

SYARIKAT TAKAFUL MALAYSIA BERHAD

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

QUARTER ENDED 30 SEPTEMBER 2014

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, 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, and the Group’s interest in an associate as at and for the quarter ended 30 September 2014. It also includes Takaful funds established in accordance with Islamic Financial Services Act, 2013 in Malaysia, which are managed and controlled by the Group and by the Company as operator of the fund.

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

The unaudited interim financial statements should be read in conjunction with the audited annual financial statements of the Group for the financial year ended 31 December 2013. 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 2013.

2 Auditors’ Report

The auditors’ report on the audited financial statements of the preceding year ended 31 December 2013 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 September 2014.

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5 Estimates

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

6 Debt and Equity Securities

On 19 August 2014, the Company allotted and issued 189,500 new ordinary shares of RM1.00 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 shareholders at the Annual General Meeting held on 22 April 2014 approved a final dividend of 40% single tier in respect of the financial year ended 31 December 2013 as proposed by the Directors. The final dividend was paid on 8 May 2014.

The Directors on 1 October 2014 declared an interim dividend of 40% single tier in respect of the financial year ending 31 December 2014 which was paid on 4 November 2014.

8 Segmental Reporting

Geographical Segments

	Malaysia RM'000	Indonesia RM'000	Consolidated RM'000
9 months ended 30 September 2014			
Revenue from external participants	1,136,482	114,671	1,251,153
Profit before zakat and taxation	138,520	3,944	142,464
As at 30 September 2014			
Segment assets by location of assets	6,767,116	422,507	7,189,622
9 months ended 30 September 2013			
Revenue from external participants	1,200,127	134,375	1,334,502
Profit before zakat and taxation	123,942	1,619	125,561
As at 30 September 2013			
Segment assets by location of assets	6,345,810	405,823	6,751,633

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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 2013.

10 Material Events Subsequent to the End of the Period

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

11 Financial Risk Management

The Group's financial risk management objectives and policies are consistent with those disclosed in the financial statement as at and for the year ended 31 December 2013.

12 Effect of Changes in Composition of the Company / Group

There is no change in the composition of the Group for the current financial quarter under review.

13 Contingent Liabilities

The Group subsidiary in Indonesia, PT Asuransi Takaful Keluarga, was served with additional tax assessment for year of assessment 2007 amounting to approximately RM5.2 million (Rp19.5 billion) on 30 December 2013. The additional assessment raised by the Indonesia tax office is mainly due to the disallowance of unit linked contribution reserves and increase in value of unit linked investments as tax deduction.

Similar tax assessments have been raised by the Indonesia tax authority to other conventional life insurers and takaful companies. As such, Indonesian Life Insurance Association (AAJI) is involved in representing the industry to address the issue specifically pertaining to unit linked contribution reserve to be allowed for tax deduction with the tax authority.

The management of the subsidiary and AAJI is of the view that they have justifiable ground to object to the additional tax assessment. Hence no tax provision has been made. The management has submitted an objection letter to the tax office on February 4, 2014.

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14 Review of Performance

For the 3rd quarter ended 30 September 2014, the Group generated Operating Revenue of RM1,251.2 million compared to RM1,334.5 million in the corresponding quarter of the preceding year. The decrease is mainly attributable to lower sales generated by Family Takaful Group Credit product and partly offset by the increase in sales of Group Medical and Group Term products. For the quarter under review, the Operating Revenue increased by 4.6% to RM394.3 million from RM377.0 million in the same period of the preceding year, mainly attributable to higher gross sales generated by Group Employee Benefits and Mortgage products and higher net investment income.

For the 9 months period, General Takaful recorded gross earned contributions of RM338.0 million as compared to RM323.1 million in the corresponding period last year. For the quarter under review, General Takaful generated gross earned contributions of RM115.8 million as compared to RM108.0 million in the corresponding quarter of preceding year. The growth was mainly from Fire and Motor class of business.

For the 9 months period, Family Takaful generated gross earned contributions of RM711.2 million as compared to RM852.9 million in the corresponding period last year. For the quarter under review, Family Takaful recorded gross earned contributions of RM225.2 million against RM253.2 million for the same period last year. Despite Family Takaful recorded higher gross contributions generated by Group Medical and Group Term product, the gross earned contributions was lower as compared to the same quarter last year, mainly attributable to the decrease in unearned contribution reserves.

The surplus transfer in the quarter under review from Family Takaful was RM17.5 million as compared to RM17.8 million in the same period last year. For the 9 months period, the surplus transfer from Family Takaful decreased by RM18.3 million to RM66.9 million as compared to the same period last year. The lower surplus transfer from Family Takaful is mainly due to the shift to wakalah model products.

For the quarter under review, the surplus transfer from General Takaful was RM10.5 million as compared to RM11.4 million in the same period last year. For the 9 months period, General Takaful recorded RM38.7 million as compared to RM32.3 million last year. The General Takaful reported higher surplus transfer mainly due to lower claims incurred.

For the quarter under review, the Group recorded profit before zakat and taxation of RM42.2 million, decreased by 1.4% as compared to RM42.8 million in the same period last year. For the 9 months period, the Group recorded profit before zakat and taxation of RM142.5 million, increased by 13.5% as compared to RM125.6 million in the same period last year. The higher profit is attributable to lower management expenses and expense reserves and better investment income.

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

The profit before zakat and taxation registered RM42.2 million which was lower than the preceding quarter of RM55.6 million by RM10.9 million mainly due to lower surplus transfer from Family and General Takaful.

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16 Current Year Prospects

Takaful Malaysia will continue its value proposition of rewarding its customers with 15% Cash Back and establish a strong foothold in the local insurance and takaful arena as the preferred choice for insurance. Through its extensive range of products and services the company continues to be the market leader in the Group Family Takaful business. The successful implementation of core initiatives in Operational Excellence, Technology Driven Capabilities, Product Innovation and Performance Oriented Culture will enable the Company to be ahead of its competitors, increase its overall market shares and continuously improving on shareholder's value.

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 quarter mainly due to non taxable income in accordance with the Income Tax Act 1967.

	3 months ended		Cumulative 9 months ended	
	30.9.2014	30.9.2013	30.9.2014	30.9.2013
	RM'000	RM'000	RM'000	RM'000
Current tax expense:				
- Current financial period	14,694	16,744	40,646	44,679
- Over provision in prior year	(5,547)	(6,321)	(5,547)	(6,321)
Deferred tax benefits:				
- Current financial period	(1,988)	1,191	(6,071)	(6,795)
Total tax expense	<u>7,159</u>	<u>11,614</u>	<u>29,028</u>	<u>31,563</u>

The Section 60AA of the Income Tax Act 1967 (ITA) does not provide deduction on commission expense incurred by Shareholders' Fund (also known as Takaful Operator).

Based on the recent amendment of Section 60AA of the Income Tax Act 1967 (ITA) pursuant to Finance Act 2014 (Act 761) gazette on 23 January 2014, a tax deduction is only allow on commission expenses incurred by Shareholders' Fund in connection with General Business. The deductibility of commission payment relating to family business was not provided in the Finance Act 2014.

The Malaysian Takaful Association has presented the issue on non-deductibility of commission expenses incurred by Shareholders' Fund in connection with Family business to Ministry of Finance (MOF) on 16 January 2014. The MOF noted the disparity of tax treatment on the said commission expenses between takaful and conventional insurance and is currently assessing/studying the matter to determine the appropriate tax treatment for the said commission expenses.

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18 Taxation (continued)

Based on the opinion of the Company's tax agent, the Directors are of the view that the Group and the Company has reasonable ground to claim the deduction of the said commission expenses. Accordingly, the Group and the Company continues to deduct the said commission expenses in estimating the provision for income tax.

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 30 September 2014.

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 9 months ended	
		30.9.2014	30.9.2013	30.9.2014	30.9.2013
Owners of the Company	(RM'000)	33,257	31,577	110,773	97,515
Weighted average number of ordinary shares in issue	('000)	162,887	162,817	162,841	162,817
Basic EPS	(sen)	20.42	19.39	68.03	59.89

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22 Earnings per Share (continued)

Diluted earnings per share (“Diluted EPS”)

The calculation of diluted earnings per ordinary share at 30 September 2014 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 9 months ended	
		30.9.2014	30.9.2013	30.9.2014	30.9.2013
Owners of the Company	(RM'000)	33,257	31,577	110,773	97,515
Weighted average number of ordinary shares in issue	('000)	162,887	162,817	162,841	162,817
Effects of dilution	('000)	688	-	688	-
Diluted weighted average number of ordinary shares in issue	('000)	163,575	162,817	163,529	162,817
Diluted EPS	(sen)	20.34	19.39	67.74	59.89

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23 Takaful Contract Liabilities

The takaful contract liabilities consist of the following:

	30 September 2014			31 December 2013		
	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	38,687	(2,929)	35,758	40,150	(2,278)	37,872
Provision for IBNR	178,321	(37,091)	141,230	155,657	(32,845)	122,812
Provision for outstanding claims	217,008	(40,020)	176,988	195,807	(35,123)	160,684
Actuarial liabilities	4,014,644	(196,482)	3,818,162	3,708,819	(148,340)	3,560,479
Unallocated surplus	690,492	-	690,492	699,984	-	699,984
AFS reserves	(67,118)	-	(67,118)	(2,177)	-	(2,177)
Translation reserves	1,374	-	1,374	1,238	-	1,238
Net asset value attributable to unitholders	165,739	-	165,739	147,059	-	147,059
Participants' fund	4,805,131	(196,482)	4,608,649	4,554,923	(148,340)	4,406,583
	5,022,139	(236,502)	4,785,637	4,750,730	(183,463)	4,567,267

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23 Takaful Contract Liabilities (continued)

	30 September 2014			31 December 2013		
	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	418,960	(294,340)	124,620	433,215	(291,300)	141,915
Provision for IBNR	242,238	(85,336)	156,902	232,252	(80,970)	151,282
Provision for outstanding claims	661,198	(379,676)	281,522	665,467	(372,270)	293,197
Provision for unearned contributions	283,640	(60,318)	223,322	296,425	(80,200)	216,225
	944,838	(439,994)	504,844	961,892	(452,470)	509,422
Unallocated surplus	208,593	-	208,593	215,677	-	215,677
AFS reserves	(7,413)	-	(7,413)	3,556	-	3,556
Translation reserves	(151)	-	(151)	(109)	-	(109)
Participants' fund	201,029	-	201,029	219,124	-	219,124
	1,145,867	(439,994)	705,873	1,181,016	(452,470)	728,546

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23 Takaful Contract Liabilities (continued)

	30 September 2014			31 December 2013		
	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	457,647	(297,269)	160,378	473,365	(293,578)	179,787
Provision for IBNR	420,559	(122,427)	298,132	387,909	(113,815)	274,094
Provision for outstanding claims	878,206	(419,696)	458,510	861,274	(407,393)	453,881
Provision for unearned contributions	283,640	(60,318)	223,322	296,425	(80,200)	216,225
	<u>1,161,846</u>	<u>(480,014)</u>	<u>681,832</u>	<u>1,157,699</u>	<u>(487,593)</u>	<u>670,106</u>
Actuarial liabilities	4,014,644	(196,482)	3,818,162	3,708,819	(148,340)	3,560,479
Unallocated surplus	899,085	-	899,085	915,661	-	915,661
AFS reserves	(74,531)	-	(74,531)	1,379	-	1,379
Translation reserves	1,223	-	1,223	1,129	-	1,129
Net asset value attributable to unitholders	127,731	-	127,731	108,964	-	108,964
Participants' fund	<u>4,968,152</u>	<u>(196,482)</u>	<u>4,771,670</u>	<u>4,735,952</u>	<u>(148,340)</u>	<u>4,587,612</u>
	<u>6,129,998</u>	<u>(676,496)</u>	<u>5,453,502</u>	<u>5,893,651</u>	<u>(635,933)</u>	<u>5,257,718</u>

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23 Takaful Contract Liabilities (continued)

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

	Family Takaful Fund			General Takaful Fund			Group		
	Gross RM'000	Retakaful RM'000	Net RM'000	Gross RM'000	Retakaful RM'000	Net RM'000	Gross RM'000	Retakaful RM'000	Net RM'000
At 1 January 2013	4,254,771	(63,856)	4,190,915	220,795	-	220,795	4,434,586	(63,856)	4,370,730
Net earned contributions	1,098,994	(51,952)	1,047,042	292,023	-	292,023	1,391,017	(51,952)	1,339,065
Investment income	181,023	-	181,023	30,877	-	30,877	211,900	-	211,900
Realised gains and (losses)	117,092	-	117,092	15,844	-	15,844	132,936	-	132,936
Fair value gains and (losses)	9,025	-	9,025	596	-	596	9,621	-	9,621
Other operating income	1,133	-	1,133	1,798	-	1,798	2,931	-	2,931
Net benefits and claims	(654,446)	63,696	(590,750)	(134,498)	-	(134,498)	(782,178)	63,696	(718,482)
Fees deducted (net)	(245,834)	-	(245,834)	(116,324)	-	(116,324)	(362,158)	-	(362,158)
Other operating expenses	(8,796)	-	(8,796)	(2,985)	-	(2,985)	(11,781)	-	(11,781)
Profit paid to participants	(762)	-	(762)	(30,877)	-	(30,877)	(31,639)	-	(31,639)
Excess payment transferred to participants	7,067	-	7,067	-	-	-	7,067	-	7,067
Increase in actuarial liabilities	38,482	(85,501)	(47,019)	-	-	-	38,482	(85,501)	(47,019)
Profit attributable to the Takaful Operator	(92,464)	(11,745)	(104,209)	(49,447)	-	(49,447)	(145,792)	(11,745)	(157,537)
Change in AFS reserve	(99,503)	-	(99,503)	(6,908)	-	(6,909)	(106,411)	-	(106,411)
Withholding tax	(3,417)	-	(3,417)	(613)	-	(612)	(4,030)	-	(4,030)
Effect of movement in exchange rates	(47,442)	1,018	(46,424)	(1,157)	-	(1,157)	(48,599)	1,018	(47,581)
At 31 December 2013	4,554,923	(148,340)	4,406,583	219,124	-	219,124	4,735,952	(148,340)	4,587,612

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23 Takaful Contract Liabilities (continued)

	Family Takaful Fund			General Takaful Fund			Group		
	Gross RM'000	Retakaful RM'000	Net RM'000	Gross RM'000	Retakaful RM'000	Net RM'000	Gross RM'000	Retakaful RM'000	Net RM'000
At 1 January 2014	4,554,923	(148,340)	4,406,583	219,124	-	219,124	4,735,952	(148,340)	4,587,612
Net earned contributions	711,188	(53,344)	657,844	209,359	-	209,359	920,547	(53,344)	867,203
Investment income	140,663	-	140,663	21,124	-	21,124	161,787	-	161,787
Realised gains and (losses)	87,660	-	87,660	13,372	-	13,372	101,032	-	101,032
Fair value gains and (losses)	1,071	-	1,071	-	-	-	1,071	-	1,071
Other operating income	2,574	-	2,574	2,351	-	2,351	4,925	-	4,925
Net benefits and claims	(463,475)	40,990	(422,485)	(87,097)	-	(87,097)	(550,572)	40,990	(509,582)
Fees deducted (net)	(144,043)	-	(144,043)	(99,089)	-	(99,089)	(243,132)	-	(243,132)
Other operating expenses	(13,950)	-	(13,950)	(3,733)	-	(3,733)	(17,683)	-	(17,683)
Profit paid to participants	(377)	-	(377)	(24,000)	-	(24,000)	(24,377)	-	(24,377)
Reversal of excess payment transferred to participants	(1,071)	-	(1,071)	-	-	-	(1,071)	-	(1,071)
Increase in actuarial liabilities	84,995	(48,136)	36,859	-	-	-	84,995	(48,136)	36,859
Profit attributable to the Takaful Operator	(78,809)	12,353	(66,456)	(38,745)	-	(38,745)	(117,467)	12,353	(105,114)
Change in AFS reserve	(64,941)	-	(64,941)	(10,968)	-	(10,968)	(75,909)	-	(75,909)
Withholding tax	(10,655)	-	(10,655)	(628)	-	(628)	(11,283)	-	(11,283)
Effect of movement in exchange rates	(622)	(5)	(627)	(41)	-	(41)	(663)	(5)	(668)
At 30 September 2014	4,805,131	(196,482)	4,608,649	201,029	-	201,029	4,968,152	(196,482)	4,771,670

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24 Takaful Operator Income

The takaful operator income consists of the following:

	Takaful Operator			
	3 months ended		9 months ended	
	30.9.2014	30.9.2013	30.9.2014	30.9.2013
	RM'000	RM'000	RM'000	RM'000
Surplus transfer from:				
Family Takaful Fund	17,518	17,848	66,852	85,183
General Takaful Fund	10,515	11,364	38,688	32,254
Wakalah fee income	82,284	88,110	273,042	310,249
Total Takaful Operator income	<u>110,317</u>	<u>117,322</u>	<u>378,582</u>	<u>427,686</u>

25 Investment Income

The investment income consists of the following:

	Takaful Operator		Family Takaful Fund		General Takaful Fund		Group	
	3 months ended		3 months ended		3 months ended		3 months ended	
	30.9.2014	30.9.2013	30.9.2014	30.9.2013	30.9.2014	30.9.2013	30.9.2014	30.9.2013
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Rental income	187	192	1,831	1,553	145	216	753	550
Dividend income	1,655	1,902	10,191	7,454	1,272	1,806	13,118	11,162
Profit income	5,957	4,947	41,087	38,350	6,121	5,755	53,165	49,052
Accretion / (Amortisation)	(306)	(305)	(962)	(1,531)	(374)	(538)	(1,642)	(2,374)
Investment expenses	(26)	(27)	(319)	(598)	(55)	(74)	(400)	94
	<u>7,467</u>	<u>6,709</u>	<u>51,828</u>	<u>45,228</u>	<u>7,109</u>	<u>7,165</u>	<u>64,994</u>	<u>58,484</u>

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25 Investment Income (continued)

The investment income consists of the following (continued):

	Takaful Operator 9 months ended		Family Takaful Fund 9 months ended		General Takaful Fund 9 months ended		Group 9 months ended	
	30.9.2014 RM'000	30.9.2013 RM'000	30.9.2014 RM'000	30.9.2013 RM'000	30.9.2014 RM'000	30.9.2013 RM'000	30.9.2014 RM'000	30.9.2013 RM'000
Rental income	473	453	5,340	5,307	477	578	2,073	2,073
Dividend income	3,885	4,537	21,664	21,004	3,538	3,954	29,087	29,495
Profit income	17,267	12,967	117,312	112,642	18,367	20,144	152,946	145,753
Accretion / (Amortisation)	(888)	(797)	(2,691)	(4,605)	(1,089)	(1,639)	(4,668)	(7,041)
Investment expenses	(202)	(235)	(962)	(2,118)	(169)	(174)	(1,333)	279
	<u>20,535</u>	<u>16,925</u>	<u>140,663</u>	<u>132,230</u>	<u>21,124</u>	<u>22,863</u>	<u>178,105</u>	<u>170,559</u>

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26 Other Operating Income

The other operating income consists of the following:

	Takaful Operator 3 months ended		Family Takaful Fund 3 months ended		General Takaful Fund 3 months ended		Group 3 months ended	
	30.9.2014 RM'000	30.9.2013 RM'000	30.9.2014 RM'000	30.9.2013 RM'000	30.9.2014 RM'000	30.9.2013 RM'000	30.9.2014 RM'000	30.9.2013 RM'000
Service charged and management fee	1,892	3,065	-	-	-	-	401	1
Gain on foreign exchange	-	-	-	-	4	76	-	76
Writeback of allowance for impaired debts	-	-	116	-	177	-	293	-
Writeback of allowance for impaired financing	278	212	-	-	-	-	278	212
Gain on disposal of assets	25	250	-	-	-	-	25	250
Other income	621	-	146	-	-	-	767	-
	<u>2,816</u>	<u>3,527</u>	<u>262</u>	<u>-</u>	<u>181</u>	<u>76</u>	<u>1,764</u>	<u>539</u>

SYARIKAT TAKAFUL MALAYSIA BERHAD

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS QUARTER ENDED 30 SEPTEMBER 2014

26 Other Operating Income (continued)

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

	Takaful Operator 9 months ended		Family Takaful Fund 9 months ended		General Takaful Fund 9 months ended		Group 9 months ended	
	30.9.2014 RM'000	30.9.2013 RM'000	30.9.2014 RM'000	30.9.2013 RM'000	30.9.2014 RM'000	30.9.2013 RM'000	30.9.2014 RM'000	30.9.2013 RM'000
Service charged and management fee	5,132	9,177	-	-	-	-	1,197	55
Gain on foreign exchange	-	-	-	-	6	21	6	21
Writeback of allowance for impaired debts	-	-	1,752	-	2,345	124	4,097	124
Writeback of allowance for impaired financing	231	212	-	-	-	-	231	212
Gain on disposal of assets	53	398	-	-	-	-	53	398
Other income	2,605	293	822	14	-	391	3,427	698
	<u>8,021</u>	<u>10,080</u>	<u>2,574</u>	<u>14</u>	<u>2,351</u>	<u>536</u>	<u>9,011</u>	<u>1,508</u>

SYARIKAT TAKAFUL MALAYSIA BERHAD

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS QUARTER ENDED 30 SEPTEMBER 2014

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	
	30.9.2014 RM'000	30.9.2013 RM'000	30.9.2014 RM'000	30.9.2013 RM'000	30.9.2014 RM'000	30.9.2013 RM'000	30.9.2014 RM'000	30.9.2013 RM'000
Depreciation	(1,767)	(1,770)	-	-	-	-	(2,840)	(2,791)
Impairment losses	(247)	-	(1,147)	(499)	(202)	-	(1,596)	(499)
Loss from foreign exchange	(1,026)	-	-	-	-	-	(1,022)	-
Commission expenses / Administration fees	(28,328)	(31,615)	-	(43)	17	(49)	(28,262)	(31,661)
Agency related expenses	(1,462)	(1,002)	-	-	-	-	(1,462)	(1,002)
Allowance for impaired debts	-	-	-	(290)	-	(17)	-	(307)
Other expenses	(1,506)	(1,288)	(1,253)	(1,053)	(867)	(542)	(2,533)	(2,691)
	<u>(34,336)</u>	<u>(35,675)</u>	<u>(2,400)</u>	<u>(1,885)</u>	<u>(1,052)</u>	<u>(608)</u>	<u>(37,715)</u>	<u>(38,951)</u>

SYARIKAT TAKAFUL MALAYSIA BERHAD

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS QUARTER ENDED 30 SEPTEMBER 2014

27 Other Operating Expenses (continued)

The other operating expenses consist of the following (continued):

	Takaful Operator 9 months ended		Family Takaful Fund 9 months ended		General Takaful Fund 9 months ended		Group 9 months ended	
	30.9.2014 RM'000	30.9.2013 RM'000	30.9.2014 RM'000	30.9.2013 RM'000	30.9.2014 RM'000	30.9.2013 RM'000	30.9.2014 RM'000	30.9.2013 RM'000
Depreciation	(5,424)	(7,029)	-	-	-	-	(8,657)	(10,095)
Impairment losses	(1,597)	(184)	(10,120)	(1,256)	(2,072)	(347)	(13,789)	(1,787)
Loss from foreign exchange	(1,026)	-	-	(2)	-	-	(1,026)	(2)
Commission expenses / Administration fees	(89,212)	(103,532)	-	(119)	(28)	(68)	(89,106)	(103,620)
Agency related expenses	(3,449)	(3,472)	-	-	-	-	(3,449)	(3,472)
Allowance for impaired debts	-	-	-	(391)	-	-	-	(391)
Other expenses	(1,835)	(11,430)	(3,830)	(3,963)	(1,661)	(995)	(5,229)	(4,960)
	<u>(102,543)</u>	<u>(125,647)</u>	<u>(13,950)</u>	<u>(5,731)</u>	<u>(3,761)</u>	<u>(1,410)</u>	<u>(121,256)</u>	<u>(124,327)</u>

SYARIKAT TAKAFUL MALAYSIA BERHAD

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS QUARTER ENDED 30 SEPTEMBER 2014

28 Fair Value Information

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

30 September 2014	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value RM'000	Carrying amount RM'000
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000		
Takaful Operator										
Financial assets										
Equity securities	109,993	-	-	109,993	-	-	-	-	109,993	109,993
Unit trusts	26,448	10,396	-	36,844	-	-	-	-	36,844	36,844
Institutional Trust Account	-	-	37,807	37,807	-	-	-	-	37,807	37,807
Islamic debt securities	3,602	233,844	-	237,446	1,799	-	-	1,799	239,245	239,411
Investment in linked funds	38,008	-	-	38,008	-	-	-	-	38,008	38,008
	178,051	244,240	37,807	450,098	1,799	-	-	1,799	461,897	462,063
Family Takaful										
Financial assets										
Equity securities	796,670	-	-	796,670	-	-	-	-	796,670	796,670
Unit trusts	148,657	49,581	-	198,238	-	-	-	-	198,238	198,238
Institutional Trust Account	-	-	105,289	105,289	-	-	-	-	105,289	105,289
Islamic debt securities	90,519	1,715,364	-	1,805,883	15,181	269,693	-	284,874	2,090,757	2,090,624
Malaysian Government Islamic papers	-	263,231	-	263,231	-	113,113	-	113,113	376,344	375,897
	1,035,846	2,028,176	105,289	3,169,311	15,181	382,806	-	397,987	3,567,298	3,566,718

SYARIKAT TAKAFUL MALAYSIA BERHAD

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
QUARTER ENDED 30 SEPTEMBER 2014

28 Fair Value Information (continued)

30 September 2014	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value RM'000	Carrying amount RM'000
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000		
General Takaful										
Equity securities	128,354	-	-	128,354	-	-	-	-	128,354	128,354
Unit trusts	23,470	-	-	23,470	-	-	-	-	23,470	23,470
Institutional Trust Account	-	-	29,322	29,322	-	-	-	-	29,322	29,322
Islamic debt securities	-	325,757	-	325,757	3,228	-	-	3,228	328,985	328,985
Malaysian Government Islamic papers	-	20,169	-	20,169	-	32,776	-	32,776	52,945	52,806
	151,824	345,926	29,322	527,072	3,228	32,776	-	36,004	563,076	562,937
Group										
Financial assets										
Equity securities	1,035,017	-	-	1,035,017	-	-	-	-	1,035,017	1,035,017
Unit trusts	198,575	59,977	-	258,552	-	-	-	-	258,552	258,552
Institutional Trust Account	-	-	172,418	172,418	-	-	-	-	172,418	172,418
Islamic debt securities	94,121	2,274,965	-	2,369,086	20,208	269,693	-	289,901	2,658,987	2,659,020
Malaysian Government Islamic papers	-	283,400	-	283,400	-	145,889	-	145,889	429,289	428,703
	1,327,713	2,618,342	172,418	4,118,473	20,208	415,582	-	435,790	4,554,263	4,553,710

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NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
QUARTER ENDED 30 SEPTEMBER 2014

28 Fair Value Information (continued)

31 December 2013	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value RM'000	Carrying amount RM'000
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000		
Takaful Operator										
Financial assets										
Equity securities	96,254	-	-	96,254	-	-	-	-	96,254	96,254
Unit trusts	23,303	5,712	-	29,015	-	-	-	-	29,015	29,015
Institutional Trust Account	-	-	64,268	64,268	-	-	-	-	64,268	64,268
Islamic debt securities	4,908	239,235	-	244,143	1,944	-	-	1,944	246,087	246,108
Investment in linked funds	38,095	-	-	38,095	-	-	-	-	38,095	38,095
Malaysian Government Islamic papers	-	10,013	-	10,013	-	-	-	-	10,013	10,013
	162,560	254,960	64,268	481,788	1,944	-	-	1,944	483,732	483,753
Family Takaful										
Financial assets										
Equity securities	782,773	-	-	782,773	-	-	-	-	782,773	782,773
Unit trusts	101,584	66,435	-	168,019	-	-	-	-	168,019	168,019
Institutional Trust Account	-	-	196,482	196,482	-	-	-	-	196,482	196,482
Islamic debt securities	72,989	1,671,979	-	1,744,968	5,338	246,841	-	252,179	1,997,147	1,998,992
Malaysian Government Islamic papers	-	383,832	-	383,832	-	112,851	-	112,851	496,683	496,549
	957,346	2,122,246	196,482	3,276,074	5,338	359,692	-	365,030	3,641,104	3,642,815

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NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
QUARTER ENDED 30 SEPTEMBER 2014

28 Fair Value Information (continued)

	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value RM'000	Carrying amount RM'000
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000		
31 December 2013										
General Takaful										
Equity securities	133,234	-	-	133,234	-	-	-	-	133,234	133,234
Unit trusts	22,554	-	-	22,554	-	-	-	-	22,554	22,554
Institutional Trust Account	-	-	38,147	38,147	-	-	-	-	38,147	38,147
Islamic debt securities	-	313,528	-	313,528	3,169	-	-	3,169	316,697	316,756
Malaysian Government Islamic papers	-	61,886	-	61,886	-	32,778	-	32,778	94,664	94,560
	155,788	375,414	38,147	569,349	3,169	32,778	-	35,947	605,296	605,251
Group										
Financial assets										
Equity securities	1,012,261	-	-	1,012,261	-	-	-	-	1,012,261	1,012,261
Unit trusts	147,441	72,147	-	219,588	-	-	-	-	219,588	219,588
Institutional Trust Account	-	-	298,897	298,897	-	-	-	-	298,897	298,897
Islamic debt securities	77,897	2,224,742	-	2,302,639	10,451	246,841	-	257,292	2,559,931	2,561,856
Malaysian Government Islamic papers	-	455,731	-	455,731	-	145,629	-	145,629	601,360	601,122
	1,237,599	2,752,620	298,897	4,289,116	10,451	392,470	-	402,921	4,692,037	4,693,724

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QUARTER ENDED 30 SEPTEMBER 2014

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.

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NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

QUARTER ENDED 30 SEPTEMBER 2014

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 2013	61,270	187,332	36,379	284,981
Gains and losses recognised in profit or loss				
Investment income - realised	2,998	9,150	1,768	13,916
At 31 December 2013 / 1 January 2014	64,268	196,482	38,147	298,897
Maturity	(28,236)	(95,942)	(10,084)	(134,262)
Gains and losses recognised in profit or loss				
Investment income - realised	1,775	4,749	1,259	7,783
At 30 September 2014	<u>37,807</u>	<u>105,289</u>	<u>29,322</u>	<u>172,418</u>

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

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

30 Regulatory capital requirements

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

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

SYARIKAT TAKAFUL MALAYSIA BERHAD

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

QUARTER ENDED 30 SEPTEMBER 2014

30 Regulatory capital requirements (continued)

The capital structure of the Company as at 30 September 2014, as prescribed under the RBCT Framework is provided below:

	As at 30.9.2014 RM'000
Tier 1 capital	1,128,127
Tier 2 capital	(1,811)
Deductions	(49,376)
Total capital available	1,076,940

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

The breakdown of the retained profits of the Group and of the Company as at 30 September 2014, into realised and unrealised profits, pursuant to Paragraphs 2.06 and 2.23 of the Bursa Malaysia Main Market Listing Requirements, are as follows:

	As at 30.9.2014 RM'000	As at 31.12.2013 RM'000
Total retained profits of the Group		
Realised	357,733	319,388
Unrealised	53,940	47,869
	<hr/> 411,673	<hr/> 367,257
Total share of retained profits of associates:		
Realised	-	-
Unrealised	-	-
	<hr/> 411,673	<hr/> 367,257
Add: Consolidation adjustments	33,464	32,234
Total retained profits as per statements of financial position	445,137	399,491

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

By Order of the Board

MOHAMAD ASRI BIN YUSOFF
Company Secretary (MIA 14171)
Kuala Lumpur, 10 November 2014