

SYARIKAT TAKAFUL MALAYSIA BERHAD

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

QUARTER ENDED 31 DECEMBER 2016

1 Basis of Preparation

The unaudited interim financial statements have been prepared in accordance with MFRS 134: Interim Financial Reporting issued by the Malaysian Accounting Standards Board (“MASB”), IAS 34 Interim Financial Reporting issued by International Accounting Standards Board, paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”) (“Listing Requirements”), and Guidelines / Circulars issued by Bank Negara Malaysia (“BNM”) and Shariah rulings and precepts.

The unaudited financial statements have been prepared using historical cost basis except for certain financial assets and financial liabilities that are stated at fair value.

The unaudited interim financial statements of the Group comprise the Company and its subsidiaries as at and for the quarter ended 31 December 2016. It also includes Takaful funds established in accordance with Islamic Financial Services Act, 2013 in Malaysia, which are managed and controlled by the Group and by the Company as operator of the fund.

The statements of financial position and the statements of profit or loss and other comprehensive income of the Takaful Operator, Family Takaful Fund and General Takaful Fund are supplementary financial information presented in accordance with the requirements of BNM and Islamic Financial Services Act, 2013 in Malaysia to segregate assets, liabilities, income and expenses of Takaful funds from its own. The statements of financial position and profit or loss and other comprehensive income of the Takaful Operator include only assets, liabilities, income and expenses of the Takaful Operator, excluding the Takaful funds managed by it. The statements of financial position and profit or loss and other comprehensive income of the Family and General Takaful Fund include only the assets, liabilities, income and expenses of the family solidarity fund and General Takaful Fund that is set up, managed and controlled by the Takaful Operator.

The unaudited interim financial statements should be read in conjunction with the audited annual financial statements of the Group for the financial year ended 31 December 2015. The explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the year ended 31 December 2015.

2 Auditors’ Report

The auditors’ report on the audited financial statements of the preceding year ended 31 December 2015 did not contain any qualification.

3 Seasonality of Operations

The Group’s operations are not materially affected by seasonal or cyclical factors for the period under review.

4 Unusual Items

There were no unusual items affecting assets, liabilities, equity, net income or cash flows in the current quarter ended 31 December 2016.

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5 Estimates

There was no material changes in the basis used for accounting estimates for the current quarter under review.

6 Debt and Equity Securities

There were no issuance, cancellation, repurchase, resale and repayment of debt and equity securities for the current quarter under review.

7 Dividends

The Directors on 8 January 2016 declared an interim single tier dividend of 7.35 sen per ordinary share of RM0.20 each in respect of the financial year ended 31 December 2015 and the dividend was paid on 17 February 2016.

The Directors on 20 December 2016 declared an interim single tier dividend of 12.00 sen per ordinary share of RM0.20 each in respect of the financial year ended 31 December 2016 which was paid on 20 January 2017.

8 Segmental Reporting

Geographical Segments

	Malaysia RM'000	Indonesia RM'000	Consolidated RM'000
12 months ended 31 December 2016			
Revenue from external participants	1,839,267	173,986	2,013,253
Profit before zakat and taxation	219,860	1,018	220,878
As at 31 December 2016			
Segment assets by location of assets	7,168,719	588,961	7,757,680
12 months ended 31 December 2015			
Revenue from external participants	1,626,656	161,918	1,788,574
Profit before zakat and taxation	201,022	3,188	204,210
As at 31 December 2015			
Segment assets by location of assets	7,011,178	515,943	7,527,121

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9 Investment Properties

A valuation has been carried out on all investment properties during the current financial quarter under review and the carrying values of the investment properties reflect the new valuation.

10 Material Events Subsequent to the End of the Period

There is no material event subsequent to the end of the period under review that has not been reported in the interim financial statements for the current financial quarter.

11 Financial Risk Management

The Group's financial risk management objectives and policies are consistent with those disclosed in the financial statement as at and for the year ended 31 December 2015.

12 Effect of Changes in Composition of the Company / Group

As announced to Bursa Securities on 7 October 2016, the Final Meeting of Asean Retakaful International (L) Ltd ("ARIL"), a 63.09% owned subsidiary company of Takaful Malaysia was duly convened on 30 September 2016 and the Liquidator had on 7 October 2016 lodged the return in relation to the Final Meeting with the Labuan Financial Services Authority and the Official Receiver.

ARIL was dissolved upon the expiry of three (3) months from the lodgement date i.e. on 5 January 2017.

Other than the above, there is no change in the composition of the Group for the current financial quarter under review.

13 Contingent Liabilities

There were no contingent liabilities as at the date of this announcement.

14 Review of Performance

For the 4th quarter ended 31 December 2016, the Group generated Operating Revenue of RM490.8 million as compared to RM403.3 million in the corresponding quarter of the preceding year. The 12 months Operating Revenue increased by 12.6% to RM2,013.3 million from RM1,788.6 million in the same period of the preceding year. The increase is mainly attributable to higher sales generated by both Family Takaful and General Takaful business.

For the quarter under review, Family Takaful recorded gross earned contributions of RM327.8 million, as compared to RM271.7 million in the same period last year. For the 12 months period, Family Takaful generated gross earned contributions of RM1,229.4 million as compared to RM1,048.2 million, increased by 17.3%, in the corresponding period last year. The increase is mainly attributable to higher sales from Family Takaful mortgage related products.

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14 Review of Performance (continued)

For the quarter under review, General Takaful generated gross earned contributions of RM119.4 million as compared to RM109.1 million in the corresponding quarter of preceding year. For the 12 months period, General Takaful recorded gross earned contributions of RM498.6 million, increased by 6.0%, as compared to RM470.5 million in the corresponding period last year. The growth was mainly from fire and commercial classes.

For the quarter under review, the Group recorded profit before zakat and taxation of RM40.9 million, decreased by 14.4% as compared to RM47.8 million in the same period last year. The lower profit is attributable to realised loss from disposal of investment. For the 12 months period, the Group recorded profit before zakat and taxation of RM221.0 million, increased by 8.2% as compared to RM204.2 million in the same period last year. The higher profit is attributable to higher net wakalah fee income.

15 Material Changes in the Quarterly Results Compared to the Results of the Preceding Financial Quarter

For the quarter under review, the profit before zakat and taxation registered RM40.9 million which was lower than the preceding quarter of RM63.8 million (36%). The decrease in profit was mainly attributable to increase in management expenses and agency-related expenses.

16 Current Year Prospects

For the year 2017, Takaful Malaysia will continue to emphasize the four core areas of customer reach, operational agility, cost competitiveness and stakeholder confidence to increase its overall market shares and continuously improving shareholders' value. Through its extensive range of products and services, the Company is poised to sustain its position as the market leader in the Family Takaful business. The Company will amplify its presence as the preferred choice for insurance through various advertising and marketing activities and promote its unique proposition of rewarding a 15% Cash Back to its General Takaful customers for no claims during coverage period. The Company will also undertake an enhanced approach to its distribution channel by accelerating digital initiatives to optimize its operations and marketing activities. The Company will actively cultivate its digital presence through an online sales portal and integrated online marketing initiatives as part of its long term strategy to meet the growing needs of the consumers.

17 Variance of Actual Profit from Profit Forecast or Profit Guarantee

The Group did not issue any profit forecast nor profit guarantee during the current quarter under review.

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18 Taxation

The effective rate of taxation is consistent with the statutory tax rate for the current financial period in accordance with the Income Tax Act 1967.

	3 months ended		Cumulative 12 months ended	
	31.12.2016 RM'000	31.12.2015 RM'000	31.12.2016 RM'000	31.12.2015 RM'000
Current tax expense:				
- Current financial period	11,692	6,237	47,327	36,077
- Over provision in prior year	(8,961)	-	(6,461)	(2,703)
Deferred tax benefits:				
- Current financial period	(423)	776	5,302	7,098
Total tax expense	<u>2,308</u>	<u>7,013</u>	<u>46,168</u>	<u>40,472</u>

19 Status of Corporate Proposal

There has been no new corporate proposal since the date of the last quarterly report.

20 Group Borrowings and Debt Securities

The Group does not have any borrowings and debt securities as at 31 December 2016.

21 Material Litigation

There was no material litigation pending as at the date of this announcement.

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22 Earnings per Share

Basic earnings per share (“Basic EPS”)

Basic EPS of the Group is calculated by dividing the net profit attributable to ordinary shareholders for the quarter / period by the weighted average number of ordinary shares in issue during the period.

	3 months ended		Cumulative 12 months ended	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Owners of the Company (RM'000)	39,264	36,383	176,282	155,977
Weighted average number of ordinary shares in issue ('000)	820,943	815,836	819,298	815,314
Basic EPS (sen)	4.78	4.46	21.52	19.13

Diluted earnings per share (“Diluted EPS”)

The calculation of diluted earnings per ordinary share at 31 December 2016 was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares, calculated as follows:

	3 months ended		Cumulative 12 months ended	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Owners of the Company (RM'000)	39,264	36,383	176,282	155,977
Weighted average number of ordinary shares in issue ('000)	820,943	815,836	819,298	815,314
Effects of dilution ('000)	3,347	4,657	3,347	4,657
Diluted weighted average number of ordinary shares in issue ('000)	824,290	820,493	822,645	819,971
Diluted EPS (sen)	4.76	4.43	21.43	19.02

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23 Takaful Contract Liabilities

The takaful contract liabilities consist of the following:

	31 December 2016			31 December 2015		
	Gross RM'000	Retakaful RM'000	Net RM'000	Gross RM'000	Retakaful RM'000	Net RM'000
Family Takaful Fund						
Provision for claims reported by participants	24,435	(2,292)	22,143	25,268	(4,104)	21,164
Provision for IBNR	150,654	(21,178)	129,476	157,702	(33,224)	124,478
Provision for outstanding claims	175,089	(23,470)	151,619	182,970	(37,328)	145,642
Actuarial liabilities	4,389,596	(144,096)	4,245,500	4,222,570	(242,477)	3,980,093
Unallocated surplus	752,643	-	752,643	791,232	-	791,232
AFS reserves	(48,673)	-	(48,673)	(62,755)	-	(62,755)
Translation reserves	(2,976)	-	(2,976)	(1,553)	-	(1,553)
Net asset value attributable to unitholders	246,220	-	246,220	208,145	-	208,145
Participants' fund	5,336,810	(144,096)	5,192,714	5,157,639	(242,477)	4,915,162
	5,511,899	(167,566)	5,344,333	5,340,609	(279,805)	5,060,804

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23 Takaful Contract Liabilities (continued)

	31 December 2016			31 December 2015		
	Gross RM'000	Retakaful RM'000	Net RM'000	Gross RM'000	Retakaful RM'000	Net RM'000
General Takaful Fund						
Provision for claims reported by participants	234,840	(148,013)	86,827	368,437	(273,667)	94,770
Provision for IBNR	172,255	(89,943)	82,312	189,662	(93,210)	96,452
Provision for outstanding claims	407,095	(237,956)	169,139	558,099	(366,877)	191,222
Provision for unearned contributions	316,569	(62,969)	253,600	297,773	(55,893)	241,880
	723,664	(300,925)	422,739	855,872	(422,770)	433,102
Unallocated surplus	241,573	-	241,573	233,368	-	233,368
AFS reserves	(6,011)	-	(6,011)	(8,923)	-	(8,923)
Translation reserves	2,177	-	2,177	1,391	-	1,391
Participants' fund	237,739	-	237,739	225,836	-	225,836
	961,403	(300,925)	660,478	1,081,708	(422,770)	658,938

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23 Takaful Contract Liabilities (continued)

	31 December 2016			31 December 2015		
	Gross RM'000	Retakaful RM'000	Net RM'000	Gross RM'000	Retakaful RM'000	Net RM'000
Group						
Provision for claims reported by participants	259,275	(150,305)	108,970	393,705	(277,771)	115,934
Provision for IBNR	322,909	(111,121)	211,788	347,364	(126,434)	220,930
Provision for outstanding claims	582,184	(261,426)	320,758	741,069	(404,205)	336,864
Provision for unearned contributions	316,569	(62,969)	253,600	297,773	(55,893)	241,880
	898,753	(324,395)	574,358	1,038,842	(460,098)	578,744
Actuarial liabilities	4,389,596	(144,096)	4,245,500	4,222,570	(242,477)	3,980,093
Unallocated surplus	994,216	-	994,216	1,024,600	-	1,024,600
AFS reserves	(54,684)	-	(54,684)	(71,678)	-	(71,678)
Translation reserves	(799)	-	(799)	(162)	-	(162)
Net asset value attributable to unitholders	209,204	-	209,204	170,115	-	170,115
Participants' fund	5,537,533	(144,096)	5,393,437	5,345,445	(242,477)	5,102,968
	6,436,286	(468,491)	5,967,795	6,384,287	(702,575)	5,681,712

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23 Takaful Contract Liabilities (continued)

Participants' fund liabilities and its movements are analysed as follows:

	Family Takaful Fund			General Takaful Fund			Group		
	Gross RM'000	Retakaful RM'000	Net RM'000	Gross RM'000	Retakaful RM'000	Net RM'000	Gross RM'000	Retakaful RM'000	Net RM'000
At 1 January 2015	4,874,488	(206,644)	4,667,844	207,133	-	207,133	5,043,821	(206,644)	4,837,177
Net earned contributions	1,048,244	(61,312)	986,932	269,196	-	269,196	1,317,440	(61,312)	1,256,128
Investment income	215,276	-	215,276	29,031	-	29,031	244,307	-	244,307
Realised gains and (losses)	17,819	-	17,819	555	-	555	18,374	-	18,374
Fair value gains and (losses)	(2,334)	-	(2,334)	330	-	330	(2,004)	-	(2,004)
Other operating income	2,859	-	2,859	8,243	-	8,243	11,102	-	11,102
Net benefits and claims	(678,244)	52,183	(626,061)	(63,937)	-	(63,937)	(742,181)	52,183	(689,998)
Fees deducted (net)	(225,047)	-	(225,047)	(154,104)	-	(154,104)	(379,151)	-	(379,151)
Other operating expenses	(52,265)	-	(52,265)	(6,027)	-	(6,027)	(58,292)	-	(58,292)
Profit paid to participants	(1,678)	-	(1,678)	(22,243)	-	(22,243)	(23,921)	-	(23,921)
Reversal of excess payment transferred to participants	(846)	-	(846)	-	-	-	(846)	-	(846)
Increase in actuarial liabilities	31,079	(34,959)	(3,880)	-	-	-	31,079	(34,959)	(3,880)
Profit attributable to the Takaful Operator	(97,506)	9,129	(88,377)	(40,464)	-	(40,464)	(138,200)	9,129	(129,071)
Change in AFS reserve	(877)	-	(877)	(2,567)	-	(2,567)	(3,444)	-	(3,444)
Withholding tax	(9,166)	-	(9,166)	(470)	-	(470)	(9,636)	-	(9,636)
Effect of movement in exchange rates	35,837	(874)	34,963	1,160	-	1,160	36,997	(874)	36,123
At 31 December 2015	5,157,639	(242,477)	4,915,162	225,836	-	225,836	5,345,445	(242,477)	5,102,968

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23 Takaful Contract Liabilities (continued)

	Family Takaful Fund			General Takaful Fund			Group		
	Gross RM'000	Retakaful RM'000	Net RM'000	Gross RM'000	Retakaful RM'000	Net RM'000	Gross RM'000	Retakaful RM'000	Net RM'000
At 1 January 2016	5,157,639	(242,477)	4,915,162	225,836	-	225,836	5,345,445	(242,477)	5,102,968
Net earned contributions	1,229,446	(47,965)	1,181,481	304,424	-	304,424	1,533,870	(47,965)	1,485,905
Investment income	225,346	-	225,346	29,604	-	29,604	254,950	-	254,950
Realised gains and (losses)	(205)	-	(205)	(2,114)	-	(2,114)	(2,319)	-	(2,319)
Fair value gains and (losses)	15,435	-	15,435	143	-	143	15,578	-	15,578
Other operating income	1,047	-	1,047	821	-	821	1,868	-	1,868
Net benefits and claims	(825,156)	62,679	(762,477)	(109,826)	-	(109,826)	(934,982)	62,679	(872,303)
Fees deducted (net)	(327,059)	-	(327,059)	(175,273)	-	(175,273)	(502,332)	-	(502,332)
Other operating expenses	(14,565)	-	(14,565)	(4,671)	-	(4,671)	(19,236)	-	(19,236)
Profit paid to participants	(2,044)	-	(2,044)	(11,610)	-	(11,610)	(13,654)	-	(13,654)
Excess payment transferred to participants	4,472	-	4,472	-	-	-	4,472	-	4,472
Increase in actuarial liabilities	(113,233)	99,420	(13,813)	-	-	-	(113,233)	99,420	(13,813)
Profit attributable to the Takaful Operator	(51,807)	(14,715)	(66,522)	(22,571)	-	(22,571)	(73,364)	(14,715)	(88,079)
Change in AFS reserve	14,082	-	14,082	2,912	-	2,912	16,994	-	16,994
Withholding tax	(8,220)	-	(8,220)	(721)	-	(721)	(8,941)	-	(8,941)
Effect of movement in exchange rates	31,632	(1,038)	30,594	785	-	785	32,417	(1,038)	31,379
At 31 December 2016	5,336,810	(144,096)	5,192,714	237,739	-	237,739	5,537,533	(144,096)	5,393,437

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24 Takaful Operator Income

The takaful operator income consists of the following:

	Takaful Operator 3 months ended		Cumulative 12 months ended	
	31.12.2016 RM'000	31.12.2015 RM'000	31.12.2016 RM'000	31.12.2015 RM'000
Surplus transfer from:				
Family Takaful Fund	14,189	21,368	66,522	78,431
General Takaful Fund	9,811	9,041	22,571	36,948
Wakalah fee income	137,138	100,852	558,915	419,418
Total Takaful Operator income	<u>161,138</u>	<u>131,261</u>	<u>648,008</u>	<u>534,797</u>

25 Investment Income

The investment income consists of the following:

	Takaful Operator 3 months ended		Family Takaful Fund 3 months ended		General Takaful Fund 3 months ended		Group 3 months ended	
	31.12.2016 RM'000	31.12.2015 RM'000	31.12.2016 RM'000	31.12.2015 RM'000	31.12.2016 RM'000	31.12.2015 RM'000	31.12.2016 RM'000	31.12.2015 RM'000
Rental income	226	187	2,056	2,459	141	221	925	1,325
Dividend income	946	1,253	4,292	7,060	587	1,181	5,825	9,494
Profit income	8,258	5,956	53,879	47,910	7,260	6,520	69,397	60,386
Accretion / (Amortisation)	(269)	(243)	(1,440)	(1,026)	(304)	(361)	(2,013)	(1,630)
Investment expenses	(49)	(23)	(616)	(738)	(7)	(33)	(1,462)	(482)
	<u>9,112</u>	<u>7,130</u>	<u>58,171</u>	<u>55,665</u>	<u>7,677</u>	<u>7,528</u>	<u>72,672</u>	<u>69,093</u>

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25 Investment Income (continued)

The investment income consists of the following (continued):

	Takaful Operator 12 months ended		Family Takaful Fund 12 months ended		General Takaful Fund 12 months ended		Group 12 months ended	
	31.12.2016 RM'000	31.21.2015 RM'000	31.12.2016 RM'000	31.21.2015 RM'000	31.12.2016 RM'000	31.21.2015 RM'000	31.12.2016 RM'000	31.21.2015 RM'000
Rental income	725	684	9,294	9,599	787	773	4,753	5,028
Dividend income	2,993	5,037	18,655	28,826	2,076	4,214	23,724	38,077
Profit income	29,029	23,577	204,707	183,404	28,082	25,643	261,818	232,624
Accretion / (Amortisation)	(1,037)	(1,059)	(5,132)	(4,351)	(1,267)	(1,492)	(7,436)	(6,902)
Investment expenses	(87)	(173)	(2,178)	(2,202)	(74)	(107)	(2,166)	(1,274)
	<u>31,623</u>	<u>28,066</u>	<u>225,346</u>	<u>215,276</u>	<u>29,604</u>	<u>29,031</u>	<u>280,693</u>	<u>267,553</u>

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26 Other Operating Income

The other operating income consists of the following:

	Takaful Operator 3 months ended		Family Takaful Fund 3 months ended		General Takaful Fund 3 months ended		Group 3 months ended	
	31.12.2016 RM'000	31.21.2015 RM'000	31.12.2016 RM'000	31.21.2015 RM'000	31.12.2016 RM'000	31.21.2015 RM'000	31.12.2016 RM'000	31.21.2015 RM'000
Service charged and management fee	2,659	1,013	-	-	-	-	291	(1,073)
Gain on foreign exchange	900	-	-	2	2	23	902	25
Writeback of allowance for impaired financing	13	-	-	-	-	-	13	-
Writeback of allowance for impaired debts	-	-	695	-	-	1,340	421	-
Writeback of allowance for impaired wakalah fee	1,472	-	-	-	-	-	1,472	-
Writeback of Qard	-	11,783	-	-	-	-	-	-
Gain on disposal of assets	-	25	-	-	-	-	-	25
Other income	2,952	720	-	552	-	400	1,302	1,672
	<u>7,996</u>	<u>13,541</u>	<u>695</u>	<u>554</u>	<u>2</u>	<u>1,763</u>	<u>4,401</u>	<u>649</u>

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26 Other Operating Income (continued)

The other operating income consists of the following (continued):

	Takaful Operator 12 months ended		Family Takaful Fund 12 months ended		General Takaful Fund 12 months ended		Group 12 months ended	
	31.12.2016 RM'000	31.12.2015 RM'000	31.12.2016 RM'000	31.12.2015 RM'000	31.12.2016 RM'000	31.12.2015 RM'000	31.12.2016 RM'000	31.12.2015 RM'000
Service charged and management fee	10,118	8,619	-	-	-	-	303	367
Gain on foreign exchange	984	601	-	56	659	45	1,643	702
Writeback of allowance for impaired financing	53	133	-	-	-	-	53	133
Writeback of allowance for impaired debts	-	-	421	-	-	-	421	-
Writeback of Qard	-	14,516	-	-	-	-	-	-
Gain on disposal of assets	116	111	-	-	-	-	116	111
Other income	3,144	1,725	626	2,803	162	8,198	3,932	12,726
	<u>14,415</u>	<u>25,705</u>	<u>1,047</u>	<u>2,859</u>	<u>821</u>	<u>8,243</u>	<u>6,468</u>	<u>14,039</u>

SYARIKAT TAKAFUL MALAYSIA BERHAD

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS QUARTER ENDED 31 DECEMBER 2016

27 Other Operating Expenses

The other operating expenses consist of the following:

	Takaful Operator 3 months ended		Family Takaful Fund 3 months ended		General Takaful Fund 3 months ended		Group 3 months ended	
	31.12.2016 RM'000	31.21.2015 RM'000	31.12.2016 RM'000	31.21.2015 RM'000	31.12.2016 RM'000	31.21.2015 RM'000	31.12.2016 RM'000	31.21.2015 RM'000
Depreciation	(2,695)	(2,536)	-	-	-	-	(4,174)	(3,713)
Impairment losses	(298)	(3,152)	(2,218)	(36,358)	(336)	(1,002)	(2,852)	(40,512)
Loss from foreign exchange	-	-	-	-	-	-	-	-
Administration fees	(31,409)	(28,567)	-	-	-	-	(31,409)	(28,567)
Agency related expenses	(2,402)	(3,478)	-	-	-	-	(2,402)	(3,478)
Allowance for impaired financing	-	(317)	-	-	-	-	-	(317)
Allowance for impaired debts	-	-	-	(1,346)	(1,824)	-	(1,550)	(6)
Allowance for impaired wakalah fee receivables	-	(320)	-	-	-	-	-	(320)
Debts written off	-	-	(5)	(164)	(24)	(1,909)	(29)	(2,073)
Loss on disposal of assets	(4)	-	-	-	-	-	(4)	-
Other expenses	(6,275)	(461)	(2,343)	(1,640)	(352)	(374)	(5,747)	(2,074)
	<u>(43,083)</u>	<u>(38,831)</u>	<u>(4,566)</u>	<u>(39,508)</u>	<u>(2,536)</u>	<u>(3,285)</u>	<u>(48,167)</u>	<u>(81,060)</u>

SYARIKAT TAKAFUL MALAYSIA BERHAD

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS QUARTER ENDED 31 DECEMBER 2016

27 Other Operating Expenses (continued)

The other operating expenses consist of the following:

	Takaful Operator 12 months ended		Family Takaful Fund 12 months ended		General Takaful Fund 12 months ended		Group 12 months ended	
	31.12.2016 RM'000	31.21.2015 RM'000	31.12.2016 RM'000	31.21.2015 RM'000	31.12.2016 RM'000	31.21.2015 RM'000	31.12.2016 RM'000	31.21.2015 RM'000
Depreciation	(10,844)	(10,269)	-	-	-	-	(16,610)	(14,884)
Impairment losses	(3,235)	(4,058)	(10,737)	(43,628)	(1,539)	(2,135)	(15,511)	(49,821)
Administration fees	(138,970)	(131,577)	-	-	-	-	(138,970)	(131,577)
Agency related expenses	(7,466)	(9,071)	-	-	-	-	(7,466)	(9,071)
Allowance for impaired debts	-	-	-	(2,076)	(2,123)	(907)	(2,123)	(2,983)
Allowance for impaired wakalah fee receivables	(195)	-	-	-	-	-	(195)	-
Allowance of impaired financing	-	(30)	-	-	-	-	-	(30)
Debts written off	-	-	(312)	(687)	(386)	(1,909)	(698)	(2,596)
Other expenses	(6,352)	(2,057)	(3,516)	(5,874)	(623)	(1,076)	(7,417)	(7,505)
	<u>(167,062)</u>	<u>(157,062)</u>	<u>(14,565)</u>	<u>(52,265)</u>	<u>(4,671)</u>	<u>(6,027)</u>	<u>(188,990)</u>	<u>(218,467)</u>

SYARIKAT TAKAFUL MALAYSIA BERHAD

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS QUARTER ENDED 31 DECEMBER 2016

28 Fair Value Information

The table below analyses financial instruments carried at fair value by their valuation method.

31 December 2016	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value RM'000	Carrying amount RM'000
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000		
Takaful Operator										
Financial assets										
Equity securities	40,354	-	-	40,354	-	-	-	-	40,354	40,354
Unit trusts	19,939	13,031	-	32,970	-	-	-	-	32,970	32,970
Institutional Trust Account	-	-	22,529	22,529	-	-	-	-	22,529	22,529
Islamic debt securities	3,888	312,157	-	316,045	11,723	-	-	11,723	327,768	327,883
Investment in linked funds	37,016	-	-	37,016	-	-	-	-	37,016	37,016
	101,197	325,188	22,529	448,914	11,723	-	-	11,723	460,637	460,752
Family Takaful										
Financial assets										
Equity securities	396,058	-	-	396,058	-	-	-	-	396,058	396,058
Unit trusts	124,989	51,818	-	176,807	-	-	-	-	176,807	176,807
Institutional Trust Account	-	-	108,830	108,830	-	-	-	-	108,830	108,830
Islamic debt securities	44,567	2,232,885	-	2,277,452	76,885	371,726	-	448,611	2,726,063	2,723,616
Malaysian Government Islamic papers	-	148,793	-	148,793	-	73,017	-	73,017	221,810	221,306
	565,614	2,433,496	108,830	3,107,940	76,885	444,743	-	521,628	3,629,568	3,626,617

SYARIKAT TAKAFUL MALAYSIA BERHAD

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
QUARTER ENDED 31 DECEMBER 2016

28 Fair Value Information (continued)

31 December 2016	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value RM'000	Carrying amount RM'000
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000		
General Takaful										
Equity securities	36,199	-	-	36,199	-	-	-	-	36,199	36,199
Unit trusts	13,946	-	-	13,946	-	-	-	-	13,946	13,946
Institutional Trust Account	-	-	28,753	28,753	-	-	-	-	28,753	28,753
Islamic debt securities	-	314,484	-	314,484	5,382	5,000	-	10,382	324,866	324,828
Malaysian Government Islamic papers	-	-	-	-	-	32,635	-	32,635	32,635	32,524
	50,145	314,484	28,753	393,382	5,382	37,635	-	43,017	436,399	436,250
Group										
Financial assets										
Equity securities	472,611	-	-	472,611	-	-	-	-	472,611	472,611
Unit trusts	158,874	64,849	-	223,723	-	-	-	-	223,723	223,723
Institutional Trust Account	-	-	160,112	160,112	-	-	-	-	160,112	160,112
Islamic debt securities	48,455	2,859,526	-	2,907,981	93,990	376,726	-	470,716	3,378,697	3,376,327
Malaysian Government Islamic papers	-	148,793	-	148,793	-	105,652	-	105,652	254,445	253,830
	679,940	3,073,168	160,112	3,913,220	93,990	482,378	-	576,368	4,489,588	4,486,603

SYARIKAT TAKAFUL MALAYSIA BERHAD

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
QUARTER ENDED 31 DECEMBER 2016

28 Fair Value Information (continued)

	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value RM'000	Carrying amount RM'000
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000		
31 December 2015										
Takaful Operator										
Financial assets										
Equity securities	72,128	-	-	72,128	-	-	-	-	72,128	72,128
Unit trusts	26,416	18,359	-	44,775	-	-	-	-	44,775	44,775
Institutional Trust Account	-	-	21,411	21,411	-	-	-	-	21,411	21,411
Islamic debt securities	3,809	274,848	-	278,657	1,945	-	-	1,945	280,602	280,833
Investment in linked funds	38,030	-	-	38,030	-	-	-	-	38,030	38,030
	140,383	293,207	21,411	455,001	1,945	-	-	1,945	456,946	457,177
Family Takaful										
Financial assets										
Equity securities	613,698	-	-	613,698	-	-	-	-	613,698	613,698
Unit trusts	159,036	60,869	-	219,905	-	-	-	-	219,905	219,905
Institutional Trust Account	-	-	103,801	103,801	-	-	-	-	103,801	103,801
Islamic debt securities	91,029	2,044,811	-	2,135,840	54,633	370,402	-	425,035	2,560,875	2,562,032
Malaysian Government Islamic papers	-	164,728	-	164,728	-	113,701	-	113,701	278,429	277,309
	863,763	2,270,408	103,801	3,237,972	54,633	484,103	-	538,736	3,776,708	3,776,745

SYARIKAT TAKAFUL MALAYSIA BERHAD

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
QUARTER ENDED 31 DECEMBER 2016

28 Fair Value Information (continued)

31 December 2015	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value RM'000	Carrying amount RM'000
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000		
General Takaful										
Equity securities	62,179	-	-	62,179	-	-	-	-	62,179	62,179
Unit trusts	19,677	2,429	-	22,106	-	-	-	-	22,106	22,106
Institutional Trust Account	-	-	27,429	27,429	-	-	-	-	27,429	27,429
Islamic debt securities	-	317,032	-	317,032	5,192	5,000	-	10,192	327,224	327,319
Malaysian Government Islamic papers	-	-	-	-	-	32,948	-	32,948	32,948	32,576
	81,856	319,461	27,429	428,746	5,192	37,948	-	43,140	471,886	471,609
Group										
Financial assets										
Equity securities	748,005	-	-	748,005	-	-	-	-	748,005	748,005
Unit trusts	205,129	81,657	-	286,786	-	-	-	-	286,786	286,786
Institutional Trust Account	-	-	152,641	152,641	-	-	-	-	152,641	152,641
Islamic debt securities	94,838	2,636,691	-	2,731,529	61,770	375,402	-	437,172	3,168,701	3,170,184
Malaysian Government Islamic papers	-	164,728	-	164,728	-	146,649	-	146,649	311,377	309,885
	1,047,972	2,883,076	152,641	4,083,689	61,770	522,051	-	583,821	4,667,510	4,667,501

SYARIKAT TAKAFUL MALAYSIA BERHAD

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS QUARTER ENDED 31 DECEMBER 2016

28 Fair Value Information (continued)

The carrying amounts of cash and cash equivalents, and short-term receivables and payables reasonably approximate their fair values due to the relatively short-term nature of these financial instruments.

It was not practicable to estimate the fair value of the Group's investment in unquoted shares due to the lack of comparable quoted market prices in an active market and the fair value cannot be reliably measured. Please refer to respective note for the fair values of other financial assets and liabilities, together with the carrying amounts shown in the statements of financial position.

Policy on transfer between levels

The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

Level 1 fair value

Level 1 fair value is derived from quoted price (unadjusted) in active markets for identical financial assets or liabilities that the entity can access at the measurement date.

Level 2 fair value

Level 2 fair value is estimated using inputs other than quoted prices included within Level 1 that are observable for the identical financial assets or liabilities, either directly or indirectly.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the end of the reporting period.

Transfer between Level 1 and 2 fair values

There is no transfer between Level 1 and 2 fair values during the period.

SYARIKAT TAKAFUL MALAYSIA BERHAD

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS QUARTER ENDED 31 DECEMBER 2016

28 Fair Value Information (continued)

Level 3 fair value

Level 3 fair value is estimated using unobservable inputs for the financial assets and liabilities. The following table shows a reconciliation of Level 3 fair values:

	Takaful Operator RM'000	Family Takaful RM'000	General Takaful RM'000	Group RM'000
Available-for-sale financial assets				
At 1 January 2015	38,259	84,900	26,154	149,313
Purchases	3,244	63,813	20,811	69,313
Disposal	(18,555)	-	-	-
Maturities	(3,244)	(49,060)	(20,811)	(73,115)
Gains and losses recognised in profit or loss				
Investment income - realised	1,707	4,148	1,275	7,130
At 31 December 2015 / 1 January 2016	21,411	103,801	27,429	152,641
Purchases	19,004	24,534	5,007	48,545
Maturities	(19,004)	(24,534)	(5,007)	(48,545)
Gains and losses recognised in profit or loss				
Investment income - realised	1,118	5,029	1,324	7,471
At 31 December 2016	<u>22,529</u>	<u>108,830</u>	<u>28,753</u>	<u>160,112</u>

29 Disclosure of interest expense, provision for and write off of inventories, gain or loss on derivatives and exceptional items

Disclosure of interest expense, provision for and write off of inventories, gain or loss on derivatives and exceptional items are not applicable to the Group and the Company.

30 Regulatory capital requirements

The Company's capital management policy is to optimise the efficient and effective use of resources to maximise the return on equity and provide an appropriate level of capital to protect participants and meet regulatory requirements.

The Company is required to comply with the regulatory capital requirement prescribed in the Risk Based Capital for Takaful (RBCT) Framework issued by Bank Negara Malaysia where Takaful operators are required to satisfy a minimum supervisory capital adequacy ratio of 130%. As at period end, the Company has a capital adequacy ratio in excess of the minimum requirement.

SYARIKAT TAKAFUL MALAYSIA BERHAD

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

QUARTER ENDED 31 DECEMBER 2016

30 Regulatory capital requirements (continued)

The capital structure of the Company as at 31 December 2016, as prescribed under the RBCT Framework is provided below:

	As at 31.12.2016 RM'000	As at 31.12.2015 RM'000
Tier 1 capital	1,212,934	1,167,906
Tier 2 capital	(16,620)	(30,374)
Deductions	(122,376)	(143,163)
Total capital available	1,073,938	994,369

31 Supplementary Financial Information on the Breakdown of Realised and Unrealised Profits

The breakdown of the retained profits of the Group and of the Company as at 31 December 2016, into realised and unrealised profits, pursuant to Paragraphs 2.06 and 2.23 of the Listing Requirements, are as follows:

	As at 31.12.2016 RM'000	As at 31.12.2015 RM'000
Total retained profits of the Group		
Realised	490,488	457,358
Unrealised	28,932	34,234
	519,420	491,592
Total share of retained profits of associates:		
Realised	-	-
Unrealised	-	-
	519,420	491,592
Add: Consolidation adjustments	6,780	15,450
Total retained profits as per statements of financial position	526,200	507,042

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

By Order of the Board

MOHAMAD ASRI BIN YUSOFF
Company Secretary (MIA 14171)
Kuala Lumpur, 24 January 2017