SYARIKAT TAKAFUL MALAYSIA KELUARGA BERHAD

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 Basis of Preparation

The unaudited condensed consolidated 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 condensed consolidated interim financial statements of the Group comprise the Company and its subsidiaries as at and for the quarter ended 31 March 2023. 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 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 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until the date such control ceases which occur when the Group's and the Company's license to manage Takaful business is withdrawn or surrendered.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 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 2022.

The accounting policies and presentation adopted by the Group for the unaudited condensed consolidated interim financial statements are consistent with those adopted in the Group's audited financial statements for the financial year ended 31 December 2022, except for the adoption of the following:

1 Basis of Preparation (continued)

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2023

- Amendments to MFRS 101, MFRS Practise Statement 2
- Amendments to MFRS 108 on disclosure of accounting policies and definition of accounting estimates
- Amendments to MFRS 112 on "Deferred Tax related to Assets and Liabilities arising from a Single Transaction"
- MFRS 17, "Insurance Contracts" and its amendments
- Amendments to MFRS 17, Insurance Contracts – Initial Application of MFRS 17 and MFRS 9 – Comparative Information

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, except or MFRS 17 "Insurance Contracts" and its amendments as mentioned below.

MFRS 17 'Insurance Contracts' establishes the principles for the recognition, measurement, presentation and disclosure of insurance/takaful contracts and supersedes MFRS 4 'Insurance Contracts'. It applies to insurance/takaful contracts issued, to all reinsurance/takaful contracts and to investment contracts with discretionary participating features if an entity also issues insurance/takaful contracts.

The standard requires to separate the following components from takaful contracts: (i) embedded derivatives, if they meet certain specified criteria, (ii) distinct investment components, and (iii) distinct performance obligations to provide non-takaful goods and services. These components should be accounted for separately in accordance with the related standards.

Under MFRS 17, there are different measurement approaches to be applied for the takaful contracts, reflecting a different extent of policyholder participation in investment or insurance/takaful entity performance:

1) General model, also known as the building block approach (BBA) for non-participating or indirect participating;

2) Variable fee approach (VFA) for direct participating; and

3) Premium* allocation approach (PAA), a simplified approach which can be applied to contracts that have a coverage period of 12 months or less or for which such simplification would produce a measurement of the liability for remaining coverage that would not differ materially from the one obtained applying the general model.

* Premium refers to contribution in Takaful terms.

The General model is a default model as required by MFRS 17 and is based on the following components:

1) the fulfilment cash flows (FCF), which represent the:
   - probability-weighted estimates of future cash flows;
   - an adjustment to reflect the time value of money (i.e. discounting) and the financial risks associated with those future cash flows;
   - an explicit risk adjustment for non-financial risk; and

1 Basis of Preparation (continued)

2) the contractual service margin (CSM).

With regards to discounting, the Group apply a bottom-up discount rate (i.e. risk-free yield curve plus illiquidity premium). MFRS 17 requires using a market consistent yield curve factoring the illiquidity embedded in insurance/takaful liabilities. The methodology consists in using a Basic Risk-Free Rate (RFR), based on government bonds and adding on an illiquidity premium (IP) allowance to reflect the remuneration of illiquidity observed.

Risk adjustments for non-financial risk will be determined to reflect the compensation that the Group would require for bearing non-financial risk and its degree of risk aversion.

MFRS 17 does not prescribe a specific approach for determining the risk adjustment. The Group set the methodology of deriving risk adjustment to be based on the Provision of Risk Margin for Adverse Deviation (PRAD) approach, a regulatory reserving approach based on a confidence interval of 75%.

- Stress factors to determine risk charge as stated in the Risk Based Capital for Takaful (RBCT) Framework have been used as a reference to determine the PRAD factors to be applied on best estimate assumptions.

CSM is also a major change in MFRS 17 compared to MFRS 4. It represents the unearned profit from in-force contracts, presented as a liability separately from the FCF in the consolidated statement of financial position and will be recognised in the consolidated statement of income over the coverage period of the contracts, as the entity provides services to the policyholders. The CSM cannot be negative at inception, any net negative amount of the fulfilment cash flows at inception will be recorded immediately in the consolidated statement of income immediately.

At the end of a reporting period, the carrying amount of a group of insurance/takaful contracts is remeasured to be the sum of the liability for remaining coverage and the liability of incurred claims. The liability for remaining coverage comprises the FCF related to future services and the CSM, while the liability for incurred claims consists of the FCF related to past services allocated to the group.

The Group expects to apply the BBA for its Credit products, annuity business and individual businesses that do not have direct participation features, general takaful contracts which have coverage period of more than 1 year (for eg: long-term house owner and engineering contracts), and retakaful contracts held with coverage period or contract boundary of more than one year or do not pass the PAA eligibility test.

For contracts measured under the BBA model, the CSM gets adjusted for changes in cash flows related to future services due to experience adjustments and changes in assumptions. The profit rate accretion on CSM is based on the locked-in discount rate at initial recognition of a contract that is applicable to nominal cash flows that do not vary based on the returns on any underlying items. An amount of the CSM for a group of contract is recognised in profit or loss in each period to reflect the services provided by the group of contract in that period. The amount is determined by identifying the coverage units in the group. MFRS 17 only provides principle-based guidance on how to determine these coverage units. The Group has determined its sum covered for the Takaful components to be computed based on the coverage units by benefit types.

1 Basis of Preparation (continued)

Besides the BBA model, the Group expects to apply the VFA for its investment-linked contracts, annuity business and individual businesses that have direct participation features and meet the criteria below:

1) The contractual terms specify that the certificate holders participate in a share of a clearly identified pool of underlying items;
2) The Company expects to pay the certificate holders an amount equal to a substantial share of the fair value returns of the underlying items; and
3) The Company expects a substantial proportion of any change in the amounts to be paid to the certificate holders to vary with the change in the fair value of the underlying items.

The assessment of whether the contract meets these criteria is made at inception of the contract and not revised subsequently, except in case of substantial modification of the contract.

The CSM for contracts measured under the VFA is adjusted to reflect the entities share in the change in the fair value of underlying items. No explicit profit accretion is required since the CSM is effectively remeasured when it is adjusted for changes in financial risks. For the VFA contracts, a change in the fair value of the asset's portfolio constitutes a change in the fair value of investment return of the Participant Individual Account ("PIA") / Participant's Unit Account ("PUA") and Participants Risk Fund ("PRF"). For these contracts, the change in FCF for LFRC due to change in the market variable, discount rate or financial risks including the change in Time Value of Financial Options and Guarantee (TVOG) should unlock CSM.

In addition to the 2 models, PAA is permitted for the measurement of the LFRC if it provides a measurement which is not materially different from the BBA model or if the coverage period of each contract in the group is one year or less. Under the PAA, the LFRC is measured as the amount of contribution received at initial recognition less acquisition costs and amounts already recognised as takaful revenue at the closing date. The measurement of the liability for incurred claims is identical under all 3 measurement models, apart from the determination of locked-in interest rates used for discounting. For the PAA, changes compared to MFRS 4 are expected to be limited and mainly linked to the discount of all reserves, a more granular onerous contract testing and the inclusion of a risk adjustment for non-financial risk.

The Group expects to apply the PAA for individual yearly renewable products such as the general takaful contracts which have coverage period of 1 year or less and group yearly renewable products such as Group Term Medical and Health products.

The surplus transferable from the family fund to participants and takaful operator is based on the surplus determined by an annual actuarial valuation of the long term liabilities to participants. Surplus distribution is determined at the fund level through the process of mutualisation which is in line with the actual surplus distribution by takaful operators. The Group applies surplus mutualisation in determining the level of aggregation, which is guided by the terms of the takaful contracts to ensure that it reflects the nature and terms of the takaful contracts. This is in-line with Takaful concept of mutual guarantee whereby the participants mutually agree to contribute to a pool of Risk Fund and with the aim to provide mutual financial aid and assistance to the participants in case of need. Any deficit arises in a single contract is mutualised among the product grouping.

1 Basis of Preparation (continued)

Any deficit in the participants' risk fund within the Family Takaful Fund is made good via a Qard, which is a profit free financing, granted by the takaful operator fund to the participants' risk fund. In the participants' risk fund, the Qard is included in fulfillment cash flows used to measure the takaful liabilities under MFRS 17.

Qard is measured in the fulfilment cash flows at a value discounted for time value of money, which reflects the economic effect of the expected future cash flow, consistent with all the other cash flows measured in fulfilment cash flows. This accounting measurement does not affect the Family Takaful Fund's obligation to repay the nominal amount of Qard, nor does it affect or change any rights or obligations of the takaful operator fund.

The Qard shall be repaid from future surpluses of the participants' risk fund.

Besides the qualitative impacts described above, the Group is currently finalising the quantitative impact of the application of MFRS 17. The final impact will also depend on the application of the transition approaches. MFRS 17 has to be applied retrospectively unless it is impracticable. If a full retrospective application (FRA) is impracticable, an entity can choose between a modified retrospective approach (MRA) or a fair value approach (FVA). The objective of the MRA is to use reasonable and supportable information available without undue cost or effort to achieve the closest possible outcome to FRA. For FVA, the CSM is determined as the positive difference between the fair value determined in accordance with MFRS 13 and the FCF (any negative difference would be recognised in retained earnings at the transition date).

The Group's implementation project progressed throughout 2022, focusing on developing and integrating the operational capabilities necessary for implementing MFRS 17. This involved working on data, systems, and business processes, as well as determining the transition balance sheet as of 1 January 2022.

In 2023, the primary objectives are finalizing the transition balance sheet, preparing the 2022 comparatives for 2023 reporting, and implementing the end state control environment.

The actual impact of adopting MFRS 17 on 1 January 2023, with a transition date of 1 January 2022, may change as the Group continues to embed and refine the new systems, processes, and controls required, including the audit validations.

This impact assessment is based on an interim control environment and models that are still undergoing validation. The implementation of the end state control environment will continue as the Group introduces business-as-usual controls throughout 2023.

SYARIKAT TAKAFUL MALAYSIA KELUARGA BERHAD

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 Basis of Preparation (continued)

The following table summarises the impact of transition of MFRS 17 on the Group consolidated balance sheet at 1 January 2022.

			Remeasurement effect of MFRS 17			
	MFRS 4 1 January 2022	**Remapping/ Removal of MFRS 4**	**Transition CSM**	**Fulfilment Cash Flows**	**Tax effect**	**MFRS 17 1 January 2022**
Family Takaful	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Assets						
Takaful contract assets	-	138,909	-	76,855	-	215,764
Retakaful contract assets	446,539	(303,412)	-	1,974	-	145,101
Other assets	7,985,712	(207,852)	-	(2,970)	-	7,774,890
Total assets	**8,432,251**	**(372,355)**	**-**	**75,859**	**-**	**8,135,755**
Liability and Equity						
Takaful contract liabilities	8,234,199	(263,725)	-	82,759	-	8,053,233
Other liabilities	198,051	(108,630)	-	(6,899)	-	82,522
Total liabilities	**8,432,251**	**(372,355)**	**-**	**75,859**	**-**	**8,135,755**

SYARIKAT TAKAFUL MALAYSIA KELUARGA BERHAD

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 Basis of Preparation (continued)

			Remeasurement effect of MFRS 17			
	MFRS 4 1 January 2022	Remapping/ Removal of MFRS 4	Transition CSM	Fulfilment Cash Flows	Tax effect	MFRS 17 1 January 2022
General Takaful	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Assets						
Takaful contract assets	-	9,079	-	191	-	9,270
Retakaful contract assets	709,472	(485,867)	-	295,843	-	519,448
Other assets	1,193,412	(140,857)	-	-	-	1,052,555
Total assets	**1,902,884**	**(617,645)**	**-**	**296,034**	**-**	**1,581,273**
Liability and Equity						
Takaful contract liabilities	1,594,267	(342,403)	-	278,783	-	1,530,647
Retakaful contract liabilities	-	-	-	17,251	-	17,251
Other liabilities	308,617	(275,242)	-	-	-	33,375
Total liabilities	**1,902,884**	**(617,645)**	**-**	**296,034**	**-**	**1,581,273**

SYARIKAT TAKAFUL MALAYSIA KELUARGA BERHAD

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 Basis of Preparation (continued)

			Remeasurement effect of MFRS 17			
	MFRS 4 1 January 2022	**Remapping/ Removal of MFRS 4**	**Transition CSM**	**Fulfilment Cash Flows**	**Tax effect**	**MFRS 17 1 January 2022**
Group	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Assets						
Takaful contract assets	-	147,988	(2,506)	84,213	-	229,695
Retakaful contract assets	1,156,011	(789,279)	5,155	296,382	-	668,269
Other assets	11,552,823	(534,422)	-	(4,561)	188,928	11,202,768
Total assets	**12,708,834**	**(1,175,713)**	**2,649**	**376,034**	**188,928**	**12,100,732**
Liability and Equity						
Takaful contract liabilities	9,786,326	(581,929)	1,120,151	217,222	-	10,541,770
Retakaful contract liabilities	-	-	-	17,187	-	17,187
Other liabilities	1,080,125	(593,784)	-	(188,675)	-	297,667
Total liabilities	**10,866,451**	**(1,175,713)**	**1,120,151**	**45,734**	**-**	**10,856,623**
Equity						
Share capital	230,547	-	-	-	-	230,547
Reserves	1,578,043	-	(1,117,502)	330,300	188,928	979,769
Total equity attributable to Owners of the Company	**1,808,590**	**-**	**(1,117,502)**	**330,300**	**188,928**	**1,210,316**
Non-controlling interests	33,793	-	-	-	-	33,793
Total equity	**1,842,383**	**-**	**(1,117,502)**	**330,300**	**188,928**	**1,244,109**
Total liabilities and equity	**12,708,834**	**(1,175,713)**	**2,649**	**376,034**	**188,928**	**12,100,732**

SYARIKAT TAKAFUL MALAYSIA KELUARGA BERHAD

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 Basis of Preparation (continued)

The following table shows the nature and amount of the measurement adjustments made to the opening balance sheet:

	Description
Remapping/ Removal of MFRS 4	The items include: • 'Intangible assets' is no longer reported following the transition to MFRS 17, as the future profits are deferred as unearned revenue within the CSM. • Takaful receivables, takaful payables, retakaful contract assets, takaful contract liabilities and other payables were removed on transition and to be replaced within MFRS 17 equivalents.
Transition CSM	CSM is a component of the takaful liability and represents the future unearned profit associated with takaful contracts which will be released to the Profit or Loss over the takaful coverage period.
Fulfilment Cash Flows	The measurement of the takaful contract assets/liabilities under MFRS 17 is based on groups of takaful contracts and includes a liability for fulfilling the contractual obligations associated with the takaful contract, such as contributions, expenses, and takaful benefits and claims. These are recorded within the fulfilment cash flows component of the takaful contract liabilities, together with the risk adjustment.
Tax effect	New deferred tax were reported, where appropriate, on temporary differences between the new MFRS 17 accounting balances and associated tax bases.

2 Auditors' Report

The auditors' report on the audited financial statements of the preceding year ended 31 December 2022 did not contain any qualification.

The audited financial statements of the preceding year have not applied MFRS 17.

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 2023.

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

7 Dividends

The Company on 12 December 2022 declared an interim single tier dividend of 13.50 sen per ordinary share in respect of the financial year ended 31 December 2022 which was paid on 16 January 2023.

No dividend was declared for the current quarter under review.

8 Segmental Reporting

Business Segments:

	Family RM'000	General RM'000	Group RM'000
3 months ended 31 March 2023			
Takaful revenue	232,039	291,367	635,318
Profit before zakat and tax	-	-	129,623
3 months ended 31 March 2022			
Takaful revenue	198,977	232,617	543,650
Profit before zakat and tax	-	-	109,134

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 2022.

10 Material Events Subsequent to the End of the Period

There was no material event subsequent to the end of the year under review that has not been reported in the condensed consolidated 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 audited financial statement as at and for the year ended 31 December 2022.

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		
	31.03.2023 RM'000	31.03.2022 RM'000	Changes %
Takaful revenue	635,318	543,650	17%
Profit before zakat and tax	129,623	109,134	19%

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

Group Takaful revenue

The Group recorded takaful revenue of RM635.3 million for the 1Q 2023, was higher by RM91.7 million (17%) as compared to RM543.7 million in the same period last year. The increase was mainly attributable to higher amount charged for takaful coverage for both Family Takaful and General Takaful.

14 Review of Performance (continued)

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

Group Profit before zakat and tax

For the first quarter ended 31 March 2023, the Group recorded profit before tax and zakat of RM129.6 million, higher by 19% as compared to the same period last year of RM109.1 million. This was mainly attributable to:

i) Higher investment income by RM62.2 million mainly attributable to higher profit from fixed income investment assets and lower fair value loss on investment assets;
It was partially offset by;

ii) Lower takaful service results by RM11.1 million, mainly attributable to higher takaful service expenses.

iii) Higher net profit expenses from takaful contracts issued by RM30.8 million.

Family Takaful

(i) Takaful revenue

Family Takaful generated takaful revenue of RM232.0 million for the first quarter ended 31 March 2023, higher by 17% as compared to RM199.0 million in the same period last year, mainly attributable to higher amount charged for takaful coverage.

(ii) Takaful service expense

For the first quarter ended 31 March 2023, the takaful service expenses for Family Fund increased to RM289.1 million from RM236.1 million in the same period last year. This is mainly attributable to higher claims incurred.

(iii) Net investment income

The investment income for the first quarter ended 31 March 2023 was RM83.9 million, increased by RM45.1 million, mainly due to higher profit income from fixed income investments and lower net fair value losses on financial assets.

(iv) Net Takaful Financial Results

The Group recorded negative net takaful financial results of RM25.4 million for the first quarter of FY2023, higher by RM24.0 million as compared to same period last year of RM1.4 million. The higher net profit expenses was mainly attributable to higher net profit expenses incurred from takaful contracts issued, due to change in carrying amount of takaful contracts.

14 Review of Performance (continued)

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

General Takaful

(i) Takaful Revenue

General takaful recorded Takaful revenue of RM291.4 million for the first quarter of FY2023, 25% higher as compared to same period last year of RM232.6 million. The higher takaful revenue was mainly attributable to higher contribution income recorded from fire and motor class of businesses.

(ii) Takaful Service Expense

General Takaful recorded Takaful service expense of RM322.5 million for the first quarter of FY2023, 25% higher as compared to same period last year of RM257.2 million. The higher takaful service expense was mainly attributable to:

- Higher claims incurred from fire and motor class of businesses.
- Higher amortisation of takaful acquisition cashflows.

(iii) Net Income from Retakaful Contracts Held

General Takaful recorded net income from retakaful contracts held of RM22.9 million for the first quarter of FY2023, 16% higher as compared to same period last year of RM19.7 million. The higher of net income from retakaful contracts held was mainly attributable to higher amount recoverable from retakaful for claims incurred.

(iv) Net Investment Income

The net investment income for the first quarter of FY2023 was RM13.2 million, higher by RM5.4 million as compared to the same period of the preceding year of RM7.8 million, mainly due to higher profit income from fixed income investments.

14.2 Review of Statements of Financial Position

As at 31 March 2023, total assets of RM13,502.5 million, increased by 3% as compared to RM13,140.9 million as at 31 December 2022, mainly attributable to higher other investments, takaful contract assets, retakaful contract assets and loan and receivables but partially offset by lower cash and cash equivalents, partly offset by cash and cash equivalents.

Other investments increased by 2% from RM8,622.0 million as at 31 December 2022 to RM8,782.9 million as at 31 March 2023, mainly attributable to the increase in Islamic debts securities and Malaysian Government Islamic Papers. The increase was mainly attributable to new purchases of sukuk.

14 Review of Performance (continued)

14.2 Review of Statements of Financial Position (continued)

Cash and cash equivalents decreased from RM2,067.3 million to RM966.7 million as at 31 March 2023 mainly due to higher placement in fixed and call deposits at licensed institutions with maturity less than 3 months.

Loans and receivables increased from RM505.7 million to RM1,680.5 million as at 31 March 2023, mainly attributable to lower placement in fixed and call deposits at licenced institutions with maturity more than 3 months.

Total liabilities increased to RM12,002.2 million as at 31 March 2023 as compared to RM11,760.0 million as at 31 December 2022, which was mainly attributable to higher takaful contract liabilities.

Shareholders' equity increased by 9% to RM1,500.3 million as at 31 March 2023. This is mainly attributed to the net profit generated during the financial year of RM93.9 million.

14.3 Review of Statements of Cash flows

For the first quarter ended 31 March 2023, the Group's cash flow position decreased to RM966.7 million as compared to the position as at 31 December 2022 of RM2,067.3 million, mainly attributable to placement of short term money market during the quarter. The Group's cash flow position remain healthy and able to meet its obligation.

15 Financial review for current quarter compared with immediate preceding quarter

No financial review for current quarter compared with immediate preceding quarter due to the application of different accounting policies. The current quarter financial results were based on application of MFRS 17, whereas the preceding quarter financial results were prepared under MFRS 4.

16 Current Year Prospects

As global markets gear up to face the impact of an economic downturn, the Malaysian forecast offers some optimism. Moderate growth is expected to sustain into 2023, with the local economy projected to expand by between 4% and 5% in 2023 (based on Economic and Monetary Review 2022 issued by Bank Negara Malaysia). The domestic growth outlook is expected to improve due to better than expected labour market conditions, stronger pick-up in tourism activities, as well as the implementation of projects – including from the recently re-tabled Budget 2023. While the domestic growth prospects remaining resilient, the outlook nevertheless remains uncertain on the back of weaker-than-expected global economic recovery and higher risk aversion in financial markets. The Group will remain vigilant and prudent in managing operating costs, business growth and the risk profile of our business portfolio. We will remain resilient against these challenges as we are bolstered by strong capital and liquidity positions.

16 Current Year Prospects (continued)

Our established core businesses in Bancatakaful, Treasury, Employee Benefits and General Takaful business segments continue to set a solid foothold of our market presence to sustain and strengthen our leadership in the takaful industry. Our market leadership has been supported by our solid financial fundamentals and strong operational resilience, enabling us to continue with good business performance post pandemic era. The Group will continue to leverage on our market leadership in these core segments to support our growth strategies and expand our market share.

Our ongoing strategic focus is to continue diversifying our business portfolio into the retail market with regular contribution offerings. Takaful Malaysia is looking at further business growth from our multi-distribution strategy to strengthen our presence by providing Malaysians with even greater access to more affordable regular contribution protection products. Since 2022, we have harnessed forward momentum in our efforts to reap more market share with encouraging new business growth in regular contribution products through our branches and bank partners. This will certainly be a key focus area moving forward.

It is the Group's commitment to the Takaful industry's initiative on Value-based Intermediation ("VBI") to unlock the potential of the takaful industry towards a Sustainable Finance Ecosystem and spur creativity and encourage innovation to deliver positive and meaningful impacts. Accordingly, we have adopted an integrated and inter-disciplinary approach to managing climate-related risks, focusing on 4 key areas namely, (Products & Services, Business Process & Culture, Investment, Social and Community), to generate sustainable impacts on the economy, community and environment.

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

	3 months ended	
	31.3.2023	**31.3.2022**
	RM'000	**RM'000**
Current tax expense:		
- Current financial period	46,711	40,105
- Under provision in prior year	1,431	-
Deferred tax expense:		
- Current financial period	(14,364)	(8,221)
Total tax expense	33,778	31,884

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

18 Taxation (continued)

18.1 The effective tax rate is higher than the statutory tax rate for the current financial period due to higher non-deductible expenses.

18.2 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.

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 last court mention which was fixed on 6^{th} March 2023 was postponed to a later date. The next court mention is fixed on 8^{th} June 2023.

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 2023.

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	
		31.3.2023	**31.3.2022**
Owners of the Company	(RM'000)	93,444	77,143
Weighted average number of ordinary shares in issue	('000)	837,306	835,622
Basic EPS	(sen)	11.15	9.23

Diluted earnings per share ("Diluted EPS")

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	
		31.3.2023	**31.3.2022**
Owners of the Company	(RM'000)	93,443	77,143
Weighted average number of ordinary shares in issue	('000)	837,306	835,622
Effects of dilution	('000)	135	2,378
Diluted weighted average number of ordinary shares in issue	('000)	837,441	838,000
Diluted EPS	(sen)	11.15	9.21

SYARIKAT TAKAFUL MALAYSIA KELUARGA BERHAD

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

23 Takaful contract assets / liabilities and Retakaful contract assets / liabilities

	31 March 2023					
	Assets		Liabilites			
	Remaining coverage RM'000	Incurred claims RM'000	Remaining coverage RM'000	Incurred claims RM'000	Total assets RM'000	Total liabilities RM'000
Family Takaful						
Takaful contract	86,650	232,050	112,249	8,633,459	318,700	8,745,708
Retakaful contract	(14,241)	158,899	29,182	(26,199)	144,658	2,983
	72,409	390,949	141,431	8,607,260	463,358	8,748,691
General Takaful						
Takaful contract	3,938	8,025	359,213	1,613,966	11,963	1,973,179
Retakaful contract	265,873	626,626	2,918	67,488	892,499	70,406
	269,811	634,651	362,131	1,681,454	904,462	2,043,585
Group						
Takaful contract	140,295	240,075	1,457,088	10,247,425	380,370	11,704,513
Retakaful contract	254,275	785,525	32,100	41,289	1,039,800	73,389
	394,570	1,025,600	1,489,188	10,288,714	1,420,170	11,777,902

SYARIKAT TAKAFUL MALAYSIA KELUARGA BERHAD

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

23 Takaful contract assets / liabilities and retakaful contract assets / liabilities (continued)

	31 December 2022					
	Assets		Liabilites			
	Remaining coverage RM'000	Incurred claims RM'000	Remaining coverage RM'000	Incurred claims RM'000	Total assets RM'000	Total liabilities RM'000
Family Takaful						
Takaful contract	116,216	137,418	39,720	8,386,370	253,634	8,426,090
Retakaful contract	(21,324)	160,371	3,540	(2,035)	139,046	1,505
	94,892	297,789	43,260	8,384,335	392,680	8,427,595
General Takaful						
Takaful contract	3,841	3,237	258,646	1,551,549	7,078	1,810,195
Retakaful contract	190,722	639,984	2,907	129,197	830,706	132,104
	194,563	643,221	261,553	1,680,746	837,784	1,942,299
Group						
Takaful contract	186,178	140,655	1,417,739	9,937,920	326,833	11,355,659
Retakaful contract	168,586	803,241	6,447	127,163	971,827	133,610
	354,764	943,896	1,424,186	10,065,083	1,298,660	11,489,269

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

24 Investment Income

The investment income consists of the following:

	Family Takaful Fund 3 months ended		General Takaful Fund 3 months ended		Group 3 months ended	
	31.3.2023 RM'000	31.3.2022 RM'000	31.3.2023 RM'000	31.3.2022 RM'000	31.3.2023 RM'000	31.3.2022 RM'000
Investment income on financial assets not measured at FVTPL						
Profit income	80,867	71,155	12,239	8,114	114,338	94,319
Accretion / (Amortisation)	(1,824)	(1,919)	(156)	(232)	(2,417)	(2,603)
	79,043	69,236	12,083	7,882	111,921	91,716
Investment income - others						
Rental income	1,712	1,624	80	42	2,003	1,868
Dividend income	2,039	2,179	-	-	2,098	2,261
Profit income	4,613	(1,088)	-	-	6,069	162
Accretion / (Amortisation)	3	2	-		3	2
Investment expenses	(34)	(134)	(2)	(9)	(36)	(143)
	8,333	2,583	78	33	10,137	4,150
	87,376	71,819	12,161	7,915	122,058	95,866

25 Realised gains and losses

The realised gains and losses consist of the following:

	Family Takaful Fund 3 months ended		General Takaful Fund 3 months ended		Group 3 months ended	
	31.3.2023 RM'000	31.3.2022 RM'000	31.3.2023 RM'000	31.3.2022 RM'000	31.3.2023 RM'000	31.3.2022 RM'000
Realised gains and losses arising from:						
Property and equipment	-	-	-	-		15
FVOCI financial assets:						
- Islamic debt securities (unquoted in Malaysia)	5,657	1,323	1,059	318	8,954	2,157
- Malaysian Government Islamic paper	(1)	(1)	-	-	437	(1)
	5,656	1,322	1,059	318	9,391	2,156
	5,656	1,322	1,059	318	9,391	2,171

SYARIKAT TAKAFUL MALAYSIA KELUARGA BERHAD

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

26 Fair Value Information

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

31 March 2023	Fair value of financial instruments carried at fair value Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Fair value of financial instruments not carried at fair value Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Total fair value RM'000	Carrying amount RM'000
Family Takaful										
Financial assets										
Equity securities	255,683	-	-	255,683	-	-	-	-	255,683	255,683
Unit trusts	98,660	27,837	-	126,497	-	-	-	-	126,497	126,497
Institutional Trust Account	-	-	388,170	388,170	-	-	-	-	388,170	388,170
Islamic debt securities	146,188	5,277,144	-	5,423,332	-	-	-	-	5,423,332	5,423,332
Malaysian Government Islamic papers	-	488,707	-	488,707	-	-	-	-	488,707	488,707
	500,531	5,793,688	388,170	6,682,389	-	-	-	-	6,682,389	6,682,389

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

26 Fair Value Information (continued)

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

31 March 2023	Fair value of financial instruments carried at fair value Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Fair value of financial instruments not carried at fair value Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Total fair value RM'000	Carrying amount RM'000
General Takaful										
Institutional Trust Account	-	-	55,676	55,676	-	-	-	-	55,676	55,676
Islamic debt securities	-	540,408	-	540,408	-	-	-	-	540,408	540,408
Malaysian Government Islamic papers	-	75,705	-	75,705	-	-	-	-	75,705	75,705
	-	616,113	55,676	671,789	-	-	-	-	671,789	671,789
Group										
Financial assets										
Equity securities	262,793	-	380	263,173	-	-	-	-	263,173	263,173
Unit trusts	99,306	34,901	-	134,207	-	-	-	-	134,207	134,207
Institutional Trust Account	-	-	518,772	518,772	-	-	-	-	518,772	518,772
Islamic debt securities	185,431	7,023,565	-	7,208,996	-	-	-	-	7,208,996	7,208,996
Malaysian Government Islamic papers	-	657,719	-	657,719	-	-	-	-	657,719	657,719
	547,530	7,716,185	518,772	8,782,867	-	-	-	-	8,782,867	8,782,867

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

26 Fair Value Information (continued)

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

31 December 2022	Fair value of financial instruments carried at fair value Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Fair value of financial instruments not carried at fair value Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Total fair value RM'000	Carrying amount RM'000
Family Takaful										
Financial assets										
Equity securities	247,331	-	-	247,331	-	-	-	-	247,331	247,331
Unit trusts	95,592	28,647	-	124,239	-	-	-	-	124,239	124,239
Institutional Trust Account	-	-	382,872	382,872	-	-	-	-	382,872	382,872
Islamic debt securities	142,059	5,131,886	-	5,273,945	-	-	-	-	5,273,945	5,273,945
Malaysian Government Islamic papers	-	465,128	-	465,128	-	-	-	-	465,128	465,128
	484,982	5,625,661	382,872	6,493,515	-	-	-	-	6,493,515	6,493,515

SYARIKAT TAKAFUL MALAYSIA KELUARGA BERHAD

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

26 Fair Value Information (continued)

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

31 December 2022	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value	Carrying amount
	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	RM'000	RM'000
General Takaful										
Institutional Trust Account	-	-	54,958	54,958	-	-	-	-	54,958	54,958
Islamic debt securities	-	544,236	-	544,236	-	-	-	-	544,236	544,236
Malaysian Government Islamic papers	-	74,683	-	74,683	-	-	-	-	74,683	74,683
	-	618,919	54,958	673,877	-	-	-	-	673,877	673,877
Group										
Financial assets										
Equity securities	255,128	-	-	255,128	-	-	-	-	255,128	255,128
Unit trusts	96,217	35,430	-	131,647	-	-	-	-	131,647	131,647
Institutional Trust Account	-	-	511,757	511,757	-	-	-	-	511,757	511,757
Islamic debt securities	179,515	6,902,823	-	7,082,338	-	-	-	-	7,082,338	7,082,338
Malaysian Government Islamic papers	-	641,111	-	641,111	-	-	-	-	641,111	641,111
	530,860	7,579,364	511,757	8,621,981	-	-	-	-	8,621,981	8,621,981

26 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. These include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in inactive markets, inputs that are observable that are not prices (such as interest rates, credit risks, etc) and inputs that are derived from or corroborated by observable market data.

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.

26 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:

Institutional Trust Account	Family Takaful RM'000	General Takaful RM'000	Group RM'000
At 1 January 2022	471,247	59,550	617,774
Maturity	(105,471)	(6,669)	(128,620)
Dividend capitalized	920	-	2,127
Investment income – realized	16,970	2,172	21,573
Net change in fair value	(794)	(95)	(1,097)
At 31 December 2022 / 1 January 2023	382,872	54,958	511,757
Maturity			
Dividend capitalised	4,468	565	5,929
Investment income – realised	830	153	1,086
Net change in fair value	-	-	-
At 31 March 2023	388,170	55,676	518,772

27 Additional Information

Takaful receivables (included within Takaful Contract Liabilities/Assets)

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	
	31.3.2023 RM'000	31.12.2022 RM'000	31.3.2023 RM'000	31.12.2022 RM'000	31.3.2023 RM'000	31.12.2022 RM'000
Days past due						
Current (not past due)	272,046	192,019	139,845	247,764	411,891	439,783
1-30 days	1,007	2,644	467	433	1,474	3,077
31-60 days	1,147	290	52	198	1,199	488
61-90 days	125	428	20	208	145	636
91-180 days	1,681	1,593	432	618	2,113	2,211
> 180 days	527	182	2,811	1,922	3,338	2,104
	276,533	197,156	143,627	251,143	420,160	448,299

The average credit terms of Takaful receivables granted to related parties and non-related parties are 12 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.

There is no significant Takaful receivables of the Group and of the Company with its related parties as at the end of the reporting period.

27 Additional Information (continued)

Material Impairment of Assets

Measurement of Expected Credit Loss ("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.

Measurement of ECL (continued)

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.

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 recognised in profit or loss is not significant to the Group.

SYARIKAT TAKAFUL MALAYSIA KELUARGA BERHAD

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

28 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.

29 Derivatives

The Group and Company did not enter into any derivatives for the financial year ended 31 March 2023.

30 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 financial period ended 31 March 2023.

31 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 financial period ended 31 March 2023, the Company has a capital adequacy ratio in excess of the minimum requirement.

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

	As at 31.3.2023 RM'000	**As at 31.12.2022 RM'000**
Tier 1 capital	2,577,717	2,476,578
Tier 2 capital	19,803	(36,923)
Deductions	(494,993)	(322,607)
Total capital available	2,102,527	2,117,048

By Order of the Board

SUHLA AL ASRI
Company Secretary
SSM Practicing Certificate No. 201908002158
MAICSA 7025570

Kuala Lumpur, 31 May 2023