SYARIKAT TAKAFUL MALAYSIA KELUARGA BERHAD
(formerly known as Syarikat Takaful Malaysia Berhad)

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS QUARTER ENDED 30 JUNE 2018

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 30 June 2018. 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 2017. 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 2017.

1 Basis of Preparation (continued)

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 2017, except for the adoption of the following:

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018

- MFRS 9, Financial Instruments (2014)
- MFRS 15, Revenue from Contracts with Customers
- Clarifications to MFRS 15, Revenue from Contracts with Customers
- Amendments to MFRS 2, Share-based Payment - Classification and Measurement of Share-based Payment Transactions
- Amendments to MFRS 4, Insurance Contracts - Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts
- Amendments to MFRS 1, First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2014 – 2016 Cycle)
- Amendments to MFRS 128, Investments in Associates and Joint Ventures (Annual Improvements 2014 – 2016 Cycle)
- Amendments to MFRS 140, Investment Property - Transfers of Investment Property
- IC Interpretation 22 Foreign Currency Transactions and Advance Consideration

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 as disclosed below:

MFRS 9, *Financial Instruments*

MFRS 9, *Financial Instruments* sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces MFRS 139 *Financial Instruments: Recognition and Measurement*.

(i) Classification of financial assets under MFRS 9

MFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

MFRS 9 contains three principal classification categories for financial assets: measured at amortised cost (“AC”), Fair Value through Other Comprehensive Income (“FVOCI”) and Fair Value through Profit or Loss (“FVTPL”). The classification of financial assets under MFRS 9 is generally based on the business model in which a financial assets is managed and its contractual cash flow characteristics. The standard eliminates the previous MFRS 139 categories of held-to-maturity (“HTM”), loans and receivables (“LAR”) and available for sale (“AFS”).

SYARIKAT TAKAFUL MALAYSIA KELUARGA BERHAD
(formerly known as Syarikat Takaful Malaysia Berhad)

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
QUARTER ENDED 30 JUNE 2018

1 Basis of Preparation (continued)

MFRS 9, *Financial Instruments (continued)*

(i) Classification of financial assets under MFRS 9 (continued)

Based on its assessment, the financial assets held by the Group as at 1 January 2018 are reclassified to the following classifications:

Financial assets		Original classification under MFRS 139	New classification under MFRS 9	Original carrying amount under MFRS 139 RM'000	New carrying amount under MFRS 9 RM'000
Takaful Operator					
Investment in:					
- Equity securities	(a)	AFS	FVTPL	19,491	19,491
- Equity securities	(b)	FVTPL	FVTPL	1,225	1,225
- Unit trusts	(c)	AFS	FVTPL	20,390	20,390
- Institutional Trust Account	(d)	AFS	FVOCI	37,032	36,912
- Islamic debts securities	(d)	AFS	FVOCI	427,031	427,031
- Islamic debts securities	(e)	AFS	FVTPL	19,323	19,323
- Islamic debts securities	(b)	FVTPL	FVTPL	4,255	4,255
- Islamic debts securities	(f)	HTM	FVTPL	10,034	10,703
- Investment-linked funds	(c)	AFS	FVTPL	38,696	38,696
Loans and receivables, excluding Takaful receivables		LAR	AC	285,043	285,043
Structured deposits classified as loan and receivables	(h)	LAR	FVTPL	54,000	53,131
Cash and cash equivalents		LAR	AC	205,265	205,265
				1,121,785	1,121,465

1 Basis of Preparation (continued)

MFRS 9, *Financial Instruments (continued)*

(i) Classification of financial assets under MFRS 9 (continued)

Financial assets		**Original classification under MFRS 139**	**New classification under MFRS 9**	**Original carrying amount under MFRS 139 RM'000**	**New carrying amount under MFRS 9 RM'000**
Family Takaful					
Investment in:					
- Equity securities	(a)	AFS	FVTPL	157,863	157,863
- Equity securities	(b)	FVTPL	FVTPL	131,278	131,278
- Unit trusts	(c)	AFS	FVTPL	153,629	153,629
- Unit trusts	(b)	FVTPL	FVTPL	996	996
- Institutional Trust Account	(d)	AFS	FVOCI	179,706	179,124
- Islamic debts securities	(d)	AFS	FVOCI	2,322,504	2,322,504
- Islamic debts securities	(e)	AFS	FVTPL	161,594	161,594
- Islamic debts securities	(b)	FVTPL	FVTPL	87,035	87,035
- Islamic debts securities	(f)	HTM	FVOCI	369,205	372,150
- Islamic debts securities	(g)	HTM	FVTPL	72,291	75,676
- Malaysian Government Islamic Papers	(e)	AFS	FVOCI	218,952	218,952
- Malaysian Government Islamic Papers	(f)	HTM	FVOCI	54,994	55,518
Retakaful assets		LAR	AC	211,459	211,459
Loans and receivables, excluding Takaful receivables	(i)	LAR	AC	650,584	649,992
Structured deposits classified as loan and receivables	(h)	LAR	FVTPL	277,000	270,057
Takaful receivables	(i)	LAR	AC	77,441	75,749
Cash and cash equivalents	(i)	LAR	AC	594,175	594,175
				5,720,706	5,717,715

SYARIKAT TAKAFUL MALAYSIA KELUARGA BERHAD
(formerly known as Syarikat Takaful Malaysia Berhad)

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
QUARTER ENDED 30 JUNE 2018

1 Basis of Preparation (continued)

MFRS 9, *Financial Instruments (continued)*

(i) Classification of financial assets under MFRS 9 (continued)

Financial assets		**Original classification under MFRS 139**	**New classification under MFRS 9**	**Original carrying amount under MFRS 139 RM'000**	**New carrying amount under MFRS 9 RM'000**
General Takaful					
Investment in:					
- Equity securities	(a)	AFS	FVTPL	13,694	13,694
- Unit trusts	(c)	AFS	FVTPL	10,064	10,064
- Institutional Trust Account	(d)	AFS	FVOCI	34,313	34,202
- Islamic debts securities	(d)	AFS	FVOCI	320,014	320,014
- Islamic debts securities	(e)	AFS	FVTPL	24,744	24,744
- Islamic debts securities	(f)	HTM	FVOCI	5,000	5,000
- Malaysian Government Islamic Papers	(f)	HTM	FVOCI	5,000	5,047
Retakaful assets	(i)	LAR	AC	294,137	294,137
Loans and receivables, excluding Takaful receivables	(i)	LAR	AC	87,839	87,839
Structured deposits classified as loan and receivables	(h)	LAR	FVTPL	29,000	28,134
Takaful receivables	(i)	LAR	AC	94,676	94,676
Cash and cash equivalents	(i)	LAR	AC	121,740	121,740
				1,040,221	1,042,676

1 Basis of Preparation (continued)

MFRS 9, *Financial Instruments (continued)*

(i) Classification of financial assets under MFRS 9 (continued)

Financial assets		**Original classification under MFRS 139**	**New classification under MFRS 9**	**Original carrying amount under MFRS 139 RM'000**	**New carrying amount under MFRS 9 RM'000**
Group					
Investment in:					
- Equity securities	(a)	AFS	FVTPL	191,048	191,048
- Equity securities	(b)	FVTPL	FVTPL	132,503	132,503
- Unit trusts	(c)	AFS	FVTPL	184,083	184,083
- Unit trusts	(b)	FVTPL	FVTPL	996	996
- Institutional Trust Account	(d)	AFS	FVOCI	251,051	250,238
- Islamic debts securities	(d)	AFS	FVOCI	3,069,549	3,069,549
- Islamic debts securities	(e)	AFS	FVTPL	205,661	205,661
- Islamic debts securities	(b)	FVTPL	FVTPL	91,290	91,290
- Islamic debts securities	(f)	HTM	FVOCI	374,205	377,150
- Islamic debts securities	(g)	HTM	FVTPL	82,325	89,764
- Malaysian Government Islamic Papers	(d)	AFS	FVOCI	218,952	218,952
- Malaysian Government Islamic Papers	(f)	HTM	FVOCI	59,994	60,565
Retakaful assets	(i)	LAR	AC	505,596	505,596
Loans and receivables, excluding Takaful receivables	(i)	LAR	AC	953,705	953,113
Structured deposits classified as loan and receivables	(h)	LAR	FVTPL	360,000	351,322
Takaful receivables	(i)	LAR	AC	172,117	170,425
Cash and cash equivalents	(i)	LAR	AC	921,180	921,180
				7,774,255	7,773,435

1 Basis of Preparation (continued)

MFRS 9, *Financial Instruments (continued)*

(i) Classification of financial assets under MFRS 9 (continued)

The initial application of MFRS 9 resulted in the reclassifications set out in the table above and explained below.

(a) Investment in equity securities categorised as AFS under MFRS 139 are managed on fair value basis. These assets have been classified as mandatorily measured at FVTPL under MFRS 9;

(b) Financial assets held for trading are continued to be measured at financial assets at FVTPL under MFRS 9;

(c) Investment in unit trust and investment-linked funds categorised as AFS under MFRS 139 are managed on fair value basis. The Group has designated these instruments at the date of initial application as measured at FVTPL;

(d) Institutional Trust Account, Islamic debt securities and Malaysian Government Islamic papers categorised as AFS under MFRS 139 are held by the Group to provide profit income, but may be withdrawn or sold to meet liquidity requirements arising in the normal course of business. The Group considers that these debt securities are held within a business model whose objective is achieved both by collecting contractual cash flows and by selling securities. These assets have therefore been classified as financial assets at FVOCI under MFRS 9.

(e) Islamic debt securities categorised as AFS under MFRS 139 that failed to meet the "solely payments of principal and interest" (SPPI) requirement under MFRS 9 are classified as FVTPL;

(f) Investments in debt securities and Malaysian Government Islamic papers classified as held to maturity under MFRS 139 are classified as FVOCI under MFRS 9;

(g) Debt securities classified as held to maturity under MFRS 139 are classified as FVTPL under MFRS 9;

(h) Structured deposits classified as loans and receivables under MFRS 139 failed to meet the SPPI requirements under MFRS 9. As a result, these instruments were classified as FVTPL from the date of initial application; and

(i) Takaful receivables, retakaful receivables, financing receivables, fixed and call deposits and other receivables classified as loans and receivables under MFRS 139 are now classified as financial asset measured at amortised cost under MFRS 9.

1 Basis of Preparation (continued)

MFRS 9, *Financial Instruments (continued)*

(ii) Impairment of financial assets

MFRS 9 replaces the incurred loss model in MFRS 139 with an expected credit loss ("ECL") model. This requires considerable judgement about how changes in economic factors affect ECLs which will be determined on a probability-weighted basis.

The new impairment model applies to financial assets measured at AC and FVOCI, but not to investments in equity instruments.

Under MFRS 9, loss allowances will be measured on either of the following bases:
- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The calculation of ECL required the modelling of three parameters that define:
- Exposure at Default ("EAD"): The Group's gross credit exposure to the counterparty at the time of default;
- Probability of Default ("PD"): The likelihood of the counterparty defaulting on its contractual obligation to the Group; and
- Loss Given Default ("LGD"): 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.

The Group has elected to measure the impairment losses for takaful receivables and other receivables at an amount equal to lifetime ECL.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held).

1 Basis of Preparation (continued)

MFRS 9, *Financial Instruments (continued)*

(ii) Impairment of financial assets (continued)

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk. ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Group assesses whether financial assets carried at amortised cost and Islamic debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. For Islamic debt securities at FVOCI, the loss allowance is recognised in OCI, instead of reducing the carrying amount of the asset.

The following table summarised the effect of the application of MFRS 9's impairment requirements at 1 January 2018.

	Takaful Operator RM'000	Family Takaful RM'000	General Takaful RM'000	Group RM'000
Loss allowance at 31 December 2017 under MFRS 139	555	4,761	2,711	8,027
Additional impairment recognised at 1 January 2018 on:				
- Institutional Trust Account	120	582	111	813
- Islamic debt securities	534	2,884	679	4,097
- Fixed and call deposits	-	65	-	65
- Other receivables	-	527	-	527
- Takaful receivables	-	1,692	-	1,692
Loss allowance at 1 January 2018 under MFRS 9	1,209	10,511	3,501	15,221

1 Basis of Preparation (continued)

MFRS 9, *Financial Instruments (continued)*

(iii) Classification of financial liabilities

MFRS 9 largely retains the existing requirements in MFRS 139 for the classification of financial liabilities.

However, under MFRS 139 all fair value changes of liabilities designated as FVTPL are recognised in profit or loss, whereas under MFRS 9 these fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

The Group has not designated any financial liabilities at FVTPL and it has no current intention to do so. The Group's assessment did not indicate any material impact regarding the classification of financial liabilities at 1 January 2018.

(iv) Transition upon the adoption of MFRS 9

Changes in accounting policies resulting from the adoption of MFRS 9 will generally be applied retrospectively, except as described below:

(a) The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of MFRS 9 will generally be recognised in retained earnings and reserves as at 1 January 2018.

(b) The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

The following table summarises the impact, net of tax, of transition of MFRS 9 on the Group's equity at 1 January 2018.

	Group RM'000
Fair value reserves	
Reclassification of fair value gain from financial assets designated at FVTPL under MFRS 9	(10,837)
Recognition of credit impairment loses under MFRS 9 for Islamic debt securities at FVOCI	534
Related tax	2,600
Impact at 1 January 2018	(7,703)

1 Basis of Preparation (continued)

MFRS 9, *Financial Instruments (continued)*

(vi) Transition upon the adoption of MFRS 9 (continued)

	Group RM'000
Retained profit	
Reclassification of fair value gain from financial assets designated at FVTPL under MFRS 9	10,837
Recognition of fair value loss from financial assets designated at FVTPL under MFRS 9	(369)
Recognition of credit impairment loses under MFRS 9	(654)
Adjustment of the deficits transferred from Takaful funds arising from the initial application of MFRS 9	(5,030)
Related tax	(1,210)
Impact at 1 January 2018	3,574
Non-controlling interest	
Recognition of fair value loss from financial assets designated at FVTPL under MFRS 9	169
Impact at 1 January 2018	169

2 Auditors' Report

The auditors' report on the audited financial statements of the preceding year ended 31 December 2017 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 30 June 2018.

5 Estimates

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

6 Debt and Equity Securities

On 2 April 2018, the Company allotted and issued 1,072,500 new ordinary shares of RM0.20 each pursuant to the Long-Term Incentive Plan ("LTIP").

Other than the above, 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 18 December 2017 declared an interim single tier dividend of 15.00 sen per ordinary share in respect of the financial year ended 31 December 2017 which was paid on 19 January 2018.

No dividend was declared for the current quarter under review.

8 Segmental Reporting

Geographical Segments

	Malaysia RM'000	Indonesia RM'000	Consolidated RM'000
3 months ended 30 June 2018			
Revenue from external participants	1,222,326	66,281	1,288,607
Profit/(loss) before zakat and taxation	147,075	(698)	146,377
As at 30 June 2018			
Segment assets by location of assets	7,865,440	478,361	8,343,801
Segment liabilities by location of liabilities	6,980,495	415,074	7,395,569
3 months ended 30 June 2017			
Revenue from external participants	1,067,451	77,728	1,145,179
Profit before zakat and taxation	131,743	(125)	131,618
As at 31 June 2017			
Segment assets by location of assets	7,393,398	575,138	7,968,536
Segment liabilities by location of liabilities	6,616,341	503,077	7,119,418

SYARIKAT TAKAFUL MALAYSIA KELUARGA BERHAD
(formerly known as Syarikat Takaful Malaysia Berhad)

<u>NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS</u>
<u>QUARTER ENDED 30 JUNE 2018</u>

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 2017.

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 2017.

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			6 months ended		
	30.6.2018 RM'000	30.6.2017 RM'000	Changes %	30.6.2018 RM'000	30.6.2017 RM'000	Changes %
Operating revenue	542,433	485,338	12%	1,288,607	1,145,179	13%
Gross earned contributions	510,498	447,405	14%	1,016,773	917,903	11%
Profit before zakat and tax	61,436	59,053	4%	146,377	131,618	11%
Profit after zakat and tax	49,959	44,364	13%	119,717	101,191	18%
Profit attributable to owners of the Company	50,420	45,070	12%	120,396	101,824	18%

14 Review of Performance (continued)

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

Operating revenue

The Group recorded operating revenue of RM1,288.6 million for the financial period ended 30 June 2018, an increase of 13% or RM143.4 million as compared to the same period last year. The increase was mainly attributable to higher sales generated by both Family Takaful and General Takaful business.

Profit before zakat and tax

For the 6 months period ended 30 June 2018, the Group recorded profit before zakat and taxation of RM146.4 million, increased by 11% as compared to RM131.6 million in the same period last year. The improvement in profit was mainly attributable to higher net Wakalah fee income arising from our business growth in the Family and General Takaful business, partially offset by fair value losses.

Family Takaful

Family Takaful business generated gross earned contributions of RM674.2 million for the 6 months period ended 30 June 2018, increased by 5%, as compared to RM645.0 million in the corresponding period last year. The increase is mainly attributable to higher sales from credit-related products.

The net benefits and claims for Family Takaful business increased by 3% to RM380.4 million in the 6 months period ended 30 June 2018 from RM370.7 million in the same period of the preceding year. This was mainly due to higher surrender and medical claims.

Investment income for the Family Takaful business increased by 2% to RM121.4 million as compared to RM119.1 million in the corresponding period last year, mainly due to higher profit from Islamic debts securities.

For the 6 months period ended 30 June 2018, Family Takaful recorded fair value losses of RM53.2 million, increased by RM51.6 million as compared to the same period last year. The higher losses were mainly due to the equity market performance.

General Takaful

General Takaful business generated gross earned contributions of RM342.7 million for the 6 months period ended 30 June 2018, increased by 26% as compared to RM272.8 million in the corresponding period last year. The growth was mainly from fire and motor classes.

The net benefits and claims for General Takaful business increased by 40% to RM110.5 million in the 6 months period ended 30 June 2018 from RM79.1 million in the same period of the preceding year, mainly due to increase in claims relating to fire and motor classes.

14 Review of Performance (continued)

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

General Takaful (continued)

The investment income for the 6 months period ended 30 June 2018 was RM13.7 million, decreased by 8%, as compared to the investment income in the same period of the preceding year of RM15.0 million, mainly due to lower profit from Islamic debts securities and dividend income.

For the 6 months period ended 30 June 2018, General Takaful recorded fair value losses of RM2.6 million, increased by RM2.6 million as compared to the same period last year. The higher losses were mainly due to the equity market performance.

14.2 Financial results of the current quarter against preceding year corresponding quarter

Operating revenue

For the second quarter ended 30 June 2018, the Group generated Operating Revenue of RM542.4 million as compared to RM485.3 million in the corresponding quarter of the preceding year. The increase was mainly attributable to higher sales generated by Family and General Takaful business, partially offset by fair value losses.

Profit before zakat and tax

For the quarter under review, the Group recorded profit before zakat and taxation of RM61.4 million, increased by 4% as compared to RM59.1 million in the same period last year. The increase in profit was mainly attributable to increase in net wakalah fee income.

Family Takaful

For the quarter under review, Family Takaful business recorded gross earned contributions of RM350.2 million as compared to RM317.9 million in the same period last year. The increase is mainly attributable to higher sales from credit-related products.

For the quarter under review, Family Takaful business recorded net benefits and claims of RM169.8 million, a decrease of 5% as compared to the corresponding quarter of preceding year. The decrease was mainly due to lower surrender and medical claims.

Investment income for the Family Takaful business for the current year quarter of RM61.7 million, almost at par as compared to RM62.3 million in the corresponding quarter last year.

For the current quarter under review, Family Takaful recorded fair value losses of RM50.8 million, increased by RM48.2 million as compared to same period last year. The higher losses were mainly due to the equity market performance.

14 Review of Performance (continued)

14.2 Financial results of the current quarter against preceding year corresponding quarter (continued)

General Takaful

For the quarter under review, General Takaful business generated gross earned contributions of RM160.3 million, increased by 24%, as compared to RM129.4 million in the corresponding quarter of preceding year. The growth was mainly from fire and motor classes.

General Takaful business recorded net benefits and claims of RM59.5 million for the quarter under review, an increase of 69% as compared to the corresponding quarter of preceding year. The increase was mainly due to increase in claims relating to fire and motor classes.

Investment income for the General Takaful business of RM6.9 million as compared to RM7.5 million in the corresponding quarter of preceding year, mainly due to lower profit from Islamic debts securities and dividend income.

For the current quarter under review, General Takaful recorded fair value losses of RM2.4 million, increased by RM2.4 million as compared to same period last year. The higher losses were mainly due to the equity market performance.

14.3 Indonesian Operations

The operating revenue of Indonesian operations decreased by 11% to RM66.3 million from RM77.7 million in the same period of the preceding year whilst, the gross earned contribution decreased by 17% to RM58.4.3 million compared to RM69.5.4 million in the same period of preceding year.

The Indonesian operations recorded loss before zakat and tax of RM0.7 million as at 30 June 2018 as compared to loss before zakat and tax of RM0.1 million in the same period of preceding year. The lower result was mainly due to higher expense reserves. 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 30 June 2018, total assets increased by RM149.2 million to RM8,343.8 million as compared to RM8,194.6 million as at 31 December 2017, mainly attributable to the increase in investment in equity and sukuk.

Total liabilities increased by RM34.4 million to RM7,395.6 million as compared to RM7,361.1 million as at 31 December 2017, mainly attributable to the increase in takaful contract liabilities by RM160.0 million, offset by payment of interim dividends of RM123.5 million. The increase in takaful contract liabilities from RM6,709.5 million as at 31 December 2017 to RM6,869.5 million as at 30 June 2018 was in line with the Company’s business growth.

14 Review of Performance (continued)

14.3 Review of Statements of Financial Position (continued)

Shareholders' equity increased by RM114.8 million to RM948.2 million as at 30 June 2018. This is mainly attributed to the increase in distributable retained earnings of RM120.4 million, partially offset by the net change in fair value of debt investment at FVOCI.

14.4 Review of Statements of Cash flows

For the second quarter ended 30 June 2018, the Group's cash flow position is healthy with strong operating cash flow. The ratio of cash flow from operating activities to profit for the period was185.3%, which indicates the Group's ability to generate sufficient cash flow to meet its obligation.

15 Financial review for current quarter compared with immediate preceding quarter

	Current Quarter 30.6.2018 RM'000	Immediate Preceding Quarter 31.3.2018 RM'000	Changes %
Operating revenue	542,433	746,174	-27%
Gross earned contributions	510,498	506,275	1%
Profit before tax	61,436	84,941	-28%
Profit after tax	49,959	69,758	-28%
Profit attributable to owners of the Company	50,420	69,976	-28%

Operating revenue

For the quarter under review, the Group generated Operating Revenue of RM542.4 million as compared to RM746.2 million in the immediate preceding quarter. The decrease is mainly attributable to lower sales generated from Family Takaful and General Takaful business.

Profit before zakat and tax

For the quarter under review, the Group recorded profit before zakat and taxation of RM61.4 million, lower by 28% as compared to the immediate preceding quarter of RM84.9 million. The decrease in profit was mainly attributable to lower net wakalah fee income.

Family Takaful

For the quarter under review, Family Takaful business recorded gross earned contributions of RM350.2 million, increased by 8%, as compared to RM324.0 million in the immediate preceding quarter. The increase was mainly attributable to higher sales from credit-related products.

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

Family Takaful (continued)

For the quarter under review, Family Takaful business recorded net benefits and claims of RM170.0 million, decreased by 19% as compared to the immediate preceding quarter. The increase was mainly due to lower surrender and medical claims.

Investment income for the Family Takaful business was RM61.7 million, increased by 3% as compared to RM59.7 million in the immediate preceding quarter. The increase was mainly attributable to higher profit from Islamic debts securities.

For the current quarter under review, Family Takaful recorded fair value losses of RM50.8 million, increased by RM48.5 million as compared to immediate preceding quarter. The higher losses were mainly due to the equity market performance.

General Takaful

For the quarter under review, General Takaful business generated gross earned contributions of RM160.3 million, decreased by 12%, as compared to RM182.4 million in the immediate preceding quarter. The decrease was mainly attributable to fire and commercial classes.

For the quarter under review, General Takaful business recorded net benefits and claims of RM59.5 million, an increase of 16% as compared to the immediate preceding quarter. The increase was mainly due to increase in claims relating to fire and motor classes.

Investment income for the General Takaful business of RM6.8 million for the quarter under review is at par with the investment income in the immediate preceding quarter.

For the current quarter under review, General Takaful recorded fair value losses of RM2.4 million, increased by RM2.3 million as compared to immediate preceding quarter. The higher losses were mainly due to the equity market performance.

16 Current Year Prospects

Takaful Malaysia in 2018 will remain focused on sustaining its position as the market leader in the Family Takaful business whilst expanding its market share in the General Takaful business to establish a strong foothold in the industry. The Company will continue to enhance its digital capability to increase its product and service accessibility to the consumers by intensifying its online marketing initiatives. The Company will also embark on multiple digital initiatives to further develop ‘customer centric’ value propositions to remain competitive in the industry. The Company will carry out its key initiatives, including an active management strategy as well as prudent investment and underwriting activities to deliver sustainable results for its shareholders and promote financial security to its customers. Takaful Malaysia will continue to emphasize the four core areas of customer reach, operational agility, cost competitiveness and stakeholder confidence to firmly establish the Company as the preferred choice for insurance amongst the consumers.

17 Variance of Actual Profit from Profit Forecast or Profit Guarantee

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

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		Cumulative 6 months ended	
	30.6.2018 RM'000	30.6.2017 RM'000	30.6.2018 RM'000	30.6.2017 RM'000
Current tax expense:				
- Current financial period	11,599	10,271	29,799	24,836
- Under provision in prior year	-	2,641	-	2,641
Deferred tax benefits:				
- Current financial period	(339)	1,635	(3,534)	2,593
Total tax expense	11,260	14,547	26,265	30,070

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

19 Status of Corporate Proposal

The Company announced to Bursa Securities on 10 August 2017 the conversion of composite licence to single licences for the Company's family takaful business and general takaful business ("Proposed Reorganisation") pursuant to the requirements of Sections 16(1) and 286 of the Islamic Financial Services Act, 2013. The Proposed Reorganisation is expected to be completed by the second quarter of 2018.

19 Status of Corporate Proposal (continued)

Subsequently, the Company had on the following dates announced to Bursa Securities with regards to the Proposed Reorganisation:

- On 12 September 2017, the Company had incorporated a wholly-owned subsidiary under the Companies Act 2016 by the name of Syarikat Takaful Malaysia Am Berhad ("STMAB").
- On 25 January 2018, the Company had entered into a business transfer agreement with STMAB in relation to the transfer of STMB's general takaful business as a going concern to STMAB to be undertaken by way of a scheme of transfer ("Scheme of Transfer") for the Proposed Reorganisation.
- On 20 March 2018, the Company had submitted an application to the High Court of Malaya for the confirmation of the Scheme of Transfer.
- On 26 April 2018, the Company had received the sealed Court Order which was granted by the High Court of Malaya on 16 April 2018, confirming the Scheme of Transfer which shall take effect on 1 June 2018.
- On 1 June 2018, the Company had been notified by BNM via its letter dated 28 May 2018 that BNM has completed its review for the operational readiness of the Company and STMAB, and has no objection for the Company and STMAB to commence its family takaful business and general takaful business with effect from 1 June 2018. In addition, BNM via the same letter has also advised the Company that the licensed certificates for the family takaful and general takaful businesses respectively will be delivered by BNM in due course. Pursuant to the Court Order granted by the High Court of Malaya on 16 April 2018, the Scheme of Transfer and vesting of the general takaful business in STMAB takes effect on 1 June 2018.
- On 1 June 2018, the Company changed its name to STMKB.

Therefore, the Proposed Reorganisation is deemed completed on 1 June 2018.

Subsequently, BNM vide letter dated 3 July 2018 issued the licensed certificates dated 29 June 2018 for the family takaful and general takaful businesses of STMKB and STMAB respectively, effective 1 June 2018.

Other than the above, 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 30 June 2018.

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		Cumulative 6 months ended	
		30.6.2018	**30.6.2017**	**30.6.2018**	**30.6.2017**
Owners of the Company	(RM'000)	50,420	45,070	120,396	101,824
Weighted average number of ordinary shares in issue	('000)	824,172	823,026	823,405	822,002
Basic EPS	(sen)	6.12	5.48	14.62	12.39

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		Cumulative 6 months ended	
		30.6.2018	**30.6.2017**	**30.6.2018**	**30.6.2017**
Owners of the Company	(RM'000)	50,420	45,070	120,396	101,824
Weighted average number of ordinary shares in issue	('000)	824,172	823,026	823,405	822,002
Effects of dilution	('000)	2,069	3,031	2,069	3,031
Diluted weighted average number of ordinary shares in issue	('000)	826,241	826,057	825,474	825,033
Diluted EPS	(sen)	6.10	5.46	14.59	12.34

SYARIKAT TAKAFUL MALAYSIA KELUARGA BERHAD
(formerly known as Syarikat Takaful Malaysia Berhad)

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
QUARTER ENDED 30 JUNE 2018

23 Takaful Contract Liabilities

The takaful contract liabilities consist of the following:

	30 June 2018			31 December 2017		
	Gross RM'000	Retakaful RM'000	Net RM'000	Gross RM'000	Retakaful RM'000	Net RM'000
Family Takaful Fund						
Provision for claims reported by participants	24,289	(3,919)	20,370	28,171	(4,664)	23,507
Provision for IBNR	121,758	(32,397)	89,361	119,775	(27,311)	92,464
Provision for outstanding claims	146,047	(36,316)	109,731	147,946	(31,975)	115,971
Actuarial liabilities	4,808,627	(163,063)	4,645,564	4,755,894	(179,484)	4,576,410
Unallocated surplus	776,548	-	776,548	813,001	-	813,001
Fair value reserves	(29,865)	-	(29,865)	-	-	-
AFS reserves	-	-	-	(25,006)	-	(25,006)
Translation reserves	-	-	-	(1,565)	-	(1,565)
Net asset value attributable to unitholders	220,378	-	220,378	121,072	-	121,072
Participants' fund	5,775,688	(163,063)	5,612,625	5,663,396	(179,484)	5,483,912
	5,921,735	(199,379)	5,722,356	5,811,342	(211,459)	5,599,883

SYARIKAT TAKAFUL MALAYSIA KELUARGA BERHAD
(formerly known as Syarikat Takaful Malaysia Berhad)

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
QUARTER ENDED 30 JUNE 2018

23 Takaful Contract Liabilities (continued)

	30 June 2018			31 December 2017		
	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	222,552	(134,195)	88,357	224,950	(139,243)	85,707
Provision for IBNR	240,224	(126,190)	114,034	172,238	(83,586)	88,652
Provision for outstanding claims	462,776	(260,385)	202,391	397,188	(222,829)	174,359
Provision for unearned contributions	366,723	(74,986)	291,737	341,975	(71,308)	270,667
	829,499	(335,371)	494,128	739,163	(294,137)	445,026
Unallocated surplus	159,939	-	159,939	200,165	-	200,165
Fair value reserves	(3,943)	-	(3,943)	-	-	-
AFS reserves	-	-	-	(2,462)	-	(2,462)
Participants' fund	155,996	-	155,996	197,703	-	197,703
	985,495	(335,371)	650,124	936,866	(294,137)	642,729

SYARIKAT TAKAFUL MALAYSIA KELUARGA BERHAD
(formerly known as Syarikat Takaful Malaysia Berhad)

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
QUARTER ENDED 30 JUNE 2018

23 Takaful Contract Liabilities (continued)

	30 June 2018			31 December 2017		
	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	246,841	(138,114)	108,727	253,121	(143,907)	109,214
Provision for IBNR	361,982	(158,587)	203,395	292,013	(110,897)	181,116
Provision for outstanding claims	608,823	(296,701)	312,122	545,134	(254,804)	290,330
Provision for unearned contributions	366,723	(74,986)	291,737	341,975	(71,308)	270,667
	975,546	(371,687)	603,859	887,109	(326,112)	560,997
Actuarial liabilities	4,808,627	(163,063)	4,645,564	4,755,894	(179,484)	4,576,410
Unallocated surplus	936,487	-	936,487	1,013,166	-	1,013,166
Fair value reserves	(33,808)	-	(33,808)	-	-	-
AFS reserves	-	-	-	(27,468)	-	(27,468)
Translation reserves	-	-	-	(1,565)	-	(1,565)
Net asset value attributable to unitholders	182,681	-	182,681	82,376	-	82,376
Participants' fund	5,893,987	(163,063)	5,730,924	5,822,403	(179,484)	5,642,919
	6,869,533	(534,750)	6,334,783	6,709,512	(505,596)	6,203,916

SYARIKAT TAKAFUL MALAYSIA KELUARGA BERHAD
(formerly known as Syarikat Takaful Malaysia Berhad)

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
QUARTER ENDED 30 JUNE 2018

23 Takaful Contract Liabilities (continued)

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

	Family Takaful Fund			General Takaful Fund			Group		
	Gross	Retakaful	Net	Gross	Retakaful	Net	Gross	Retakaful	Net
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2017	5,336,810	(144,096)	5,192,714	237,739	-	237,739	5,537,533	(144,096)	5,393,437
Net earned contributions	1,264,496	(56,178)	1,208,318	312,846	-	312,846	1,577,342	(56,178)	1,521,164
Investment income	241,969	-	241,969	29,334	-	29,334	271,303	-	271,303
Realised gains and (losses)	19,165	-	19,165	2,247	-	2,247	21,412	-	21,412
Fair value gains and (losses)	(2,328)	-	(2,328)	630	-	630	(1,698)	-	(1,698)
Other operating income	2,345	-	2,345	165	-	165	2,510	-	2,510
Net benefits and claims	(736,539)	64,009	(672,530)	(145,965)	-	(145,965)	(882,504)	64,009	(818,495)
Fees deducted (net)	(360,637)	-	(360,637)	(188,598)	-	(188,598)	(549,235)	-	(549,235)
Other operating expenses	(10,667)	-	(10,667)	(5,043)	-	(5,043)	(15,710)	-	(15,710)
Profit paid to participants	(8,451)	-	(8,451)	(20,998)	-	(20,998)	(29,449)	-	(29,449)
Excess payment transferred to participants	926	-	926	-	-	-	926	-	926
Increase in actuarial liabilities	18,878	(37,319)	(18,441)	-	-	-	18,878	(37,319)	(18,441)
Profit attributable to the Takaful Operator	(55,907)	(7,831)	(63,738)	(17,254)	-	(17,254)	(74,841)	(7,831)	(82,672)
Change in AFS reserve	23,667	-	23,667	3,549		3,549	27,216	-	27,216
Withholding tax	(22,779)	-	(22,779)	(3,145)	-	(3,145)	(25,924)	-	(25,924)
Disposal of a subsidiary	-	-	-	(6,737)	-	(6,737)	(6,737)		(6,737)
Effect of movement in exchange rates	(47,552)	1,931	(45,621)	(1,067)	-	(1,067)	(48,619)	1,931	(46,688)
At 31 December 2017	5,663,396	(179,484)	5,483,912	197,703	-	197,703	5,822,403	(179,484)	5,642,919

SYARIKAT TAKAFUL MALAYSIA KELUARGA BERHAD
(formerly known as Syarikat Takaful Malaysia Berhad)

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
QUARTER ENDED 30 JUNE 2018

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 31 December 2017, as previously stated	5,663,396	(179,484)	5,483,912	197,703	-	197,703	5,822,403	(179,484)	5,642,919
Adjustment on initial application of MFRS 9	(16,113)	-	(16,113)	(1,490)	-	(1,490)	(17,603)	-	(17,603)
Adjusted balances at 1 January 2018	5,647,283	(179,484)	5,467,799	196,213	-	196,213	5,804,800	(179,484)	5,625,316
Net earned contributions	674,188	(30,544)	643,644	217,978	-	217,978	892,166	(30,544)	861,622
Investment income	121,434	-	121,434	13,728	-	13,728	135,162	-	135,162
Realised gains and (losses)	1,870	-	1,870	47	-	47	1,917	-	1,917
Fair value gains and (losses)	(53,163)	-	(53,163)	(2,634)	-	(2,634)	(55,797)	-	(55,797)
Other operating income	1,216	-	1,216	460	-	460	1,676	-	1,676
Net benefits and claims	(414,034)	33,606	(380,428)	(110,542)	-	(110,542)	(524,576)	33,606	(490,970)
Fees deducted (net)	(224,149)	-	(224,149)	(139,772)	-	(139,772)	(363,921)	-	(363,921)
Other operating expenses	(1,440)	-	(1,440)	(193)	-	(193)	(1,633)	-	(1,633)
Profit paid to participants	(1,438)	-	(1,438)	(13,359)	-	(13,359)	(14,797)	-	(14,797)
Increase in actuarial liabilities	77,961	15,138	93,099	-	-	-	77,961	15,138	93,099
Profit attributable to the Takaful Operator	(20,037)	(3,061)	(23,098)	(4,815)	-	(4,815)	(23,853)	(3,061)	(26,914)
Net change in fair value on debts investment at FVOCI	(354)	-	(354)	9	-	9	(345)	-	(345)
Withholding tax	(6,798)	-	(6,798)	(1,124)	-	(1,124)	(7,922)	-	(7,922)
Effect of movement in exchange rates	(26,851)	1,282	(25,569)	-	-	-	(26,851)	1,282	(25,569)
At 31 December 2018	5,775,688	(163,063)	5,612,625	155,996	-	155,996	5,893,987	(163,063)	5,730,924

SYARIKAT TAKAFUL MALAYSIA KELUARGA BERHAD
(formerly known as Syarikat Takaful Malaysia Berhad)

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
QUARTER ENDED 30 JUNE 2018

24 Takaful Operator Income

The takaful operator income consists of the following:

	3 months ended		Cumulative 6 months ended	
	30.6.2018	30.6.2017	30.6.2018	30.6.2017
	RM'000	RM'000	RM'000	RM'000
Surplus transfer from:				
Family Takaful Fund	7,905	14,902	23,098	30,403
General Takaful Fund	1,612	4,388	4,815	9,269
Wakalah fee income	174,605	144,868	397,216	331,128
Total Takaful Operator income	184,122	164,158	425,129	370,800

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	
	30.6.2018	30.6.2017	30.6.2018	30.6.2017	30.6.2018	30.6.2017	30.6.2018	30.6.2017
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Rental income	204	203	1,819	2,085	6	163	741	1,040
Dividend income	16	749	2,441	5,670	148	444	2,605	6,863
Profit income	10,944	9,033	59,589	56,598	7,066	7,252	77,599	72,883
Accretion / (Amortisation)	(225)	(257)	(1,640)	(1,442)	(339)	(300)	(2,204)	(1,999)
Investment expenses	(10)	(19)	(478)	(562)	(3)	(16)	(467)	(533)
	10,929	9,709	61,731	62,349	6,878	7,543	78,274	78,254

SYARIKAT TAKAFUL MALAYSIA KELUARGA BERHAD
(formerly known as Syarikat Takaful Malaysia Berhad)

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
QUARTER ENDED 30 JUNE 2018

25 Investment Income (continued)

The investment income consists of the following (continued):

	Takaful Operator 6 months ended		Family Takaful Fund 6 months ended		General Takaful Fund 6 months ended		Group 6 months ended	
	30.6.2018	30.6.2017	30.6.2018	30.6.2017	30.6.2018	30.6.2017	30.6.2018	30.6.2017
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Rental income	403	394	3,773	4,364	177	380	1,770	2,303
Dividend income	385	927	4,700	6,992	201	622	5,286	8,541
Profit income	20,777	17,227	116,907	111,549	14,008	14,567	151,692	143,343
Accretion / (Amortisation)	(442)	(541)	(2,990)	(2,850)	(644)	(597)	(4,076)	(3,988)
Investment expenses	(29)	(23)	(956)	(943)	(14)	(20)	(976)	(711)
	21,094	17,984	121,434	119,112	13,728	14,952	153,696	149,488

SYARIKAT TAKAFUL MALAYSIA KELUARGA BERHAD
(formerly known as Syarikat Takaful Malaysia Berhad)

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
QUARTER ENDED 30 JUNE 2018

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	
	30.6.2018 RM'000	30.6.2017 RM'000	30.6.2018 RM'000	30.6.2017 RM'000	30.6.2018 RM'000	30.6.2017 RM'000	30.6.2018 RM'000	30.6.2017 RM'000
Service charged and management fee	2,432	2,374	-	-	-	-	-	-
Writeback of allowance for impaired financing	2	2	-	-	-	-	2	2
Writeback of allowance for impaired debts	-	-	-	1,742	279	215	279	1,957
Writeback of credit Impairment losses	-	-	118	-	-	-	118	-
Gain from foreign exchange	-	-	-	-	-	8	-	8
Gain on disposal of assets	-	19	-	-	-	-	-	19
Other income	425	224	13	12	168	219	464	458
	2,859	2,619	131	1,754	447	442	863	2,444

SYARIKAT TAKAFUL MALAYSIA KELUARGA BERHAD
(formerly known as Syarikat Takaful Malaysia Berhad)

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
QUARTER ENDED 30 JUNE 2018

26 Other Operating Income (continued)

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

	Takaful Operator 6 months ended		Family Takaful Fund 6 months ended		General Takaful Fund 6 months ended		Group 6 months ended	
	30.6.2018 RM'000	30.6.2017 RM'000	30.6.2018 RM'000	30.6.2017 RM'000	30.6.2018 RM'000	30.6.2017 RM'000	30.6.2018 RM'000	30.6.2017 RM'000
Service charged and management fee	5,699	5,006	-	-	-	-	-	-
Writeback of allowance for impaired financing	2	19	-	-	-	-	2	19
Writeback of allowance for impaired debts	-	-	1,169	116	164	1,555	1,333	1,671
Writeback of credit Impairment losses	-	-	197	-	-	-	197	-
Gain on disposal of assets	2	49	-	-	-	-	2	49
Gain from foreign exchange	-	-	-	-	-	8	-	8
Other income	528	466	47	65	296	311	870	846
	6,231	5,540	1,413	181	460	1,874	2,404	2,593

SYARIKAT TAKAFUL MALAYSIA KELUARGA BERHAD
(formerly known as Syarikat Takaful Malaysia Berhad)

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
QUARTER ENDED 30 JUNE 2018

27 Other Operating Expenses

The other operating expenses consist of the following:

	Takaful Operator 3 months ended		Family Takaful Fund 3 months ended		General Takaful Fund 3 months ended		Group 3 months ended	
	30.6.2018 RM'000	30.6.2017 RM'000	30.6.2018 RM'000	30.6.2017 RM'000	30.6.2018 RM'000	30.6.2017 RM'000	30.6.2018 RM'000	30.6.2017 RM'000
Depreciation	(2,886)	(3,311)	-	-	-	-	(4,606)	(5,481)
Impairment losses	(27)	(72)	-	(639)	(21)	(545)	(48)	(1,256)
Administration fees	(37,367)	(35,430)	-	-	-	-	(37,367)	(35,430)
Agency related expenses	(3,500)	(2,832)	-	-	-	-	(3,500)	(2,832)
Allowance for impaired debts	-	-	(478)	-	-	-	(478)	-
Debts written off	-	-	-	(206)	-	-	-	(206)
Loss from foreign exchange	-	-	-	-	(7)	-	(7)	-
Loss on disposal of assets	(6)	-	-	-	-	-	(6)	-
Other expenses	-	(59)	(741)	(833)	(157)	(164)	(96)	(373)
	(43,786)	(41,704)	(1,219)	(1,678)	(185)	(709)	(46,108)	(45,578)

SYARIKAT TAKAFUL MALAYSIA KELUARGA BERHAD
(formerly known as Syarikat Takaful Malaysia Berhad)

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
QUARTER ENDED 30 JUNE 2018

27 Other Operating Expenses

The other operating expenses consist of the following:

	Takaful Operator 6 months ended		Family Takaful Fund 6 months ended		General Takaful Fund 6 months ended		Group 6 months ended	
	30.6.2018 RM'000	30.6.2017 RM'000	30.6.2018 RM'000	30.6.2017 RM'000	30.6.2018 RM'000	30.6.2017 RM'000	30.6.2018 RM'000	30.6.2017 RM'000
Depreciation	(5,908)	(5,563)	-	-	-	-	(9,355)	(8,823)
Impairment losses	(24)	(92)	-	(660)	(21)	(563)	(45)	(1,315)
Administration fees	(86,334)	(75,007)	-	-	-	-	(86,334)	(75,007)
Agency related expenses	(7,824)	(4,625)	-	-	-	-	(7,824)	(4,625)
Debts written off	-	-	(280)	(650)	-	-	(280)	(650)
Loss from foreign exchange	-	-	-	-	(9)	-	(9)	-
Other expenses	(331)	(357)	(1,357)	(2,223)	(163)	(200)	(430)	(1,504)
	(100,421)	(85,644)	(1,637)	(3,533)	(193)	(763)	(104,277)	(91,924)

SYARIKAT TAKAFUL MALAYSIA KELUARGA BERHAD
(formerly known as Syarikat Takaful Malaysia Berhad)

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
QUARTER ENDED 30 JUNE 2018

28 Fair Value Information

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

30 June 2018	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
Takaful Operator										
Financial assets										
Equity securities	25,872	-	-	25,872	-	-	-	-	25,872	25,872
Unit trusts	7,878	6,582	-	14,460	-	-	-	-	14,460	14,460
Institutional Trust Account	-	-	52,929	52,929	-	-	-	-	52,929	52,929
Islamic debt securities	100,161	309,212	-	409,373	-	-	-	-	409,373	409,373
Structured deposits	52,915	-	-	52,915	-	-	-	-	52,915	52,915
Investment in linked funds	37,697	-	-	37,697	-	-	-	-	37,697	37,697
	224,523	315,794	52,929	593,246	-	-	-	-	593,246	593,246
Family Takaful										
Financial assets										
Equity securities	350,973	-	-	350,973	-	-	-	-	350,973	350,973
Unit trusts	89,361	31,273	-	120,634	-	-	-	-	120,634	120,634
Institutional Trust Account	-	-	212,550	212,550	-	-	-	-	212,550	212,550
Islamic debt securities	121,987	2,932,960	-	3,054,947	-	-	-	-	3,054,947	3,054,947
Malaysian Government Islamic papers	-	248,167	-	268,821	-	-	-	-	268,821	268,821
Structured deposits	268,821	-	-	248,167	-	-	-	-	248,167	248,167
	831,142	3,212,400	212,550	4,256,092	-	-	-	-	4,256,092	4,256,092

SYARIKAT TAKAFUL MALAYSIA KELUARGA BERHAD
(formerly known as Syarikat Takaful Malaysia Berhad)

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
QUARTER ENDED 30 JUNE 2018

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					
30 June 2018	**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**	**Total fair value RM'000**	**Carrying amount RM'000**
General Takaful										
Equity securities	17,281	-	-	17,281	-	-	-	-	17,281	17,281
Unit trusts	5,404	-	-	5,404	-	-	-	-	5,404	5,404
Institutional Trust Account	-	-	41,079	41,079	-	-	-	-	41,079	41,079
Islamic debt securities	-	347,763	-	347,763	-	-	-	-	347,763	347,763
Malaysian Government Islamic papers	-	10,049	-	10,049	-	-	-	-	10,049	10,049
Structured deposits	27,759	-	-	27,759	-	-	-	-	27,759	27,759
	50,444	357,812	41,079	449,335	-	-	-	-	449,335	449,335
Group										
Financial assets										
Equity securities	394,126	-	-	394,126	-	-	-	-	394,126	394,126
Unit trusts	102,643	37,855	-	140,498	-	-	-	-	140,498	140,498
Institutional Trust Account	-	-	306,558	306,558	-	-	-	-	306,558	306,558
Islamic debt securities	222,148	3,589,935	-	3,812,083	-	-	-	-	3,812,083	3,812,083
Malaysian Government Islamic papers	-	258,216	-	258,216	-	-	-	-	258,216	258,216
Structured deposits	349,495	-	-	349,495	-	-	-	-	349,495	349,495
	1,068,412	3,886,006	306,558	5,260,976	-	-	-	-	5,260,976	5,260,976

28 Fair Value Information (continued)

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

31 December 2017	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
Takaful Operator										
Financial assets										
Equity securities	20,336	-	-	20,336	-	-	-	-	20,336	20,336
Unit trusts	12,873	7,517	-	20,390	-	-	-	-	20,390	20,390
Institutional Trust Account	-	-	37,032	37,032	-	-	-	-	37,032	37,032
Islamic debt securities	4,255	446,354	-	450,609	10,703	-	-	10,703	461,312	460,643
Investment in linked funds	38,696	-	-	38,696	-	-	-	-	38,696	38,696
	76,160	453,871	37,032	567,063	10,703	-	-	10,703	577,766	577,097
Family Takaful										
Financial assets										
Equity securities	289,141	-	-	289,141	-	-	-	-	289,141	289,141
Unit trusts	125,865	28,760	-	154,625	-	-	-	-	154,625	154,625
Institutional Trust Account	-	-	179,706	179,706	-	-	-	-	179,706	179,706
Islamic debt securities	55,745	2,515,388	-	2,571,133	75,676	372,150	-	447,826	3,018,959	3,012,629
Malaysian Government Islamic papers	-	218,952	-	218,952	-	55,518	-	55,518	274,470	273,946
	470,751	2,763,100	179,706	3,413,557	75,676	427,668	-	503,344	3,916,901	3,910,047

28 Fair Value Information (continued)

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

31 December 2017	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										
Equity securities	13,694	-	-	13,694	-	-	-	-	13,694	13,694
Unit trusts	10,064	-	-	10,064	-	-	-	-	10,064	10,064
Institutional Trust Account	-	-	34,313	34,313	-	-	-	-	34,313	34,313
Islamic debt securities	-	344,758	-	344,758	-	5,000	-	5,000	349,758	349,758
Malaysian Government Islamic papers	-	-	-	-	-	5,047	-	5,047	5,047	5,000
	23,758	344,758	34,313	402,829	-	10,047	-	10,047	412,876	412,829
Group										
Financial assets										
Equity securities	323,171	-	-	323,171	-	-	-	-	323,171	323,171
Unit trusts	148,802	36,277	-	185,079	-	-	-	-	185,079	185,079
Institutional Trust Account	-	-	251,051	251,051	-	-	-	-	251,051	251,051
Islamic debt securities	60,000	3,306,500	-	3,366,500	86,379	377,150	-	463,529	3,830,029	3,823,030
Malaysian Government Islamic papers	-	218,952	-	218,952	-	60,565	-	60,565	279,517	278,946
	531,973	3,561,729	251,051	4,344,753	86,379	437,715	-	524,094	4,868,847	4,861,277

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.

28 Fair Value Information (continued)

Level 3 fair value

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

	Takaful Operator RM'000	Family Takaful RM'000	General Takaful RM'000	Group RM'000
Available-for-sale financial assets				
At 1 January 2017	22,529	108,830	28,753	160,112
Purchases	13,000	83,272	5,267	101,539
Maturities	-	(20,272)	(1,267)	(21,539)
Gains and losses recognised in profit or loss				
Investment income - realised	1,503	7,876	1,560	10,939
At 31 December 2017, as previously stated	37,032	179,706	34,313	251,051
Adjustment on initial application of MFRS 9 (net of tax)	(120)	(582)	(111)	(813)
Adjusted balances at 1 January 2018	36,912	179,124	34,202	250,238
Purchases	15,000	27,000	6,000	48,000
Gains and losses recognised in profit or loss				
Investment income - realised	1,068	6,529	898	8,495
Credit impairment losses	(51)	(103)	(21)	(175)
At 30 June 2018	52,929	212,550	41,079	306,558

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	
	30.6.2018 RM'000	31.12.2017 RM'000	30.6.2018 RM'000	31.12.2017 RM'000	30.6.2018 RM'000	31.12.2017 RM'000
Days past due						
Current (not past due)	155,023	72,439	43,107	91,392	198,130	163,831
1-30 days	1	1,521	169	1,687	170	3,208
31-60 days	51	165	587	544	638	709
61-90 days	366	81	175	492	541	573
91-180 days	1,489	2,845	1,554	2,850	3,043	5,695
> 180 days	2,084	1,835	5,124	3,554	7,208	5,389
	159,014	78,886	50,716	100,519	209,730	179,405

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**	
	30.6.2018 RM'000	**31.12.2017 RM'000**	**30.6.2018 RM'000**	**31.12.2017 RM'000**	**30.6.2018 RM'000**	**31.12.2017 RM'000**
Bank Islam Malaysia berhad	158	135	238	825	396	960

During the period, with the implementation of the MFRS 9, the Group has elected to measure the impairment losses for takaful receivables at an amount equal to lifetime ECL. The ECL were calculated based on actual credit loss experience over the past five years. The Group considers the model and some of the assumptions used in calculating these ECL as key sources of estimation uncertainty. The Group performed the calculation of ECL rates separately for Family Takaful's customers and General Takaful's customers. Exposure within each group were segmented based on common credit risk characteristics such as type of products and payment frequency.

In previous year, under MFRS 139, the Group and the Company assess impairment on an individual and collective basis. The Group and the Company will assess on a case by case basis, whether there is any objective evidence that the outstanding due is impaired for contribution due and claims recovery that are considered individually significant. The criteria that the Group and the Company use to determine whether there is objective evidence of impairment for those selected for individual assessment include:

(i) contribution due or claims recovery past-due for 6 months or more and where outstanding receivables is above 2% of total takaful receivables and RM200,000 for Family and General takaful receivables respectively;
(ii) significant financial difficulty of customer / intermediaries;
(iii) long outstanding balances where these are disputed and not resolved; and
(iv) breach of contract, such as default or delinquency in payments.

The Group and the Company record impairment allowance for loans and receivables and takaful receivables in separate "Allowance for Impairment" accounts. Unless the Group and the Company are satisfied that recovery of the amount is possible, the amount considered irrecoverable is written off against the receivables directly. There were no material provisions and write-off of trade receivables during the period.

Before takaful receivables are deemed uncollectible, consistent follow-up action such as requesting for payments including reminders will be sent to the relevant debtors. Where the amount due exceeds the internal threshold, a Letter of Demand will be imposed on the debtors.

29 Additional Information (continued)

Material Impairment of Assets

At 1 January 2018, the Group adopted MFRS 9. MFRS 9 replaces the “incurred loss” model in MFRS 139 with an “expected credit loss” (ECL) model. The new impairment model applies to financial assets measured at AC, debt investments at FVOCI, but not to investments in equity instruments.

Under MFRS 9, loss allowances will be measured on either of the following bases:
- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Group measures impairment losses at an amount equal to lifetime ECL, except for the following, which are measured as 12-month ECL:
- debt securities that are determined to have low credit risk at the reporting date; and
- other debts securities for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group’s historical experience and informed credit assessment and including forward-looking information.

The Group considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk. ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is recognised in OCI, instead of reducing the carrying amount of the asset.

The impairment losses recognized in profit or loss under MFRS 9 is not significant to the Group.

29 Additional Information (continued)

Material Impairment of Assets (continued)

In previous year, all financial assets (except for financial assets categorised as fair value through profit or loss and investments in subsidiaries) are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset under MFRS 139.

Under MFRS 139, impairment losses for equity securities are estimated and recognised in profit or loss if there is a significant or prolonged decline in the fair value below its cost. Impairment losses for Islamic debts securities classified as available-for-sale financial assets is recognised in profit or loss and is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and the asset's current fair value, less any impairment loss previously recognised.

The impairment losses recognized in profit or loss under MFRS 139 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 for the financial period ended 30 June 2018.

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 period ended 30 June 2018.

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.

33 Regulatory capital requirements (continued)

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

	As at 30.6.2018 RM'000	As at 31.12.2017 RM'000
Tier 1 capital	1,640,180	1,319,241
Tier 2 capital	(6,913)	5,628
Deductions	(223,927)	(126,712)
Total capital available	1,409,340	1,198,157

By Order of the Board

MOHAMAD ASRI BIN YUSOFF
Company Secretary (MIA 14171)
Kuala Lumpur, 27 July 2018