

SYARIKAT TAKAFUL MALAYSIA KELUARGA BERHAD

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

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 March 2020. 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.

In preparing the Group-level consolidated financial statements, the balances and transactions of the Takaful Operator are amalgamated and combined with those of the Takaful funds. Interfund assets and liabilities, income and expenses relating to transactions between the funds are eliminated in full during amalgamation. The accounting policies adopted for the Takaful Operator and Takaful funds are uniform for like transactions and events in similar circumstances.

The Takaful fund are consolidated and amalgamated from the date of control and continue to be consolidated until the date such control ceases which occur when the Group’s and the Company’s license to manage Takaful business is withdrawn or surrendered.

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 2019. 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 2019.

The accounting policies and presentation adopted by the Group for the condensed interim financial statements are consistent with those adopted in the Group’s audited financial statements for the financial year ended 31 December 2019, except for the adoption of the following:

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1 Basis of Preparation (continued)

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2020

- Amendments to MFRS 3, *Business Combination* – Definition of a Business
- Amendments to MFRS 101, *Presentation of Financial Statements* and MFRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors* – Definition of Material
- Amendments to MFRS 9, *Financial Instruments*, MFRS 139, *Financial Instruments: Recognition and Measurement* and MFRS 7, *Financial Instruments: Disclosures – Interest Rate Benchmark Reform*

The initial application of the abovementioned standards, amendments and interpretations do not have any material impacts to the current and prior period's financial statements upon their first adoption.

2 Auditors' Report

The auditors' report on the audited financial statements of the preceding year ended 31 December 2019 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 March 2020.

5 Estimates

There were 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 3 December 2019 declared an interim single tier dividend of 20.00 sen per ordinary share in respect of the financial year ended 31 December 2019 which was paid on 2 January 2020.

No dividend was declared for the current quarter under review.

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8 Segmental Reporting

Geographical Segments

	Malaysia RM'000	Indonesia RM'000	Consolidated RM'000
3 months ended 31 March 2020			
Revenue from external participants	878,056	34,986	913,042
Profit/(loss) before zakat and taxation	116,813	(2,605)	114,208
As at 31 March 2020			
Segment assets by location of assets	10,073,054	454,223	10,527,277
Segment liabilities by location of liabilities	8,794,893	388,636	9,183,529
3 months ended 31 March 2019			
Revenue from external participants	883,052	35,107	918,159
Profit/(loss) before zakat and taxation	115,188	(1,875)	113,313
As at 31 March 2019			
Segment assets by location of assets	8,932,988	519,358	9,452,346
Segment liabilities by location of liabilities	8,013,298	457,395	8,334,774

9 Investment Properties

The valuation of investment properties has been brought forward without amendment from the annual audited financial statements for the year ended 31 December 2019.

10 Material Events Subsequent to the End of the Period

There was 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 2019.

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NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

12 Effect of Changes in Composition of the Company / Group

There was 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

	3 months ended		
	31.03.2020	31.03.2019	Changes
	RM'000	RM'000	%
Operating revenue	913,042	918,159	-1%
Gross earned contributions	698,325	707,077	-1%
Profit before zakat and tax	114,208	113,313	1%
Profit after zakat and tax	100,931	95,641	6%
Profit attributable to owners of the Company	101,586	96,443	5%

14.1 Financial results of the current year-to-date (YTD) against preceding YTD

Operating revenue

The Group recorded operating revenue of RM913.0 million for the first quarter ended 31 March 2020, lower as compared to RM918.2 million in the corresponding quarter of the preceding year. The decrease was mainly attributable to lower sales generated from Family Takaful business.

Profit before zakat and tax

For the first quarter ended 31 March 2020, the Group recorded profit before zakat and tax of RM114.2 million, higher as compared to RM113.3 million in the same period last year. The increase in profit was mainly attributable to lower expense reserves which in line with the lower productions from group medical products.

Family Takaful

Family Takaful business generated gross earned contributions of RM496.3 million for the first quarter ended 31 March 2020, lower as compared to RM502.9 million in the corresponding period last year. This was due to lower sales from employee benefits products.

The net benefits and claims for Family Takaful business increased to RM214.6 million in the first quarter ended 31 March 2020 from RM205.1 million in the same period of the preceding year. This was mainly due higher surrender claims from credit-related certificates.

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14. Review of Performance (continued)

Family Takaful (continued)

Investment income for the Family Takaful business increased by 9% to RM72.3 million as compared to RM66.2 million in the same period of the preceding year, mainly due to higher profit from Islamic debt securities.

For the first quarter ended 31 March 2020, Family Takaful recorded fair value losses of RM79.6 million, decreased by RM100.0 million as compared to the same period of the preceding year. The losses were mainly due to equity market performance.

General Takaful

General Takaful business generated gross earned contributions of RM202.0 million for the first quarter ended 31 March 2020, lower as compared to RM204.2 million in the corresponding period last year. The decrease was mainly attributable to fire and motor classes.

The net benefits and claims for General Takaful business increased to RM57.7 million in the first quarter ended 31 March 2020 from RM53.3 million in the same period of the preceding year, mainly due to increase in claims relating to fire and commercial classes.

The investment income for the first quarter ended 31 March 2020 was RM8.1 million, increased by 4%, as compared to the same period of the preceding year of RM7.8 million, mainly to higher profit from Islamic debts securities.

14.2 Indonesian Operations

The operating revenue of Indonesian operations recorded at RM35.0 million, at par as compared to the same period of the preceding year of RM35.1 million. The gross earned contribution of RM29.2 million was at par as compared to RM29.9 million in the same period of preceding year.

The Indonesian operations recorded loss before zakat and tax of RM2.6 million for the first quarter ended 31 March 2020 as compared to loss before zakat and tax of RM1.9 million in the same period of preceding year. The increase in losses was mainly due to higher fair value loss. The Indonesian operations continued to be impeded by the window concept of promoting Islamic products practiced by the conventional domestic players. The Takaful industry in Indonesia is anticipated to continue experiencing challenges due to the financial market volatility in addition to the economic conditions.

14.3 Review of Statements of Financial Position

As at 31 March 2020, total assets increased by 2% to RM10,527.3 million as compared to RM10,346.1 million as at 31 December 2019, mainly attributable to the increase in loans and receivables, excluding takaful receivables as well retakaful assets.

Loans and receivables, excluding takaful receivables increased by RM181.9 million to RM2,812.6 million as at 31 March 2020, mainly attributable to higher placement in fixed and call deposit at licenced institutions with maturity more than 3 months.

As at 31 March 2020, retakaful assets increased from RM755.8 million to RM829.2 million mainly attributable to additional retakaful reserving.

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14. Review of Performance (continued)

14.3 Review of Statements of Financial Position (continued)

Total liabilities increased to RM9,183.5 million as compared to RM9,091.6 million as at 31 December 2019, mainly attributable to the increase in Takaful contract liabilities by RM104.0 million. The increase in Takaful contract liabilities from RM8,258.2 million as at 31 December 2019 to RM8,362.2 million as at 31 March 2020 was in line with the Group's business growth.

Shareholders' equity increased by 7% to RM1,343.8 million as at 31 March 2020. This is mainly attributed to the increase in distributable retained earnings of RM92.1 million.

14.4 Review of Statements of Cash flows

For the first quarter ended 31 March 2020, the Group's cash flow position of RM554.2 million is healthy and strong.

15 Financial review for current quarter compared with immediate preceding quarter

	Current Quarter 31.03.2020 RM'000	Immediate Preceding Quarter 31.12.2019 RM'000	Changes %
Operating revenue	913,042	779,912	17%
Gross earned contributions	698,325	695,395	0%
Profit before zakat and tax	114,208	85,564	33%
Profit after zakat and tax	100,931	77,648	30%
Profit attributable to owners of the Company	100,586	75,105	34%

Operating revenue

For the current quarter under review, the Group generated Operating Revenue of RM913.0 million, increased by 17% as compared to RM779.9 million in the immediate preceding quarter. The increase is mainly attributable to higher sales generated from both Family and General Takaful business.

Profit before zakat and tax

For the quarter under review, the Group recorded profit before zakat and taxation of RM114.2 million, increased by 33% as compared to the immediate preceding quarter of RM85.6 million. The increase in profit was mainly attributable to higher net wakalah fee income arising from business growth in the Family and General Takaful.

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15 Financial review for current quarter compared with immediate preceding quarter (continued)

Family Takaful

For the current quarter under review, Family Takaful business recorded gross earned contributions of RM496.3 million as compared to RM531.2 million in the immediate preceding quarter. The decrease was mainly attributable to higher reserving of unearned contribution.

For the current quarter under review, Family Takaful business recorded net benefits and claims of RM214.6 million, higher as compared to the immediate preceding quarter of RM210.3 million. The increase was mainly due to higher death and disability claims.

For the current quarter under review, Family Takaful business recorded investment income of RM72.2 million, increased by 2% as compared to the immediate preceding quarter. This is mainly contributed from higher profit from Islamic debt securities.

For the current quarter under review, Family Takaful recorded fair value loss of RM79.6 million as compared to fair value gain of RM3.8 million immediate preceding quarter. The decrease was mainly due to the equity market performance.

General Takaful

For the current quarter under review, General Takaful business generated gross earned contributions of RM202.0 million, increased by 23% as compared to RM163.8 million in the immediate preceding quarter. The increase was mainly contributed from fire, motor and commercial classes.

For the current quarter under review, General Takaful business recorded net benefits and claims of RM57.7 million, higher as compared to the immediate preceding quarter. The increase was mainly due to higher claims relating to motor and commercial classes.

For the current quarter under review, General Takaful business recorded investment income of RM8.1 million for the quarter, 5% higher as compared to the investment income in the immediate preceding quarter, mainly attributable to higher profit from Islamic debt securities.

16 Current Year Prospects

Despite business sentiments remaining cautious in 2020, the Takaful industry is expected to outperform the conventional insurers in view of the stronger demand for Takaful products. To sustain its market leading position, the company will continue with its innovative strategies via the implementation of its digital strategy, introduction of online solutions, expansion of its distribution capabilities, strategic partnerships with leading Islamic banks and Brand awareness initiatives.

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16 Current Year Prospects (continued)

To support business growth and customer centricity, the company will continue its digital strategy to build the full digital ecosystem. As a pioneer to transform the insurance / takaful business in Malaysia, we will advance to the next level of digital strategy by adopting Artificial Intelligence (AI) with big data analytics and machine learning algorithms to manage the risks and opportunities in the areas of marketing, underwriting, and customer service, and claims processing. Especially, AI will be used for marketing optimization to achieve better brand awareness and marketing objectives; smart underwriting for fast risk assessment and accurate pricing decision, personalization of customer engagement for great customer experience; and motor and medical claims review process for faster and accurate claim settlement and fraud detection.

However, the Covid-19 pandemic and associated economic impact are posing huge challenges and raising many uncertainties. The Group is prepared for a very different market and operating landscape post MCO period as concerns on job security remain heightened and consumers will be more cautious on their spending. It is expected that economic activities will take some time to recover.

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.

18 Taxation

The effective rate of taxation is lower than the statutory tax rate for the current financial period in accordance with the Income Tax Act 1967 due to the lower taxable income.

	3 months ended	
	31.3.2020	31.3.2019
	RM'000	RM'000
Current tax expense:		
- Current financial period	17,401	19,270
Deferred tax benefits:		
- Current financial period	(4,424)	(1,932)
Total tax expense	<u>12,977</u>	<u>17,338</u>

The Inland Revenue Board ("IRB") had, on 8 September 2017, issued to the Company notices of additional assessment (i.e. Form JA) for the years of assessment ("YA") 2012, 2013, and 2014. The additional tax payable by the Company under the above-mentioned notices is RM12,561,630.50. As a result of the above, IRB had also treated the tax returns made by the Company for the above years of assessment as incorrect, and imposed a penalty of RM6,200,802.97 to the Company.

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18 Taxation (continued)

The Company has paid the additional tax on 4 October 2017 and submitted an appeal (Form Q) to Special Commissioner of Income Tax against the notice of assessment on 5 October 2017.

The Company is of the view that there are strong justifications for its appeal against certain matters raised by IRB and have treated the related tax payment of RM16,741,000 as tax recoverable.

The case has fixed for hearing on 1st and 2nd September 2021.

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 March 2020.

21 Material Litigation

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

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	
		31.03.2020	31.03.2019
Owners of the Company	(RM'000)	<u>101,586</u>	<u>96,443</u>
Weighted average number of ordinary shares in issue	('000)	<u>826,793</u>	<u>824,219</u>
Basic EPS	(sen)	<u>12.29</u>	<u>11.70</u>

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22 Earnings per Share (continued)

The calculation of diluted earnings per ordinary share 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	
		31.03.2020	31.03.2019
Owners of the Company	(RM'000)	<u>101,586</u>	<u>96,443</u>
Weighted average number of ordinary shares in issue	('000)	826,793	824,219
Effects of dilution	('000)	<u>3,370</u>	<u>3,816</u>
Diluted weighted average number of ordinary shares in issue	('000)	<u>830,163</u>	<u>828,035</u>
Diluted EPS	(sen)	<u>12.24</u>	<u>11.65</u>

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23 Takaful Contract Liabilities

The takaful contract liabilities consist of the following:

	31 March 2020			31 December 2019		
	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	35,648	(6,920)	28,728	39,182	(8,493)	30,689
Provision for IBNR	135,643	(46,978)	88,665	133,692	(45,417)	88,275
Provision for outstanding claims	171,291	(53,898)	117,393	172,874	(53,910)	118,964
Actuarial liabilities	5,631,724	(323,486)	5,308,238	5,593,304	(315,614)	5,277,690
Unallocated surplus	1,015,983	-	1,015,983	916,155	-	916,155
Fair value reserves	181,694	-	181,694	257,242	-	257,242
Net asset value attributable to unitholders	200,448	-	200,448	240,957	-	240,957
Participants' fund	7,029,849	(323,486)	6,706,363	7,007,658	(315,614)	6,692,044
	7,201,140	(377,384)	6,823,756	7,180,532	(369,524)	6,811,008

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23 Takaful Contract Liabilities (continued)

	31 March 2020			31 December 2019		
	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	353,542	(238,559)	114,983	302,067	(190,182)	111,885
Provision for IBNR	249,793	(114,087)	135,706	228,657	(105,456)	123,201
Provision for outstanding claims	603,335	(352,646)	250,689	530,724	(295,638)	235,086
Provision for unearned contributions	415,618	(99,170)	316,448	394,340	(90,634)	303,706
	1,018,953	(451,816)	567,137	925,064	(386,272)	538,792
Unallocated surplus	163,957	-	163,957	173,962	-	173,962
Fair value reserves	11,637	-	11,637	16,089	-	16,089
Participants' fund	175,594	-	175,594	190,051	-	190,051
	1,194,547	(451,816)	742,731	1,115,115	(386,272)	728,843

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23 Takaful Contract Liabilities (continued)

	31 March 2020			31 December 2019		
	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	389,190	(245,479)	143,711	341,249	(198,675)	142,574
Provision for IBNR	385,436	(161,065)	224,371	362,349	(150,873)	211,476
Provision for outstanding claims	774,436	(406,544)	368,082	703,598	(349,548)	354,050
Provision for unearned contributions	415,618	(99,170)	316,448	394,340	(90,634)	303,706
	1,190,244	(505,714)	684,530	1,097,938	(440,182)	657,756
Actuarial liabilities	5,631,724	(323,486)	5,308,238	5,593,304	(315,614)	5,277,690
Unallocated surplus	1,179,940	-	1,179,940	1,090,117	-	1,090,117
Fair value reserves	193,331	-	193,331	273,331	-	273,331
Net asset value attributable to unitholders	166,951	-	166,951	203,490	-	203,490
Participants' fund	7,171,946	(323,486)	6,848,460	7,160,242	(315,614)	6,844,628
	8,362,190	(829,200)	7,532,990	8,258,180	(755,796)	7,502,384

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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 2019	5,981,856	(163,719)	5,818,137	171,129	-	171,129	6,116,882	(163,719)	5,953,163
Net earned contributions	2,042,293	(117,589)	1,924,704	429,583	-	429,583	2,471,876	(117,589)	2,354,287
Investment income on financial assets not measured at FVTPL	238,370	-	238,370	29,341	-	29,341	267,711	-	267,711
Investment income - others	39,545	-	39,545	1,882	-	1,882	41,427	-	41,427
Realised gains and losses	10,669	-	10,669	2,697	-	2,697	13,366	-	13,366
Fair value gains and losses	30,259	-	30,259	791	-	791	31,050	-	31,050
Other operating income	2,919	-	2,919	224	-	224	3,143	-	3,143
Net benefits and claims	(902,371)	100,730	(801,641)	(202,239)	-	(202,239)	(1,104,610)	100,730	(1,003,880)
Fees deducted (net)	(717,390)	-	(717,390)	(245,632)	-	(245,632)	(963,022)	-	(963,022)
(Impairment losses) / Reversal of impairment losses on financial instruments	(1,928)	-	(1,928)	642	-	642	(1,286)	-	(1,286)
Other operating expenses	(4,810)	-	(4,810)	(44)	-	(44)	(4,854)	-	(4,854)
Profit paid to participants	(4,013)	-	(4,013)	(7,802)	-	(7,802)	(11,815)	-	(11,815)
Movement in actuarial liabilities	145,644	(151,137)	(5,493)	-	-	-	145,644	(151,137)	(5,493)
Profit attributable to the Takaful Operator	(82,170)	16,859	(65,311)	-	-	-	(83,534)	16,859	(66,675)
Excess payment from participants	(162)	-	(162)	-	-	-	(162)	-	(162)
Net change in fair value on debt instruments at FVOCI	229,722	-	229,722	13,831	-	13,831	243,553	-	243,553
Tax expense	(9,743)	-	(9,743)	(3,329)	-	(3,329)	(13,072)	-	(13,072)
Withholding tax paid	(3,853)	-	(3,853)	(1,023)	-	(1,023)	(4,876)	-	(4,876)
Effect of movement in exchange rates	12,821	(758)	12,063	-	-	-	12,821	(758)	12,063
At 31 December 2019	7,007,658	(315,614)	6,692,044	190,051	-	190,051	7,160,242	(315,614)	6,844,628

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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 2020	7,007,658	(315,614)	6,692,044	190,051	-	190,051	7,160,242	(315,614)	6,844,628
Net earned contributions	496,320	(33,824)	462,496	123,179	-	123,179	619,499	(33,824)	585,675
Investment income on financial assets not measured at FVTPL	63,244	-	63,244	7,786	-	7,786	71,030	-	71,030
Investment income - others	9,037	-	9,037	307	-	307	9,344	-	9,344
Fair value gains and losses	(79,577)	-	(79,577)	(102)	-	(102)	(79,679)	-	(79,679)
Other operating income	185	-	185	24	-	24	209	-	209
Net benefits and claims	(241,177)	26,598	(214,579)	(57,661)	-	(57,661)	(298,838)	26,598	(272,240)
Fees deducted (net)	(195,575)	-	(195,575)	(75,200)	-	(75,200)	(270,775)	-	(270,775)
Impairment losses on financial instruments	(1,465)	-	(1,465)	(349)	-	(349)	(1,814)	-	(1,814)
Other operating expenses	(1,935)	-	(1,935)	(13)	-	(13)	(1,948)	-	(1,948)
Profit paid to participants	(390)	-	(390)	(2,343)	-	(2,343)	(2,733)	-	(2,733)
Movement in actuarial liabilities	109,578	(11,747)	97,831	-	-	-	109,578	(11,747)	97,831
Profit attributable to the Takaful Operator	(14,749)	7,225	(7,524)	(7,880)	-	(7,880)	(18,659)	7,225	(11,434)
Excess payment from participants	(24)	-	(24)	-	-	-	(24)	-	(24)
Net change in fair value on debt instruments at FVOCI	(75,547)	-	(75,547)	(4,451)	-	(4,451)	(79,998)	-	(79,998)
Tax expense	4,055	-	4,055	2,788	-	2,788	6,843	-	6,843
Withholding tax paid	(5,959)	-	(5,959)	(542)	-	(542)	(6,501)	-	(6,501)
Effect of movement in exchange rates	(43,830)	3,876	(39,954)	-	-	-	(43,830)	3,876	(39,954)
At 31 March 2020	7,029,849	(323,486)	6,706,363	175,594	-	175,594	7,171,946	(323,486)	6,848,460

SYARIKAT TAKAFUL MALAYSIA KELUARGA BERHAD

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

24 Takaful Operator Income

The takaful operator income consists of the following:

	3 months ended	
	31.03.2020	31.03.2019
	RM'000	RM'000
Surplus transfer from:		
Family Takaful Fund	7,524	21,368
General Takaful Fund	7,880	-
Wakalah fee income	293,535	293,569
Total Takaful Operator income	<u>308,939</u>	<u>314,937</u>

SYARIKAT TAKAFUL MALAYSIA KELUARGA BERHAD

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

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	
	31.3.2020 RM'000	31.3.2019 RM'000	31.3.2020 RM'000	31.3.2019 RM'000	31.3.2020 RM'000	31.3.2019 RM'000	31.3.2020 RM'000	31.3.2019 RM'000
<u>Investment income on financial assets not measured at FVTPL</u>								
Profit income	13,955	11,014	64,887	57,365	7,976	7,331	86,818	75,710
Accretion / (Amortisation)	(230)	(119)	(1,643)	(1,412)	(190)	(231)	(2,063)	(1,762)
	<u>13,725</u>	<u>10,895</u>	<u>63,244</u>	<u>55,953</u>	<u>7,786</u>	<u>7,100</u>	<u>84,755</u>	<u>73,948</u>
<u>Investment income - others</u>								
Rental income	207	190	1,746	1,683	65	59	1,398	640
Dividend income	76	627	2,516	1,594	-	-	2,592	2,221
Profit income	979	640	5,291	7,573	255	684	6,525	8,897
Accretion / (Amortisation)	(5)	(44)	(25)	(49)	(7)	(21)	(37)	(114)
Investment expenses	(17)	(18)	(491)	(508)	(6)	(9)	(144)	(192)
	<u>1,240</u>	<u>1,395</u>	<u>9,037</u>	<u>10,293</u>	<u>307</u>	<u>713</u>	<u>10,334</u>	<u>11,452</u>
	<u>14,965</u>	<u>12,290</u>	<u>72,281</u>	<u>66,246</u>	<u>8,093</u>	<u>7,813</u>	<u>95,089</u>	<u>85,400</u>

SYARIKAT TAKAFUL MALAYSIA KELUARGA BERHAD

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

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	
	31.3.2020 RM'000	31.3.2019 RM'000	31.3.2020 RM'000	31.3.2019 RM'000	31.3.2020 RM'000	31.3.2019 RM'000	31.3.2020 RM'000	31.3.2019 RM'000
<u>Other operating income</u>								
Service charged and management fee	6,198	3,548	-	-	-	-	-	-
Writeback of impaired financing	68	91	-	-	-	-	68	91
Gain on disposal of assets	5	5	-	-	-	-	5	5
Other income	472	277	184	91	24	41	680	410
	<u>6,743</u>	<u>3,921</u>	<u>184</u>	<u>91</u>	<u>24</u>	<u>41</u>	<u>753</u>	<u>506</u>

SYARIKAT TAKAFUL MALAYSIA KELUARGA BERHAD

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

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 months ended	
	31.3.2020 RM'000	31.3.2019 RM'000	31.3.2020 RM'000	31.3.2019 RM'000	31.3.2020 RM'000	31.3.2019 RM'000	31.3.2020 RM'000	31.3.2019 RM'000
<u>Impairment losses on financial instruments:</u>								
- Takaful receivables	-	-	(1,045)	(1,592)	(345)	(25)	(1,390)	(2,856)
- Financial assets not measured at FVTPL	(5)	(87)	(420)	(116)	(4)	(1,264)	(429)	(228)
	<u>(5)</u>	<u>(87)</u>	<u>(1,465)</u>	<u>(1,708)</u>	<u>(349)</u>	<u>(1,289)</u>	<u>(1,819)</u>	<u>(3,084)</u>
<u>Other operating expenses</u>								
Depreciation	(2,255)	(3,549)	-	-	-	-	(3,387)	(5,559)
Agency related expenses	(16,302)	(7,957)	-	-	-	-	(16,302)	(7,957)
Debts written off	-	-	(814)	(300)	-	-	(814)	(300)
Other expenses	(194)	(152)	(1,121)	(594)	(13)	(10)	(1,014)	(420)
	<u>(18,751)</u>	<u>(11,658)</u>	<u>(1,935)</u>	<u>(894)</u>	<u>(13)</u>	<u>(10)</u>	<u>(21,517)</u>	<u>(14,236)</u>
	<u>(18,756)</u>	<u>(11,745)</u>	<u>(3,400)</u>	<u>(2,602)</u>	<u>(362)</u>	<u>(1,299)</u>	<u>(23,336)</u>	<u>(17,320)</u>

SYARIKAT TAKAFUL MALAYSIA KELUARGA BERHAD

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

28 Fair Value Information

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

	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 March 2020										
Takaful Operator										
Financial assets										
Equity securities	6,208	-	-	6,208	-	-	-	-	6,208	6,208
Unit trusts	534	2,370	-	2,904	-	-	-	-	2,904	2,904
Institutional Trust Account	-	-	107,395	107,395	-	-	-	-	107,395	107,395
Islamic debt securities	104,246	373,431	-	477,677	-	-	-	-	477,677	477,677
Malaysian Government Islamic papers	-	43,405	-	43,405	-	-	-	-	43,405	43,405
Investment in linked funds	33,497	-	-	33,497	-	-	-	-	33,497	33,497
	144,485	419,206	107,395	671,086	-	-	-	-	671,086	671,086

SYARIKAT TAKAFUL MALAYSIA KELUARGA BERHAD

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

28 Fair Value Information (continued)

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

31 March 2020	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		
Family Takaful										
Financial assets										
Equity securities	213,512	-	-	213,512	-	-	-	-	213,512	213,512
Unit trusts	16,305	8,952	-	25,257	-	-	-	-	25,257	25,257
Institutional Trust Account	-	-	470,770	470,770	-	-	-	-	470,770	470,770
Islamic debt securities	125,093	3,272,314	-	3,397,407	-	-	-	-	3,397,407	3,397,407
Malaysian Government Islamic papers	-	475,290	-	475,290	-	-	-	-	475,290	475,290
	354,910	3,756,556	470,770	4,582,236	-	-	-	-	4,582,236	4,582,236

SYARIKAT TAKAFUL MALAYSIA KELUARGA BERHAD

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

28 Fair Value Information (continued)

The table below analyses financial instruments carried at fair value by their valuation method (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 March 2020										
General Takaful										
Institutional Trust Account	-	-	57,678	57,678	-	-	-	-	57,678	57,678
Islamic debt securities	-	303,172	-	303,172	-	-	-	-	303,172	303,172
Malaysian Government Islamic papers	-	5,446	-	5,446	-	-	-	-	5,446	5,446
	-	308,618	57,678	366,296	-	-	-	-	366,296	366,296
Group										
Financial assets										
Equity securities	219,720	-	-	219,720	-	-	-	-	219,720	219,720
Unit trusts	16,839	11,322	-	28,161	-	-	-	-	28,161	28,161
Institutional Trust Account	-	-	635,843	635,843	-	-	-	-	635,843	635,843
Islamic debt securities	229,339	3,948,917	-	4,178,256	-	-	-	-	4,178,256	4,178,256
Malaysian Government Islamic papers	-	524,141	-	524,141	-	-	-	-	524,141	524,141
	465,898	4,484,380	635,843	5,586,121	-	-	-	-	5,586,121	5,586,121

SYARIKAT TAKAFUL MALAYSIA KELUARGA BERHAD

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

28 Fair Value Information (continued)

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

31 December 2019	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	9,377	-	380	9,757	-	-	-	-	9,757	9,757
Unit trusts	-	1,944	-	1,944	-	-	-	-	1,944	1,944
Institutional Trust Account	-	-	106,038	106,038	-	-	-	-	106,038	106,038
Islamic debt securities	17,750	478,353	-	496,103	-	-	-	-	496,103	496,103
Malaysian Government Islamic papers	-	44,167	-	44,167	-	-	-	-	44,167	44,167
Investment in linked funds	37,467	-	-	37,467	-	-	-	-	37,467	37,467
	64,594	524,464	106,418	695,476	-	-	-	-	695,476	695,476

SYARIKAT TAKAFUL MALAYSIA KELUARGA BERHAD

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

28 Fair Value Information (continued)

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

31 December 2019	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		
Family Takaful										
Financial assets										
Equity securities	324,087	-	-	324,087	-	-	-	-	324,087	324,087
Unit trusts	32,348	12,036	-	44,384	-	-	-	-	44,384	44,384
Institutional Trust Account	-	-	367,761	367,761	-	-	-	-	367,761	367,761
Islamic debt securities	139,050	3,308,279	-	3,447,329	-	-	-	-	3,447,329	3,447,329
Malaysian Government Islamic papers	-	449,944	-	449,944	-	-	-	-	449,944	449,944
	495,485	3,770,259	367,761	4,633,505	-	-	-	-	4,633,505	4,633,505

SYARIKAT TAKAFUL MALAYSIA KELUARGA BERHAD

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

28 Fair Value Information (continued)

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

31 December 2019	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										
Institutional Trust Account	-	-	57,053	57,053	-	-	-	-	57,053	57,053
Islamic debt securities	-	309,373	-	309,373	-	-	-	-	309,373	309,373
Malaysian Government Islamic papers	-	5,521	-	5,521	-	-	-	-	5,521	5,521
	-	314,894	57,053	371,947	-	-	-	-	371,947	371,947
Group										
Financial assets										
Equity securities	333,464	-	380	333,844	-	-	-	-	333,844	333,844
Unit trusts	32,348	13,980	-	46,328	-	-	-	-	46,328	46,328
Institutional Trust Account	-	-	530,852	530,852	-	-	-	-	530,852	530,852
Islamic debt securities	156,800	4,096,005	-	4,252,805	-	-	-	-	4,252,805	4,252,805
Malaysian Government Islamic papers	-	499,632	-	499,632	-	-	-	-	499,632	499,632
	522,612	4,609,617	531,232	5,663,461	-	-	-	-	5,663,461	5,663,461

SYARIKAT TAKAFUL MALAYSIA KELUARGA BERHAD

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

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 KELUARGA BERHAD

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

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
At 1 January 2019	55,141	220,881	42,603	318,625
Purchases	47,000	146,844	12,000	205,844
Maturity	-	(15,842)	-	(15,842)
Gains recognised in profit or loss				
Investment income - realised	3,653	13,970	2,397	20,020
Net change in fair value	244	1,908	53	2,205
At 31 December 2019/1 January 2020	106,038	367,761	57,053	530,852
Purchases	-	100,000	-	100,000
Gains and losses recognised in profit or loss				
Investment income – realised	1,270	4,365	684	6,319
Net change in fair value	87	(1,356)	(59)	(1,328)
At 31 March 2020	107,395	470,770	57,678	635,843

29 Additional Information

Takaful receivables

The age analysis of Takaful receivables as at the end of the reporting period based on days past-due was as follows:

	Family Takaful		General Takaful		Group	
	31.03.2020 RM'000	31.12.2019 RM'000	31.03.2020 RM'000	31.12.2019 RM'000	31.03.2020 RM'000	31.12.2019 RM'000
<u>Days past due</u>						
Current (not past due)	181,118	84,801	81,872	114,150	262,990	198,951
1-30 days	45	921	504	151	549	1,072
31-60 days	170	1,095	324	192	494	1,287
61-90 days	134	90	113	190	247	280
91-180 days	1,219	132	329	527	1,548	659
> 180 days	2,266	6,766	1,593	1,256	3,859	8,022
	184,952	93,805	84,735	116,466	269,687	210,271

SYARIKAT TAKAFUL MALAYSIA KELUARGA BERHAD

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

29 Additional Information (continued)

Takaful receivables (continued)

The average credit terms of Takaful receivables granted to related parties and non-related parties are 6 months from the contractual due date. The recoverability of Takaful receivables which exceeds the average credit term is high especially after Letter of Demand is imposed on the debtors.

The significant Takaful receivables of the Group and of the Company with its related parties as at the end of the reporting period, are as follows. Takaful receivables due from related parties are trade related and have been entered into for the purpose of takaful coverage and under normal trade terms.

	Family Takaful		General Takaful		Group	
	31.03.2020	31.12.2019	31.03.2020	31.12.2019	31.03.2020	31.12.2019
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Bank Islam Malaysia Berhad	-	3	135	5	135	8

Material Impairment of Assets

Measurement of ECL

The ECL is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired.

The key inputs into the measurement of ECL are the term structures of the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

PD represents the likelihood of a counterparty defaulting on its financial obligation, either over the next 12 months, or over the remaining lifetime of the obligation. To determine 12-month PDs, the Group and Company use the PD table supplied by reputable rating agency based on the default history of obligors with the same credit rating. The Group and the Company adopt the same approach for unrated investments by mapping its internal risk grades to the equivalent external credit ratings. Changes in the rating for a counterparty or exposure lead to a change in the estimate of the associated PD.

LGD is the amount or the percentage of an outstanding claim on the counterparty that is not likely to be recovered in the event of a default. LGD varies by type of counterparty, type and seniority of claim and available of collateral or other credit support.

EAD is the Group's and the Company gross credit exposure to the counterparty at the time of default.

Forward-looking information is considered in determining the PD, EAD and LGD.

SYARIKAT TAKAFUL MALAYSIA KELUARGA BERHAD

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

29 Additional Information (continued)

Material Impairment of Assets (continued)

Measurement of ECL (continued)

For ECL modelled on a collective basis, a grouping of exposures is performing on the basis of shared risks characteristics, such as risk exposure within a group are homogeneous. The characteristics and any data used to determine the groupings includes instrument type; credit rating band; type and seniority of claim; and class of business.

The appropriateness of groupings is monitored and reviewed on a periodic basis by credit control team.

The Group and the Company has elected to measure the impairment losses for Takaful receivables at an amount equal to lifetime ECL. The Group and the Company use an allowance matrix to measure ECLs of Takaful receivables. Loss rates are calculated using a “roll rate” method based on the probability of receivable. The loss rates are based on actual credit loss experience over the past three years.

The impairment losses recognized in profit or loss is not significant to the Group.

30 Foreign exchange exposure / hedging policy

Foreign exchange exposure is only in relation to investment in the Indonesian subsidiary, which is immaterial. Therefore, hedging policy is not applicable to the Group and the Company.

31 Derivatives

The Group and Company did not enter into any derivatives for the current quarter under review and financial year ended 31 March 2020.

32 Gains/losses arising from fair value change of financial liabilities

There were no gains/losses arising from fair value changes of financial liabilities during the current quarter under review and financial year ended 31 March 2020.

33 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 KELUARGA BERHAD

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

33 Regulatory capital requirements (continued)

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

	As at 31.03.2020 RM'000	As at 31.12.2019 RM'000
Tier 1 capital	1,628,572	1,519,250
Tier 2 capital	123,750	162,531
Deductions	(199,567)	(203,564)
Total capital available	1,552,755	1,478,217

By Order of the Board

SHAMSUL SHAHRINA BINTI MOHD HUSSEIN
Company Secretary (MAICSA 7047477)
Kuala Lumpur, 18 May 2020