial assets RM'000	Total* RM'000
Changes in fair value during the period			
Investments			
Malaysian government securities and government guaranteed bonds	87,426	71,562	158,988
Unquoted bonds of corporations	13,562	59,509	73,071
Quoted equity securities and unit trusts	-	(183,728)	(183,728)
Unquoted equity securities and unit trusts	-	(1,581)	(1,581)
Negotiable certificates of deposits and structured deposits	14	(596)	(582)
Government guaranteed loans	-	-	-
Fixed and call deposits with licensed banks	-	-	-
Derivative financial assets	-	14,909	14,909
Other receivables and deposits	-	-	-
Cash and cash equivalents	-	-	-
	<u>101,002</u>	<u>(39,925)</u>	<u>61,077</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 Contracts* (continued)

Financial assets with SPPI cash flows*

	AAA RM'000	AA RM'000	A RM'000	AA- 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	-	-	-	-	-	-	4,822,461	-	4,822,461
Unquoted bonds of corporations	832,800	575,636	30,855	3,006	11,097	-	42,338	-	1,495,732
Negotiable certificates of deposits and structured deposits	20,791	-	-	-	-	-	-	-	20,791
Government guaranteed loans	-	-	-	-	-	-	-	-	-
Fixed and call deposits with licensed banks	152,046	628,712	-	-	-	-	-	125,410	906,168
Other receivables and deposits	-	-	-	-	-	-	186,062	13,600	199,662
Cash and cash equivalents	426,929	497,832	2,455	-	-	-	18,372	265,725	1,211,313
	<u>1,432,566</u>	<u>1,702,180</u>	<u>33,310</u>	<u>3,006</u>	<u>11,097</u>	<u>-</u>	<u>5,069,233</u>	<u>404,735</u>	<u>8,656,127</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 1 January 2020 did not have any material impact on the current and/or prior 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 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 estimates of amounts reported in the prior financial year that have a material effect in the current year.

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 2019.

7. Changes in group composition

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

8. Capital commitments

As at 30 June 2020

RM'000

Property, plant and equipment:
 Contracted but not provided for
 Software development:
 Contracted but not provided for

1,509

2,029

9. Related party transactions

Significant related party transactions are as follows:

	Transactions value	
	Six months ended	
	30 June	
	2020	2019
	RM'000	RM'000
Related companies*		
Payment of reinsurance premium ceded, net of commission income	(125,676)	(108,971)

* 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 ("BNM")'s 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 took place on 19 and 20 February 2019. PIAM had commenced its Oral Representation on 21 February 2019. BNM's Oral Representation took place on 13 May 2019 followed by Oral Representations by several counsel representing 6 insurers. The session on 14 May 2019 was vacated and the Oral Representation by PIAM's Competition Economist (RBB Economics) and the remaining insurers' counsel were heard over 17 and 18 June 2019. No indication was given as to the timeline of the delivery of the decision.

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 1,200 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 51.00 sen per ordinary share and a single tier interim dividend of 61.2 sen per ICPS for the financial year ended 31 December 2019 were paid on 14 February 2020 to the entitled ordinary shareholders and ICPS holders of the Company respectively.
- (b) A single tier special dividend of 14.00 sen per ordinary share and a single tier special dividend of 16.8 sen per ICPS for the financial year ended 31 December 2019 were paid on 14 February 2020 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 period ended 30 June 2020 - unaudited

	Investment holding		General insurance		Life insurance		Consolidated	
	2020	2019	2020	2019	2020	2019	2020	2019
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Segment operating revenue	6,087	6,895	1,202,808	1,153,382	1,679,916	1,550,033	2,888,811	2,710,310
Inter-segment operating revenue	(48)	(1,212)	(2,917)	(300)	(193)	(60)	(3,158)	(1,572)
Segment results	(8,419)	(5,892)	193,856	177,247	155,108	157,600	340,545	328,955
Segment assets	399,394	406,377	6,888,952	6,396,572	13,220,875	12,026,187	20,509,221	18,829,136
Segment liabilities	60,901	21,183	4,345,229	3,999,981	12,137,257	11,179,246	16,543,387	15,200,410

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'million	Individual Period				Cumulative period			
	Three months ended		Changes		Six months ended		Changes	
	2020	2019	Amount	%	2020	2019	Amount	%
	30 June				30 June			
Operating revenue	1,404.1	1,366.0	38.1	2.8%	2,888.8	2,710.3	178.5	6.6%
Profit before tax	248.6	177.7	70.9	39.9%	340.5	329.0	11.5	3.5%
Profit after tax	167.7	117.7	50.0	42.5%	247.2	216.6	30.6	14.1%
Profit for the period attributable to owners of the Company	167.7	117.7	50.0	42.5%	247.2	216.6	30.6	14.1%

RM'million	Individual Period				Cumulative period			
	Three months ended		Changes		Six months ended		Changes	
	2020	2019	Amount	%	2020	2019	Amount	%
	30 June				30 June			
Operating Revenue by segments								
General insurance	598.2	582.1	16.1	2.8%	1,202.8	1,153.4	49.4	4.3%
Gross earned premiums	551.9	535.6	16.3	3.0%	1,109.5	1,061.1	48.4	4.6%
Investment income	46.3	46.5	(0.2)	(0.4%)	93.3	92.3	1.0	1.1%
Life insurance	803.1	780.7	22.4	2.9%	1,679.9	1,550.0	129.9	8.4%
Gross earned premiums	676.1	659.2	16.9	2.6%	1,424.6	1,317.1	107.5	8.2%
Investment income	127.0	121.5	5.5	4.5%	255.3	232.9	22.4	9.6%
Investment holding								
Investment income	2.8	3.2	(0.4)	(12.5%)	6.1	6.9	(0.8)	(11.6%)
Total Operating Revenue	1,404.1	1,366.0	38.1	2.8%	2,888.8	2,710.3	178.5	6.6%

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 (Second Quarter 2020 versus Second Quarter 2019)

For the second quarter ended 30 June 2020, the Group recorded an operating revenue of RM1.40 billion, an increase of 2.8% or RM38.1 million as compared to the preceding year quarter ended 30 June 2019 of RM1.37 billion due mainly to higher gross earned premiums and investment income by RM33.2 million and RM4.9 million respectively.

For the quarter under review, the general insurance segment recorded an operating revenue of RM598.2 million, an increase of 2.8% or RM16.1 million as compared to the preceding year quarter ended 30 June 2019 of RM582.1 million due to increase in gross earned premiums by RM16.3 million offset by a decrease in investment income by RM0.2 million.

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 RM803.1 million, an increase of 2.9% or RM22.4 million as compared to the preceding year quarter ended 30 June 2019 of RM780.7 million due to increase in gross earned premiums and investment income by RM16.9 million and RM5.5 million respectively.

The increase in gross earned premiums of the life insurance segment was mainly contributed by higher premiums from agency and employee benefits channels.

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

The Group recorded an operating revenue of RM2.89 billion for the financial period ended 30 June 2020, an increase of 6.6% or RM178.5 million as compared to the preceding financial period ended 30 June 2019 of RM2.71 billion due mainly to higher gross earned premiums and investment income by RM155.9 million and RM22.6 million respectively.

The general insurance segment recorded an operating revenue of RM1.20 billion for the financial period ended 30 June 2020, an increase of 4.3% or RM49.4 million as compared to the preceding financial period ended 30 June 2019 of RM1.15 billion due mainly to increase in gross earned premiums and investment income by RM48.4 million and RM1.0 million respectively.

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

The life insurance segment recorded an operating revenue of RM1.68 billion for the financial period ended 30 June 2020, an increase of 8.4% or RM129.9 million as compared to the preceding financial period ended 30 June 2019 of RM1.55 billion due to increase in gross earned premiums and investment income by RM107.5 million and RM22.4 million respectively.

The increase in gross earned premiums of the life insurance segment was mainly contributed by growth in all key distribution 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'million	Individual Period Three months ended 30 June		Changes		Cumulative period Six months ended 30 June		Changes	
	2020	2019	Amount	%	2020	2019	Amount	%
Profit Before Tax by segments								
General insurance	119.4	91.5	27.9	30.5%	193.9	177.2	16.7	9.4%
Life Insurance	131.6	88.8	42.8	48.2%	155.1	157.6	(2.5)	(1.6%)
Investment holding	(2.4)	(2.6)	0.2	(7.7%)	(8.5)	(5.8)	(2.7)	46.6%
Total Profit before tax	248.6	177.7	70.9	39.9%	340.5	329.0	11.5	3.5%
General Insurance								
Commission ratio	13.3%	12.0%	N/A	(1.3 pts)	12.9%	12.1%	N/A	(0.8 pts)
Claims ratio	54.5%	61.1%	N/A	6.6 pts	58.5%	59.9%	N/A	1.4 pts
Expense ratio	17.6%	17.2%	N/A	(0.4 pts)	18.7%	18.8%	N/A	0.1 pts
Combined ratio	85.4%	90.3%	N/A	4.9 pts	90.1%	90.8%	N/A	0.7 pts
Life Insurance								
Annualised new premium ("ANP")	90.8	167.8	(77.0)	(45.9%)	213.4	285.3	(71.9)	(25.2%)
Expense ratio	10.0%	9.8%	N/A	(0.2 pts)	10.7%	10.3%	N/A	(0.4 pts)
Lapse ratio	12.2%	11.6%	N/A	(0.6 pts)	10.5%	11.1%	N/A	0.6 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 (Second Quarter 2020 versus Second Quarter 2019)

For the second quarter ended 30 June 2020, the Group recorded a profit before tax of RM248.6 million, an increase of 39.9% or RM70.9 million as compared to the preceding year quarter ended 30 June 2019 of RM177.7 million.

For the quarter under review, the general insurance segment recorded a profit before tax of RM119.4 million, an increase of 30.5% or RM27.9 million as compared to a profit before tax of the preceding year quarter ended 30 June 2019 of RM91.5 million. The higher profit before tax was due mainly to lower motor claims ratio during movement control order period.

For the quarter under review, the life insurance segment recorded a higher profit before tax of RM131.6 million, an increase of 48.2% or RM42.8 million as compared to a profit before tax of the preceding year quarter ended 30 June 2019 of RM88.8 million due mainly to lower claims and change in investment valuation and insurance contract liabilities arising from interest rate movement.

For the quarter under review, the investment holding segment registered a loss before tax of RM2.4 million as compared to a loss before tax of the preceding year quarter ended 30 June 2019 of RM2.6 million due mainly to lower management 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 RM340.5 million for the six months ended 30 June 2020, an increase of 3.5% or RM11.5 million as compared to the preceding six months ended 30 June 2019 of RM329.0 million due mainly to higher profit contribution from general insurance segment.

The general insurance segment delivered a profit before tax of RM193.9 million for the six months ended 30 June 2020, an increase of 9.4% or RM16.7 million compared to the preceding six months ended 30 June 2019 of RM177.2 million. The higher profit before tax was due mainly to higher underwriting profit, mainly driven by lower motor claims ratio during movement control order period.

The life insurance segment recorded a lower profit before tax of RM155.1 million for the six months ended 30 June 2020, a decrease of 1.6% or RM2.5 million as compared to the preceding six months ended 30 June 2019 of RM157.6 million due mainly to lower valuation on equity investment.

The investment holding segment registered a loss before tax of RM8.5 million for the six months ended 30 June 2020 as compared to loss before tax of RM5.8 million for the preceding six months ended 30 June 2019 due mainly to higher management expenses.

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	Immediate	Changes	
	Quarter 30 June 2020	Preceding Quarter 31 March 2020	Amount	%
Operating revenue	1,404.1	1,484.7	(80.6)	(5.4%)
Profit before tax	248.6	91.9	156.7	170.5%
Profit after tax	167.7	79.5	88.2	110.9%
Profit for the period attributable to owners of the Company	167.7	79.5	88.2	110.9%

1.3 Operating revenue of the current quarter against the preceding quarter (Second Quarter 2020 versus First Quarter 2020)

The Group recorded an operating revenue of RM1.40 billion for the quarter under review, a decrease of 5.4% or RM80.6 million as compared to the preceding quarter ended 31 March 2020 of RM1.48 billion.

The general insurance segment recorded an operating revenue of RM598.2 million for the quarter under review, a decrease of 1.1% or RM6.4 million as compared to the preceding quarter ended 31 March 2020 of RM604.6 million due mainly to lower gross earned premiums in the current quarter.

The life insurance segment registered an operating revenue of RM803.1 million for the quarter under review, a decrease of 8.4% or RM73.7 million as compared to the preceding quarter ended 31 March 2020 of RM876.8 million due mainly to lower gross earned premiums from bancassurance and employee benefits channels in the current quarter.

1.4 Profit before tax of the current quarter against the preceding quarter (Second Quarter 2020 versus First Quarter 2020)

The Group recorded a profit before tax of RM248.6 million for the quarter under review, an increase of 170.5% or RM156.7 million as compared to the preceding quarter ended 31 March 2020 of RM91.9 million.

The profit before tax of general insurance segment for the quarter under review of RM119.4 million, an increase of 60.3% or RM44.9 million as compared to the preceding quarter ended 31 March 2020 of RM74.5 million. The higher profit before tax was due mainly to lower claims and lower management expenses.

The profit before tax of life insurance segment for the quarter under review of RM131.6 million, an increase of 460.0% or RM108.1 million as compared to the preceding quarter ended 31 March 2020 of RM23.5 million due mainly to lower claims and change in investment valuation and insurance contract liabilities arising from interest rate movement.

The investment holding segment registered a loss before tax of RM2.4 million as compared to a loss before tax of RM6.1 million in the preceding quarter ended 31 March 2020 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)

1.5 Review of other comprehensive income

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

RM'million	Individual period Three months ended 30 June		Cumulative period Six months ended 30 June	
	2020	2019	2020	2019
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 gains arising during the year	245.7	129.7	99.6	232.8
- Net realised gains transferred to profit or loss	(18.9)	(28.3)	(4.6)	(3.0)
(Loss)/gain on cash flow hedge	(5.7)	8.1	(5.5)	17.8
Tax effects thereon	(29.8)	(14.2)	(17.4)	(30.4)
Change in insurance contract liabilities arising from net fair value change on:				
- AFS financial assets	(149.3)	(67.2)	(34.9)	(163.5)
- Cash flow hedge reserve	5.7	(8.1)	5.5	(17.8)
Tax effects thereon	11.5	6.0	2.3	14.5
Total other comprehensive income for the period, net of tax	59.2	26.0	45.0	50.4

The Group recorded a total other comprehensive income of RM45.0 million for the six months ended 30 June 2020, a decrease of RM5.4 million as compared to the total comprehensive income of the preceding six months ended 30 June 2019 of RM50.4 million due to fair value loss from AFS financial assets, mainly from the life insurance segment 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)

1.6 Review of Statements of Financial Position

Table 4: Review of assets and liabilities

RM'million	As at 30 June 2020	As at 31 December 2019	Changes	
			Amount	%
Total assets	20,509.2	19,710.1	799.1	4.1%
Total liabilities	16,543.4	16,036.5	506.9	3.2%
Total equity	3,965.8	3,673.6	292.2	8.0%

Total assets

As at 30 June 2020, the Group's total assets increased by RM799.1 million to RM20.51 billion from RM19.71 billion as at 31 December 2019, mainly attributable to increase in financial investments for the financial period under review. The increase was in line with the Group's business growth.

Total liabilities

As at 30 June 2020, the Group's total liabilities increased by RM506.9 million to RM16.54 billion from RM16.04 billion as at 31 December 2019 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 30 June 2020 increased by 8.0% or RM292.2 million to RM3.97 billion from RM3.67 billion as at 31 December 2019. This is mainly attributable to the net profit generated for the period ended 30 June 2020.

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

2. Current year prospect

Malaysian economy contracted by 17.1% in the second quarter of 2020 (first quarter of 2020: 0.7%). The decline reflected the unprecedented impact of the stringent containment measures to control the COVID-19 pandemic globally and domestically. The Malaysian Economy is expected to recover gradually in the second half of 2020 as the economy progressively re-opens and external demand improves and overall, it is forecasted to grow within the range of -3.5% to -5.5% in 2020, before staging a rebound within a growth range of 5.5% to 8% in 2021. However, the outlook will continue to be significantly affected by uncertainties surrounding global oil commodity prices as well as the evolving COVID-19 developments.

The general insurance segment recorded premium growth of 6.3% in the first half of 2020 outperforming the general industry growth of -3.1% due mainly to its new partnership tied up. Life insurance segment annualised new business declined by 24.8% against the life insurance industry decline of 19.2% in the first half of 2020 due mainly to decline in agency sales affected by the lock down period imposed by the government to contain the spread of the COVID-19 pandemic.

Outlook for both general insurance and life insurance industries are expected to remain challenging in the medium term amid weak consumer sentiment and subdued domestic economic activity arising from COVID-19. The Group will continue to closely monitor and respond to the impact of the pandemic. In the remaining second half of the year, the Group will continue to enhance and accelerate digital capabilities, optimize product portfolio and expand distribution capabilities to adapt to the current environment and better support our customers during the pandemic. The Group is also investing in technology to better engage and deliver outstanding experience to customers.

While the results for the first half of the year have remained resilient, the Group remains cautious in maintaining the same level of profitability for the remaining second half of the year amid ongoing uncertainties to the economy arising from the COVID 19- pandemic.

3. Profit forecast

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

4. Investment income

	Individual period		Cumulative period	
	Three months ended		Six months ended	
	30 June		30 June	
	2020	2019	2020	2019
	RM'000	RM'000	RM'000	RM'000
Interest income	153,688	148,376	306,055	293,577
Dividend income	22,123	21,714	47,020	35,819
Accretion of discounts	613	1,128	2,612	3,902
Amortisation of premiums	(1,453)	(1,349)	(3,241)	(4,007)
Other income	1,113	1,347	2,218	2,775
	<u>176,084</u>	<u>171,216</u>	<u>354,664</u>	<u>332,066</u>

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

5. Realised gains and losses

	Individual period		Cumulative period	
	Three months ended		Six months ended	
	30 June		30 June	
	2020	2019	2020	2019
	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment				
Realised gains on disposal	-	4	-	4
Realised losses on disposal	-	-	(1)	-
Total net realised gains/(losses) for property, plant and equipment	-	4	(1)	4
Financial assets				
Realised gains on disposal:				
Malaysian government securities	6,482	2,440	9,388	5,966
Malaysian government guaranteed bonds	7,131	3	7,448	1,002
Quoted equity securities of corporations in Malaysia	29,981	4,716	44,280	11,974
Quoted equity securities of corporations outside Malaysia	-	755	-	817
Quoted unit trusts in Malaysia	130	-	1,250	367
Unquoted unit trusts in Malaysia	-	-	-	350
Unquoted unit trusts outside Malaysia	-	46	25	25
Unquoted bonds of corporations in Malaysia	729	1,266	412	1,266
Realised losses on disposal:				
Malaysian government securities	-	-	-	(3)
Quoted equity securities of corporations in Malaysia	(48,524)	(1,870)	(137,859)	(42,210)
Quoted equity securities of corporations outside Malaysia	(11)	(281)	(20)	(313)
Unquoted unit trusts outside Malaysia	-	(88)	(61)	(123)
Total net realised (losses)/gains for financial assets	(4,082)	6,987	(75,137)	(20,882)
Total net realised (losses)/gains	(4,082)	6,991	(75,138)	(20,878)

6. Fair value gains and losses

	Individual period		Cumulative period	
	Three months ended		Six months ended	
	30 June		30 June	
	2020	2019	2020	2019
	RM'000	RM'000	RM'000	RM'000
Financial instruments				
Held for trading financial assets	293,704	77,270	(105,262)	224,863
Designated upon initial recognition financial assets	78,392	49,271	62,001	92,922
Derivatives financial assets	(105)	4,692	21,432	9,429
Derivatives financial liabilities	-	-	(1,051)	-
Total fair value gains/(losses) on financial instruments at Fair Value Through Profit or Loss	371,991	131,233	(22,880)	327,214
Impairment loss on AFS financial investments	(3,898)	(2,854)	(95,128)	(3,275)
Total net fair value gains/(losses)	368,093	128,379	(118,008)	323,939

The gains or losses arising from fair value changes of derivative financial assets/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 period under review is arrived at after charging/(crediting):

	Individual period		Cumulative period	
	Three months ended		Six months ended	
	30 June		30 June	
	2020	2019	2020	2019
	RM'000	RM'000	RM'000	RM'000
Amortisation of intangible assets	5,699	4,727	11,211	9,259
Depreciation of property, plant and equipment	3,209	3,784	6,297	6,871
Depreciation of right-of-use assets	4,510	4,835	9,029	9,286
Insurance and other receivables:				
- Allowance for/(Reversal of) impairment loss	1,950	(4,418)	2,920	8,231
- Bad debts recovered	(67)	(30)	(74)	(38)
- Bad debts written off	558	-	1,192	-
Interest expense	490	294	1,028	923
Interest income	(127)	(164)	(300)	(312)
Property, plant and equipment written off	-	933	26	935
Unrealised foreign exchange gains	(1,882)	(295)	(193)	(337)

Other than as disclosed in Notes 6 and 7, there are no exceptional items for the financial period ended 30 June 2020.

8. Tax expense

	Individual period		Cumulative period	
	Three months ended		Six months ended	
	30 June		30 June	
	2020	2019	2020	2019
	RM'000	RM'000	RM'000	RM'000
Profit before tax	248,598	177,715	340,545	328,955
Tax expense				
Income tax	40,702	26,694	55,179	58,027
Deferred tax	40,164	33,354	38,134	54,344
Total tax expense	80,866	60,048	93,313	112,371
Effective tax rate	33%	34%	27%	34%

The Group's consolidated effective tax rate for the financial year under review is higher than the statutory tax rate of 24% (2019: 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.

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 no outstanding borrowings and debts securities for the financial period under review.

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

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 Closing Submissions and Reply Submissions were filed on 30 August 2017 and 27 September 2017 respectively and the Oral Submissions took place on 12 October 2017 and 13 October 2017. Both parties then filed further written submissions bringing the arbitration proceedings to an end.

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 (“Award”) whilst the Dissenting Arbitrator found in favour of AGIC.

The Award ordered AGIC to pay the following:

- (a) RM30,593.64 as reimbursement of payment in respect of the Kuala Lumpur Regional Centre for Arbitration’s administrative expenses;
- (b) RM425,324.32 as reimbursement of payment in respect of fees and expenses of the arbitral tribunal;
- (c) RM668,160.69 for costs and expenses incurred by VSC; and
- (d) USD10,969.31 as reimbursement for costs incurred in respect of VSC’s ex-employee.

AGIC’s Originating Summons – High Court

AGIC’s solicitors were of the view that there were reasonable grounds to seek a review of the Award, including to set aside the Award. An Originating Summons was filed at 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 (“Act”) and for a Reference of Questions of law under Section 42 of the Act. AGIC’s solicitors presented their Oral Submissions at the Hearing on 18 February 2019. The Hearing continued on 13 March 2019 during which VSC’s solicitor presented its oral arguments and Further Written Submissions. AGIC’s solicitors filed the response to VSC’s Further Written Submissions on 10 April 2019 and VSC filed its Reply Submissions on 17 April 2019. The Hearing continued and concluded on 18 April 2019. On 28 June 2019, the Court declined the application to set aside the Award (“Decision”).

AGIC’s solicitors filed a Notice of Appeal to the Court of Appeal against the Decision on 15 July 2019 (“Appeal”). At the first case management on 4 September 2019, the Court of Appeal fixed the next case management for 9 October 2019 and directed the filing of the Record of Appeal by 26 September 2019.

Separately, VSC’s solicitors filed an Originating Summons dated 11 September 2019 (“VSC’s OS”) to recognise and enforce the Award against AGIC, which if allowed, would have resulted in AGIC having to pay VSC all the costs ordered by the Award.

Update on VSC’s OS Application

At the first case management on VSC’s OS on 26 September 2019, AGIC’s solicitors informed the Court that as the Appeal was pending before the Court of Appeal, VSC’s OS was premature. The Court then fixed the matter for further case management for VSC’s solicitors to address the issue of holding over of VSC’s OS, pending the determination of the Appeal. AGIC’s solicitors filed a stay application on VSC’s OS and on 7 November 2019, the Judge allowed AGIC’s stay application and ordered VSC’s enforcement proceedings be stayed pending the final determination of the appeal at the Court of Appeal. As the Judge was of the view that VSC’S OS should be withdrawn and filed afresh (should VSC succeed in dismissing the appeal), and since VSC agreed to withdraw the matter, the Judge ordered that VSC’s OS be struck out with liberty to file afresh.

Update on AGIC’s Appeal

At the case management on AGIC’s Appeal on 9 October 2019, a further case management was fixed on 20 November 2019. On 20 November 2019, a further case management was fixed on 13 January 2020, pending the High Court’s substantive Grounds of Decision (“Grounds”). At the case management on 13 January 2020, the Court of Appeal fixed a further case management on 19 February 2020, as AGIC’s solicitors had yet to receive the Grounds. On 17 February 2020, the Court of Appeal wrote to parties’ solicitors to give notice that the case management fixed for 19 February 2020 was rescheduled to 26 February 2020. On 26 February 2020, the Court of Appeal was informed that AGIC’s solicitors had yet to receive the Grounds. As such, a further case management was fixed for 8 April 2020. Just before the effective date of the Movement Control Order, the High Court notified that the Grounds were ready for collection but since AGIC’s solicitors were unable to collect the Grounds, at the e-review of the matter on 8 April 2020, a new date for case management was fixed for 15 May 2020. On 15 May 2020, AGIC’s solicitors informed the Court of Appeal that the Grounds had since been collected and the Court of Appeal directed for the Memorandum of Appeal and Supplementary Record of Appeal to be filed before the next case management fixed for 9 July 2020. On 9 July 2020, the Court of Appeal fixed a further case management date on 19 August 2020 as the Notes of Proceedings are still pending. At the case management on 19 August 2020, the Court of Appeal fixed the appeal for Hearing on 2 February 2021 and there will be a further Case Management on 26 January 2021 for the Court to monitor compliance with all appeal directions.

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		Six months ended	
		30 June		30 June	
		2020	2019	2020	2019
Profit attributable to ordinary shareholders	(RM'000)	167,732	117,667	247,232	216,584
Weighted average number of ordinary shares in issue	('000)	176,890	176,747	176,890	176,747
Basic earnings per ordinary share	(sen)	94.82	66.57	139.77	122.54

(b) Diluted earnings per ordinary share

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

		Individual period		Cumulative period	
		Three months ended		Six months ended	
		30 June		30 June	
		2020	2019	2020	2019
Profit attributable to ordinary shareholders	(RM'000)	167,732	117,667	247,232	216,584
Weighted average number of ordinary shares in issue	('000)	176,890	176,747	176,890	176,747
Effect of conversion of ICPS	('000)	169,317	169,439	169,317	169,439
Diluted weighted average number of ordinary shares during the period	('000)	346,207	346,186	346,207	346,186
Diluted earnings per ordinary share	(sen)	48.45	33.99	71.41	62.56

13. Dividend

No dividend has been proposed or declared for the second quarter of 2020 (2019: Nil).

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 30 June 2020	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	-	-	57,877	57,877	-	-	-	-
Cross currency swap	-	21,010	98,740	119,750	-	-	705	705	-	182	4,158	4,340
Derivatives used for hedging												
Forward purchase agreements	-	100,000	-	100,000	-	15,490	-	15,490	-	-	-	-
Total	-	121,010	498,740	619,750	-	15,490	58,582	74,072	-	182	4,158	4,340
As at 31 December 2019												
Derivatives held for trading at fair value through profit or loss												
Collateralised interest rate swap	-	-	400,000	400,000	-	-	36,804	36,804	-	-	-	-
Cross currency swap	-	21,010	98,740	119,750	-	807	3,605	4,412	-	-	1,244	1,244
Derivatives used for hedging												
Forward purchase agreements	60,000	100,000	-	160,000	7,417	13,544	-	20,961	-	-	-	-
Total	60,000	121,010	498,740	679,750	7,417	14,351	40,409	62,177	-	-	1,244	1,244

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

14. Derivatives Financial Instruments (continued)

As at 30 June 2020, 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 RM74,072,000 (2019: RM62,177,000). 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 RM68,992,000 (2019: RM55,465,000) 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.

(v) Fair value changes of financial liabilities

Other than fair value changes arising from derivatives which are classified as liabilities when they are at fair value loss position as at the end of the reporting period, there were no gains or losses arising from fair value changes of other financial liabilities.

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
30 June 2020					
Insurance receivables	15,080	7,275	7,963	6,783	37,101
31 December 2019					
Insurance receivables	5,609	2,738	2,881	6,114	17,342

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

Based on combination of collective and individual assessment of receivables, there are impaired financial assets as presented in the table below. 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	
	30 June 2020 RM'000	31 December 2019 RM'000	30 June 2020 RM'000	31 December 2019 RM'000	30 June 2020 RM'000	31 December 2019 RM'000
At the beginning of the period/year	59,624	59,704	2,586	2,615	4,558	1,471
Impairment loss recognised/(reversed)	2,920	(80)	(3)	(29)	-	3,087
At the end of the period/year	62,544	59,624	2,583	2,586	4,558	4,558

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 2019 was not qualified.

BY ORDER OF THE BOARD

Ng Siew Gek
Company Secretary

Kuala Lumpur
27 August 2020