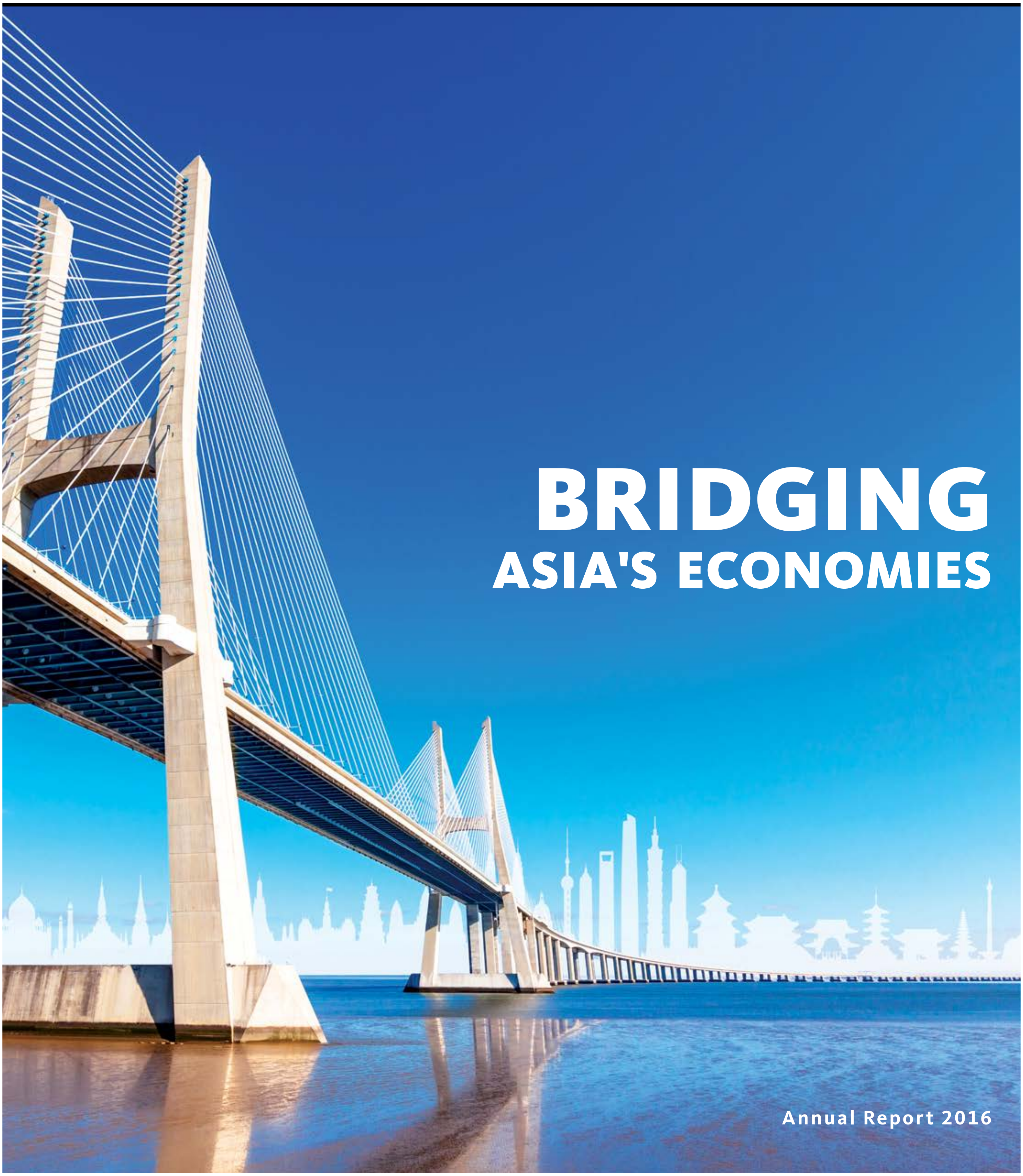
Labuan FSA seeks to realise the Financial Sector Blueprint's vision of Labuan IBFC contributing towards a resilient and efficient financial system.

The implementation of key initiatives has enhanced Labuan IBFC's stakeholder value and competiveness in delivering steady growth despite challenging business environment.

With access to about 40% of the world's population, Labuan IBFC is well-placed to bridge not only immediate ASEAN market, but also the Asia Pacific region and beyond.

Labuan FSA
Financial Services Authority



# BRIDGING
## ASIA'S ECONOMIES

Annual Report 2016


CHINA
LabuanFSA
Financial Services Authority
SINGAPORE
INDONESIA
AUSTRALIA


# Corporate Values

Integrity, Commitment & Professionalism
Open & Honest Communication
Teamwork
Business & Stakeholder Oriented
Continuous Learning

# Mission Statement

Labuan FSA shall ensure a sound, stable and dynamic Labuan International Business and Financial Centre for Asia, by committing to the highest principles and core values.

**Bridging Asia's Economies**

Labuan FSA's role as the regulator for the development and administration of the Labuan International Business and Finance Centre (Labuan IBFC) places us in a unique and exciting position. The location and proposition as a midshore financial centre at the heart of Asia Pacific region and an ideal balance between client confidentiality and compliance with international best practices and standards, sets us advantageously apart from the rest. The commitment to ensuring a sound, stable and dynamic Labuan IBFC, through adherence to the highest principles and our core values, will help to unlock Labuan IFBC's potential and provide a conduit to Asia's economies.

# HIGHLIGHTS OF 2016


**70%**

OF LABUAN ENTITIES ORIGINATE FROM ASIA PACIFIC REGION

MORE THAN

**7%**

INCREASE IN TOTAL BANKING ASSETS

## INTERNATIONAL RECOGNITION

- MALAYSIA, INCLUDING LABUAN IBFC WAS ACCEPTED AS A MEMBER OF THE FINANCIAL ACTION TASK FORCE (FATF)
- LABUAN FSA WAS RE-ELECTED AS EXCO MEMBER TO THE GROUP OF INTERNATIONAL INSURANCE CENTRE SUPERVISORS, REPRESENTING THE PACIFIC REGION

INSURANCE GROSS PREMIUM GREW TO

**USD1.4 BILLION**

**16.3%**

GROWTH IN NUMBER OF LABUAN INTERNATIONAL COMMODITY TRADING COMPANIES

**13%**

GROWTH IN NUMBER OF LABUAN FOUNDATIONS

**4**

**NEW MOUs**

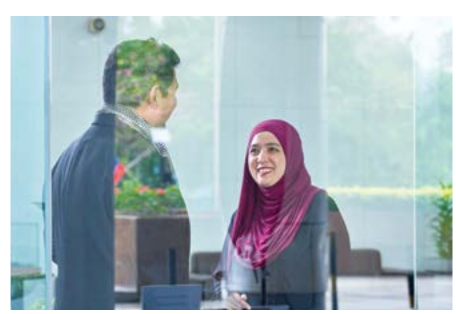
SIGNED IN 2016

# CONTENTS









# OUR BUSINESS

The diverse selection of Labuan IBFC's financial products and services brings to investors a wealth of business opportunities, covering the areas of banking, insurance, trust company business, capital market, wealth management and other Labuan financial businesses.

**BANKING**

Labuan banks are in the business of providing credit facilities, receiving deposits, investment banking services, building credit business, credit token, development finance business, leasing business, factoring, money broking, Islamic banking business, or such other activities as approved by the Minister of Finance, Malaysia. All Labuan banks are governed and regulated under the Labuan Financial Services and Securities Act 2010.

Banks licensed to operate in Labuan IBFC can conduct transactions with Malaysian residents and have the option of operating a marketing office in either Kuala Lumpur or Iskandar Malaysia. Under the co-location guidelines, Labuan banks may co-locate their offices in any parts of Malaysia.

**INSURANCE**

Labuan insurance business includes life, general, reinsurance, captive insurance, insurance manager, underwriting manager and insurance broking, but does not include domestic insurance business and it is transacted in foreign currency. Labuan insurers may carry on reinsurance of domestic insurance business in Malaysian currency and such other business as may be specified by Labuan FSA.

The Labuan insurance activities are governed by the Labuan Financial Services and Securities Act 2010. Effective March 2011, Labuan insurance and takaful entities, with the exception of insurance manager and underwriting manager, may co-locate their offices in any parts of Malaysia.

**WEALTH MANAGEMENT**

Labuan IBFC offers a comprehensive array of wealth management products suitable for high net-worth individuals, family offices and other wealth managers needing structures for efficient wealth transfer and inheritance management.

The relevant Acts related to wealth management include the Labuan Trusts Act 1996 and the Labuan Foundations Act 2010 that accord the establishment of a wide diversity of structures such as trusts and foundations for the management of international and approved Malaysian assets.

**ISLAMIC FINANCE**

The wide range of Islamic financial products and services available in Labuan IBFC includes Islamic banking, Islamic capital market, takaful, retakaful, Islamic funds, waqf and Islamic trusts administration. The products and services are offered under various Shariah-compliant schemes by the Islamic financial institutions in Labuan.

The Labuan Islamic Financial Services and Securities Act 2010 streamlines procedures and requirements for all Shariah-related activities in the Labuan IBFC.

**OTHER LABUAN FINANCIAL BUSINESS**

Labuan IBFC also offers other financial business besides banking and insurance products to cater for the needs of potential investors. These include leasing, factoring, money-broking, credit token, building credit business, development finance and international commodity trading business (LITC).

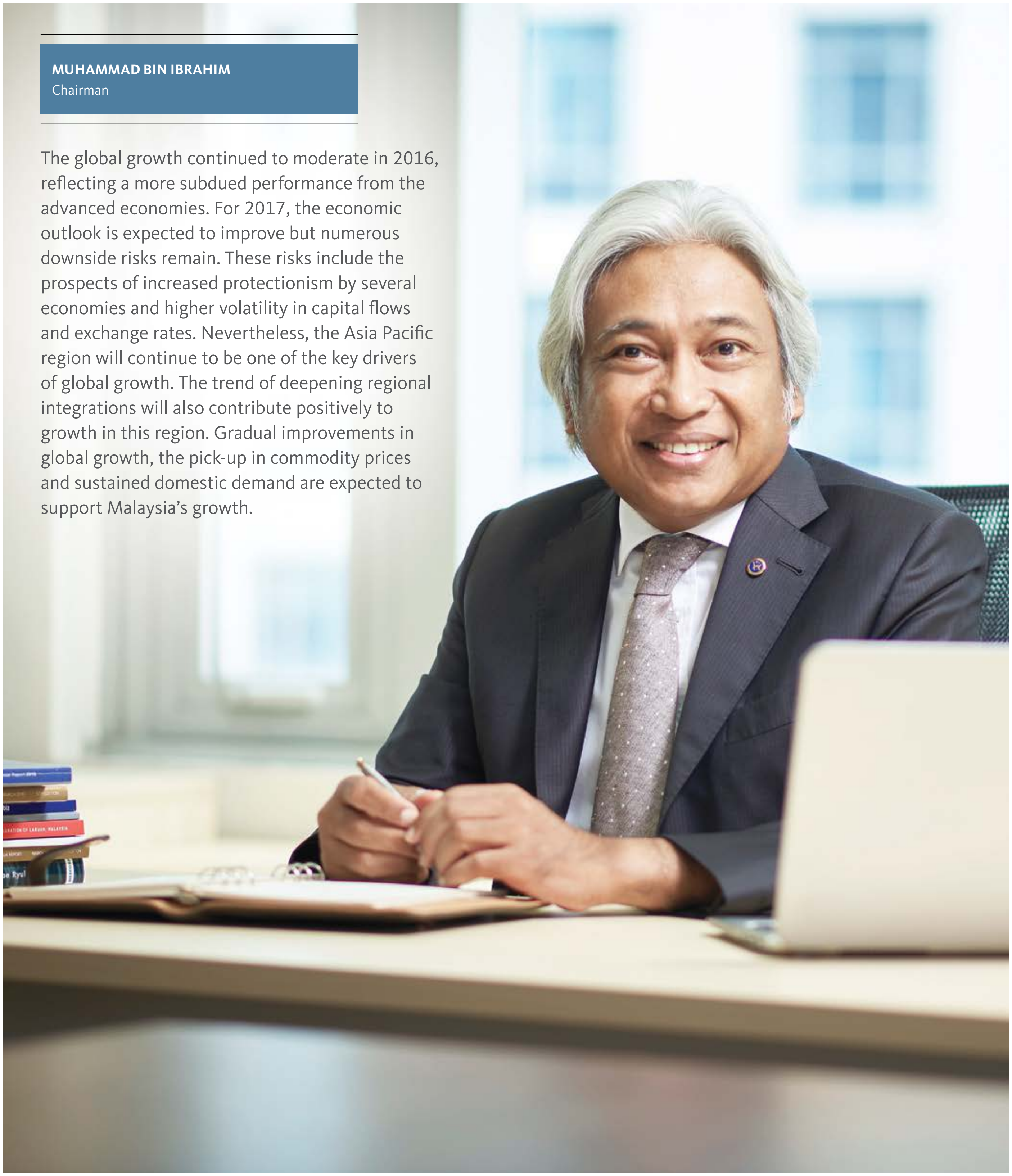
The LITC offered in Labuan IBFC is for the trading of commodities such as petroleum, petroleum-related products, agriculture, refined raw materials, chemicals and base minerals.

The Labuan financial business is governed by the Labuan Financial Services and Securities Act 2010.

**FINANCIAL INSTRUMENTS**

The Labuan International Financial Exchange offers unlimited opportunities for global investors and companies by providing an efficient and cost-effective access to the capital market through the listing of both multi-currency conventional and Islamic instruments.

# CHAIRMAN'S STATEMENT



**MUHAMMAD BIN IBRAHIM**
Chairman

The global growth continued to moderate in 2016, reflecting a more subdued performance from the advanced economies. For 2017, the economic outlook is expected to improve but numerous downside risks remain. These risks include the prospects of increased protectionism by several economies and higher volatility in capital flows and exchange rates. Nevertheless, the Asia Pacific region will continue to be one of the key drivers of global growth. The trend of deepening regional integrations will also contribute positively to growth in this region. Gradual improvements in global growth, the pick-up in commodity prices and sustained domestic demand are expected to support Malaysia's growth.

AML/CFT legal framework will allow international players to enjoy jurisdictional neutrality while operating in a sound and stable environment.

Measures to address harmful tax practices, combat money laundering and deter terrorism financing will feature highly on the global policymakers' agenda for 2017. Consistent with this, the Labuan Financial Services Authority (Labuan FSA) maintains its resolve and commitment to address any potential risks and to ensure at all times the integrity of the centre.

In 2016, special emphasis was given to enhance compliance with anti-money laundering and counter financing of terrorism (AML/CFT) requirements. At the national level, Labuan FSA is actively involved in the refinement of the National Risk Assessment, an initiative under the ambit of the National Coordination Committee to Counter Money Laundering. At the Labuan IBFC, a review of the AML/CFT legal framework is underway, reinforcing Labuan FSA's firm commitment in advocating strong prudential, transparency and AML/CFT standards. The new legal framework will allow international players to enjoy jurisdictional neutrality while operating in a sound and stable environment. To coordinate this, two units have been specifically established within the Labuan FSA to spearhead the development and effective implementation of the AML/CFT standards.

During the year, focus was also accorded towards ensuring the regulatory and supervisory regime continues to be consistent with international standards and best practices. A series of guidelines covering capital adequacy framework for banking and insurance, corporate governance, and market conduct requirements have been issued to Labuan's licensed institutions. This sets the standard for market activities to be conducted in a prudent manner with high standards of professionalism. These guidelines further complement the existing supervisory oversight on the licensed institutions.

The future of Labuan IBFC is inextricably linked to the developments in the global financial system. Hence, Labuan FSA will continue to engage other regulatory bodies to further enhance global and regional interlinkages as well as strengthen cooperation in supervision and enforcement. As part of this initiative, in 2016, Labuan FSA enhanced its ties with the Isle of Man Financial Services Authority and Astana International Financial Centre, entering into Memoranda of Understanding on Cooperation and Mutual Assistance. These memoranda cover the areas of regulation and mutual exchange of information, enforcement, research and development, capacity building as well as cooperation on supervisory functions.

Labuan IBFC recognises that to effectively position itself as an attractive destination for international business and finance, it needs to continuously evolve with economic and financial developments on both the domestic and international fronts. To remain competitive, Labuan can no longer depend on its low-cost model to attract business. It needs a distinct set of value propositions to distinguish itself from other international financial centres. Towards this end, Labuan FSA is collaborating with the Ministry of Finance, Bank Negara Malaysia and Labuan Corporation to undertake a strategic review in ensuring the sustainable development of Labuan IBFC and the island's economy. The assessment will canvass the identification of higher value-added niche areas and consider the appropriate legislative and taxation framework for businesses conducted at the centre. This would translate into building and deepening Labuan IBFC's business propositions to create greater value for investors and further expand the contribution of the centre towards the Malaysian economy.

***Labuan FSA will continue to engage other regulatory bodies to further enhance global and regional interlinkages as well as strengthen cooperation in supervision and enforcement.***

Another core component of this strategic review involves an evaluation of the wider Labuan economy. It has always been the Authority's aim to develop the growth of other economic sectors of the island in tandem with that of Labuan IBFC. More focus will be devoted to the positive spillovers by generating employment and encouraging economic activity on the island, especially in the high value-added sectors. To catalyse this, further improvements to the island's connectivity and living comforts are critical. The outcome of this review will be disseminated to the general public and to the Labuan players in particular.

Over the next decade, many factors will come into play that will shape the development agenda; such as financial technology, climate change and an ageing population. Labuan FSA will closely monitor these developments to ensure Labuan IBFC remains agile in developing solutions that address the evolving needs of international businesses and financial markets.

Consequently, as the complexity and diversity of the business and financial ecosystem increase, there is an expanded impetus for continuous efforts to strengthen both organisational and technical capabilities to support the needs of the centre. Labuan FSA will collaborate closely with the industry associations and professional training institutions to provide professional certification programmes to raise the competency level of industry players. These efforts will create a wider talent pool and attract further investments in human capital, thus contributing towards the centre's vibrancy.

Looking ahead, Labuan IBFC's prospects remain favourable. Its strategic location places it within the proximity of 11 mega-cities in the region, with a population catchment of three billion people. With access to about 40% of the world's population, Labuan IBFC is well-placed to bridge not only the immediate ASEAN market, but also the Asia Pacific region and beyond.

Finally, on behalf of members of the Authority, I would like to extend my gratitude to Dr. Zeti Akhtar Aziz for her years of exemplary leadership of Labuan FSA. My appreciation also goes to the International Advisory Panel, Shariah Supervisory Council, Financial Stability Committee, Government authorities and the Labuan industry players for the continued support and commitment. I also wish to express my appreciation to Dato' Mohd Nadzri Othman, whose term as a member of the Authority ended in 2016, and to welcome Mr. Azhar Ahmad as a new member of the Authority. I would like to thank the staff of Labuan FSA for their dedication throughout the year. I am confident that members of the Authority can continue to depend on their preseverance, hard work and determination in carrying out their entrusted responsibilities for benefit of Labuan IBFC and the country as a whole.

**MUHAMMAD BIN IBRAHIM**
Chairman

# DIRECTOR GENERAL'S REPORT

**AHMAD HIZZAD BIN BAHARUDDIN**
Director General

In support of Labuan FSA's objective to position Labuan IBFC as a sound, stable and dynamic financial centre within Asia, in 2016, the Authority continued to ensure a well-regulated and vibrant business ecosystem with strong regional and international financial linkages. Guided by the Corporate Action Plan (CAP), Labuan FSA seeks to realise the Financial Sector Blueprint's vision of Labuan IBFC contributing towards a resilient and efficient financial system that will facilitate Malaysia's transition into a value-add, high-income economy.

> Labuan FSA remains committed to supporting international initiatives to promote financial stability and to harness the collective voice of the Pacific region in international affairs.

To satisfy these demands, in 2016, Labuan FSA intensified the implementation of strategic priorities outlined in the CAP, and made significant achievements in:

- Strengthening the regulatory and supervisory regime with policy roll-out and legislative review in line with international standards
- Enhancing cooperation and collaboration on the international and domestic fronts
- Raising the bar of industry capabilities and professionalism
- Improving organisational delivery efficiency

The three-year CAP, formulated in 2015, focuses on strengthening the regulatory and supervisory regime in Labuan IBFC, thus enhancing international cooperation and further diversifying its financial landscape. In addition, CAP focuses on elevating the capabilities and professionalism of Labuan service providers to be able to meet investor demands and position Labuan IBFC as the preferred centre for business and financial activities.

As an international financial centre, Labuan IBFC has to meet increasingly more intense regulatory requirements characterised by demand for greater transparency and exchange of information, strong capital and liquidity standards as well as heightened scrutiny on anti-money laundering and counter financing terrorism (AML/CFT) measures.

Labuan FSA further improved the effectiveness of the supervisory framework for Labuan financial institutions through enhanced risk-based supervision and upgrading of supervisory skills. The approach is towards more comprehensive on-site supervision, supported by off-site data and market surveillance analysis.

This was complemented by strong investigation and enforcement measures to safeguard market integrity and confidence in Labuan IBFC. A prosecution framework was completed, strengthening the enforcement regime and underlining Labuan FSA's authority to prosecute entities for non-compliance. Along with closer monitoring of Labuan entities, I am pleased to share that there was a 25.5% decrease in number of non-compliance.

Labuan FSA also made commendable progress towards strengthening Labuan IBFC's AML/CFT compliance, increasing the level of vigilance to ensure the financial system meets global standards. To strengthen our supervisory function, dedicated AML/CFT policy and supervisory units were established under the Legal and Business Management Department to be able to better leverage on our internal expertise and resources.

As a member of the National Coordination Committee of Malaysia, Labuan FSA collaborates with other national agencies and ministries to address the recommendations under the the Financial Action Task Force (FATF) assessment in 2015. A review of all related technical guidance notes of the National Strategic Action Plan was completed during the year.

Further raising prudential and regulatory standards in Labuan IBFC, Labuan FSA has embarked on the first phase of the Banking Capital Adequacy Framework to strengthen the capital, financial foundations and resilience of Labuan financial institutions with the aim of gradually transiting towards higher Basel requirements. This would ensure an adequate financial and capital buffer to cater for major risk components, effect a more refined risk-based supervision and increase transparency through enhanced disclosure requirements on capital adequacy. A study on impact on the Insurance Capital Adequacy Framework Phase I requirements was completed to pave the way forward for its smooth adoption.

As the financial services sector becomes more liberalised and sophisticated, there is a greater need to ensure that Labuan service providers are professional in their dealings with clients and investors. To entrench international-class service, regulation of market conduct has been enhanced while elevating governance standards within the financial centre.

In addition to key regulatory and supervisory functions, CAP seeks to facilitate a vibrant centre for international businesses to thrive. Business development in the Labuan IBFC is supported through new and revised guidelines aimed at sustaining the industry's growth momentum. A sectoral review of licensing policies for the banking and insurance sectors was undertaken with plans to spur the sectors' future growth. Benchmarking studies were also conducted on selected sectors to diversify the Islamic products and services offerings in Labuan IBFC.

Cross-agency steering committee meetings were held to oversee the formulation of new policies, while Labuan FSA also engaged with the relevant domestic policymakers and members of industry to increase understanding and facilitate effective implementation of initiatives under the policies.

Labuan FSA remains committed to supporting international initiatives to promote financial stability and to harness the collective voice of the Pacific region in international affairs. Active participation in various international meetings and fora, particularly in the Group of International Financial Centre Supervisors, Group of International Insurance Centre Supervisors, International Organisation of Securities Commissions, Islamic Financial Services Board and the International Islamic Financial Market, enabled Labuan FSA to contribute to policy development, formulation of standards, and to provide technical opinions and feedback on new initiatives at the international level. To elevate Labuan IBFC's profile on the international front, new bilateral relationships were forged with counterparts in China, Hong Kong, Taiwan and the Middle East through numerous visits and meetings.

As demand escalates for greater tax transparency and cooperation with global revenue authorities with new mechanisms in place for the exchange of information, Labuan IBFC is poised to offer an ideal solution to investors seeking operational substance at maximum cost efficiency.

The implementation of key strategic initiatives has enhanced Labuan IBFC's stakeholder value and competitiveness in delivering steady growth despite a challenging business environment.

During the year, more businesses and private clients leveraged on the advantages offered by Labuan IBFC's structures, particularly in cross-border transactions, trading, leasing, wealth preservation and risk management. Labuan IBFC is now home to more than 13,000 global business companies, of which 70% conduct business out of Asia. The insurance sector has 204 insurance and insurance-related licences with total premiums above the USD1 billion mark. The centre recorded 383 leasing companies with total assets leased exceeding USD50 billion. Labuan IBFC has also gained traction as a reputable wealth management centre in Asia Pacific with its comprehensive wealth management solutions. It remains a high growth sector with a 13% increase in number of foundations established in 2016. This included the establishment of new international waqf foundations following the introduction of the international waqf guidelines in 2015 to expand the Islamic wealth management offerings in the centre. As at December 2016, a total of 52 trusts were registered in Labuan IBFC. Another area with promising growth potential is the Labuan international commodity trading business which provides a concessionary tax rate for qualifying income under the Global Incentive For Trading Programme (GIFT). To promote further growth of this sector, a dedicated GIFT panel of banks was established to facilitate the financing requirements of the commodity trading companies.

In 2016, Labuan FSA continued to collaborate closely with stakeholders and the community to facilitate in achieving our mission and strategic plan. As a result of continuous engagement, stakeholders appreciate the value proposition and contributions of Labuan IBFC to the nation in terms of employment creation and other spill-over benefits to the economy of Labuan in the areas of infrastructure development, retail business, travel and transportation, and the hospitality industry. To help the local communities in Labuan and neighbouring states, various educational programmes and outreach initiatives were organised.

During the year, Labuan FSA also made important strides in improving operational efficiencies and delivery. Along with an ICT infrastructure upgrade to create an internal culture of information and knowledge sharing, Labuan FSA will continue to invest in elevating technical and leadership capabilities to be able to support Labuan IBFC's sustainable growth and competitiveness.

Notwithstanding improved prospects for emerging markets and advanced economies in 2017, global economic recovery remains moderate. As the forces of change continue to redefine and reshape the business and regulatory landscape of IFCs, Labuan IBFC is well positioned to sustain its competitiveness. Its business friendly ecosystem in the heart of Asia and strong regulatory regime in line with international standards and best practices in good governance and transparency, make it an ideal choice for investors seeking to expand into Asia.

On the financial performance of Labuan FSA Group, I am pleased to announce that for the year ended 31 December 2016, the Authority recorded an increase in operating revenue of RM59.9 million as compared to RM56.1 million in 2015, while total reserves increased to RM67.5 million from RM64.3 million of the previous year.

I would like to conclude by thanking the Chairman and members of the Authority for their unfailing wisdom and guidance in supporting Labuan FSA's efforts during the past challenging 12 months. I wish also to extend my gratitude to all staff of Labuan FSA and our subsidiaries, for their commitment and contribution throughout 2016.

**AHMAD HIZZAD BIN BAHARUDDIN**
Director General

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# WHO WE ARE AND WHAT WE DO

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## DID YOU KNOW...

**2016 –**

Labuan IBFC is home to:

# 51 banks

# WHO WE ARE AND WHAT WE DO

Labuan Financial Services Authority (Labuan FSA) was established on 15 February 1996 as a statutory body responsible for the regulation, supervision and development of the Labuan International Business and Financial Centre (IBFC).

## OBJECTIVES OF LABUAN FSA

**Promote & Develop Labuan IBFC**

To promote and develop Labuan as a premier centre of high repute for international business, financial products and services

**Develop National Objectives**

To develop national objectives, policies and priorities for the systematic growth and administration of international financial business in Labuan, and to make recommendations to the Government

**Central Authority**

To act as the central regulatory, supervisory and enforcement authority of the international business and financial services industry in Labuan

## FUNCTIONS OF LABUAN FSA

In discharging our regulatory mandate, Labuan FSA is entrusted with the following statutory functions:

- To administer, enforce, carry out and give effect to the provisions of the:
  - Labuan Companies Act 1990
  - Labuan Trusts Act 1996
  - Labuan Financial Services Authority Act 1996
  - Labuan Foundations Act 2010
  - Labuan Financial Services and Securities Act 2010
  - Labuan Islamic Financial Services And Securities Act 2010
  - Labuan Limited Partnerships and Limited Liability Partnerships Act 2010
  - Any other laws relating to business and financial services in Labuan IBFC

- To ensure that international financial transactions are conducted in accordance with the laws;

- To uphold the good reputation and image of Labuan IBFC;

- To conduct research and commission studies to deepen and widen the scope of international financial services in Labuan IBFC;

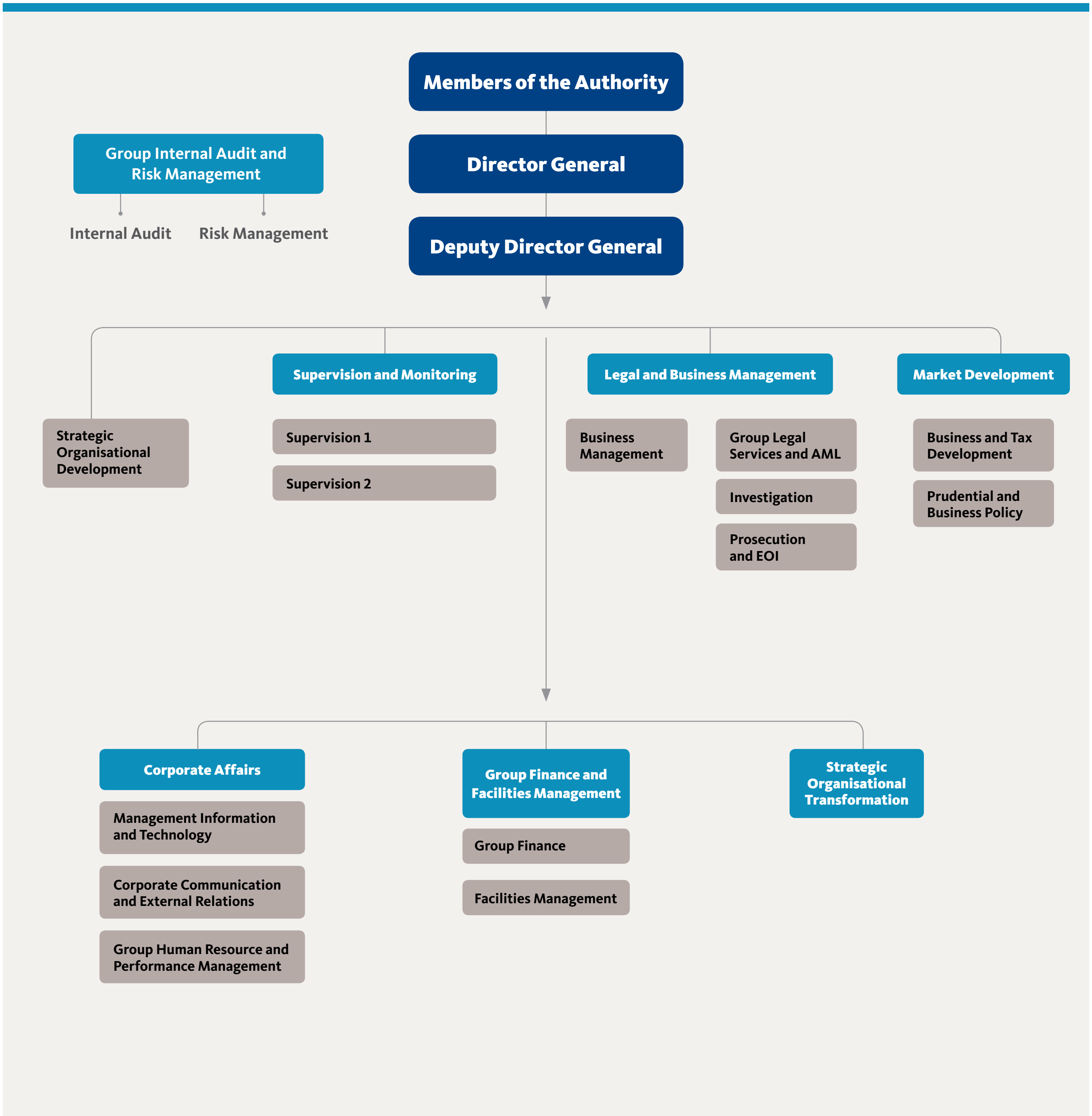
- To make recommendations on the creation and improvement of facilities to enhance the attraction of Labuan as a centre for business and international financial services;

- To collaborate with Labuan financial institutions and industry associations in advancing the development and growth of business and financial services in Labuan IBFC; and

- To advise the Government generally on matters relating to financial services in Labuan IBFC.

# ORGANISATIONAL STRUCTURE

Labuan FSA is structured into seven core departments, namely Group Internal Audit and Risk Management, Market Development, Legal and Business Management, Supervision and Monitoring, Strategic Organisational Transformation, Group Finance and Facilities Management and Corporate Affairs. The structure enables Labuan FSA to regulate and supervise the international financial institutions in Labuan IBFC effectively.

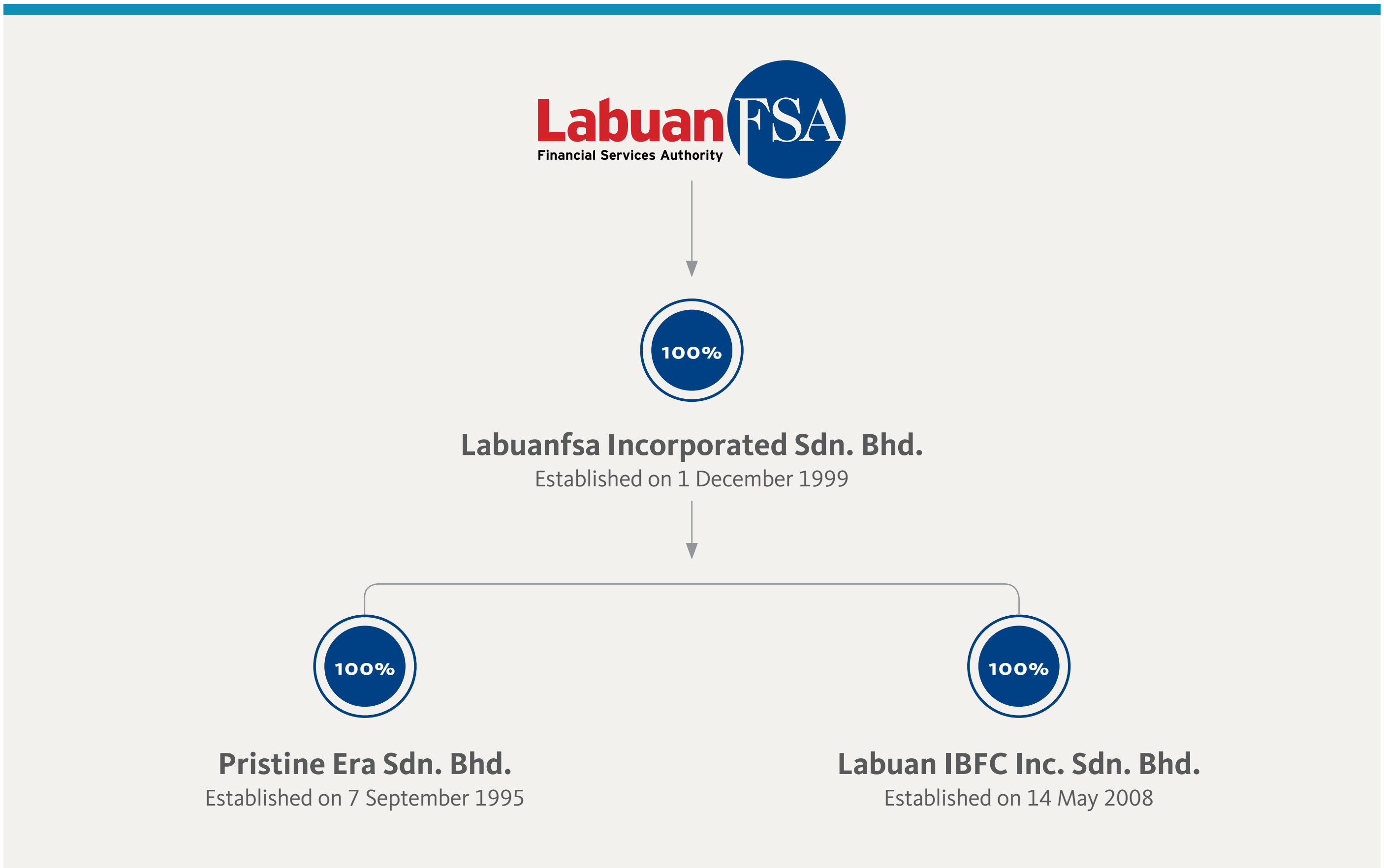


# ORGANISATIONAL STRUCTURE

## SUBSIDIARIES

Labuan FSA owns Labuanfsa Incorporated Sdn. Bhd., an investment holding company that was established in December 1999. Pristine Era Sdn. Bhd. and Labuan IBFC Inc. Sdn. Bhd. are subsidiaries of Labuanfsa Incorporated Sdn. Bhd.

The principal activity of Pristine Era Sdn. Bhd. is to manage the Labuan International School while Labuan IBFC Inc. Sdn. Bhd. was set up to market and promote the Labuan International Business and Financial Centre.



# INTERNATIONAL MEMBERSHIPS

Labuan FSA is a member of eight international organisations that promote the attainment of high regulatory standards among international financial centres, as well as enhance cooperation to advance their development.

## 01

**Member since 1998**

### INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS (IAIS)

IAIS, established in 1994, represents insurance regulators and supervisors from more than 200 jurisdictions. It works closely with financial sector standards setting bodies and international organisations to promote financial stability. It also issues global insurance principles, standards and guidance papers, provides training and support on issues related to insurance supervision, and organises meetings and seminars for insurance supervisors.

## 02

**Member since 1999**

### GROUP OF INTERNATIONAL FINANCIAL CENTRE SUPERVISORS (GIFCS)

GIFCS was formed in October 1980 to promote the adoption of and compliance with international regulatory standards among its members, especially in the banking, fiduciary and AML/CFT arena.

## 03

**Member since 1999**

### GROUP OF INTERNATIONAL INSURANCE CENTRE SUPERVISORS (GIICS)

GIICS is a grouping of insurance regulators and supervisors from jurisdictions that provide international insurance services. The objectives of GIICS are to promote proper supervision of international insurance business, and to provide mechanisms and fora to discuss areas of mutual interest as well as to formulate policies.

## 04

**Member since 2000**

### ASIA/PACIFIC GROUP ON MONEY LAUNDERING (APG)

APG is an autonomous and collaborative international organisation of more than 40 members founded in 1997. It facilitates improvements for compliance with the Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) standards. It also assesses members' compliance with the global AML/CFT standards through mutual evaluation and conducts research into money laundering and terrorist financing methods, trends, risks and vulnerabilities.

## 05

**Member since 2002**

### INTERNATIONAL ISLAMIC FINANCIAL MARKET (IIFM)

IIFM is the global standardisation body elevating transparency and robustness of the Islamic capital and money market within the Islamic financial system. Its primary focus lies in the standardisation and Shariah harmonisation of Islamic products, documentation and related processes. IIFM also provides a universal platform to market participants through various working groups and collaborative processes for the development of the Islamic capital and money market.

INTERNATIONAL MEMBERSHIPS

## 06

Member since 2003

### INTERNATIONAL ORGANISATION OF SECURITIES COMMISSION (IOSCO)

IOSCO is the worldwide association of national securities regulatory commissions. It assists members to promote high regulatory standards and acts as a forum for international cooperation among national regulators. Labuan FSA is currently a full signatory to the IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information.

## 07

Member since 2003

### ISLAMIC FINANCIAL SERVICES BOARD (IFSB)

IFSB is an international standard-setting organisation that promotes and enhances the soundness and stability of the Islamic financial services industry. It also conducts research and coordinates initiatives on Islamic industry related issues while organising roundtables, seminars and conferences for regulators and industry stakeholders.

## 08

Member since 2016

### FINANCIAL ACTION TASK FORCE (FATF)

FATF is an inter-governmental body established in 1989 to set up standards and promote the implementation of effective legal, regulatory and operational measures to combat money laundering, terrorist financing and other activities that threaten the integrity of the international financial system. It monitors the progress of its members in implementing necessary measures, reviews money laundering and terrorist financing techniques and counter-measures, and promotes the adoption and implementation of appropriate measures globally.

In addition, through our subsidiary Pristine Era Sdn. Bhd., we are involved in managing the Labuan International School, and have been admitted as a member of the International Schools Association.

## 09

Member since 2014

### INTERNATIONAL SCHOOLS ASSOCIATION (ISA)

The ISA was founded under Swiss Law in 1951 and is the first educational NGO to be granted consultative status at UNESCO. The objectives of ISA are to encourage the creation of new international schools and foster cooperation among international or internationally-minded schools through consultation on teaching and administrative questions; facilitate or undertake the study of educational matters of interest to such schools; and to nurture interest in national schools of international matters as a means of improving international understanding.

# EVENT HIGHLIGHTS 2016

## Jan

**14: Labuan**
Official opening of Labuan International School's hostel and Olympic-sized swimming pool.

**15: Putrajaya**
Presentation on "Business Opportunities in Labuan IBFC" at the Seminaire De Reflexion 2016.

**27: Labuan**
Labuan FSA, in collaboration with LIBFC Inc. Sdn. Bhd., organised a masterclass on "LIBFC Solution for Islamic Wealth Management".

**28: Labuan**
Briefing to a delegation of students from Kolej Vokasional Labuan.

## Feb

**19: Labuan**
The first bilateral meeting between Labuan FSA and Labuan International Insurance Association (LIIA) for 2016.

**23: Labuan**
Labuan FSA invited The Asian Institute of Chartered Bankers (AICB) to talk about its chartered banker professional qualification to an audience of industry players.

**25: Kota Kinabalu**
Briefings to the Sabah Economic Development & Investment Authority and the Malaysian International Chambers of Commerce and Industry, Sabah branch.

**29: Kuala Lumpur**
The year's first Financial Stability Committee meeting.

## Mar

**7-8: Hong Kong**
Labuan FSA attended supervisory and enforcement meetings with the Securities & Futures Commission Hong Kong as well as the IOSCO Asia Pacific Regional Committee meeting.

**18: Labuan**
Briefing delegates from the Malaysian Chinese Association (MCA) on business opportunities in Labuan IBFC.

**23: Labuan**
Labuan FSA, in collaboration with LIBFC Inc. Sdn. Bhd., organised a masterclass on "Global Incentive for Trading at a Glance" for Labuan trust companies.

**24: Labuan**
The first bilateral meeting between Labuan FSA and the Association of Labuan Banks (ALB) for 2016.

**24: Labuan**
The first bilateral meeting between Labuan FSA and the Labuan Investment Banks Group (LIBG) for 2016.

**24: Labuan**
Briefing by the International Islamic Liquidity Management Corporation to members of ALB and LIBG on the "Global Short Term 'A1' rated sukuk programme".

**31: Labuan**
Labuan FSA donated A4-sized paper to Labuan schools under its Corporate Social Responsibility (CSR) programme.

# EVENT HIGHLIGHTS 2016

## Apr

**3: Labuan**
Briefing to a delegation from the Philippines on business opportunities in Labuan IBFC.

**9: Labuan**
Labuan FSA undertaken a disaster simulation exercise to test its organisational preparedness and operational capability to manage potential crisis.

**9: Labuan**
Labuan FSA participated in a community "up-skilling" programme with the donation of printing equipment and machinery to families living below the poverty line in Labuan.

**10-12: Cairo**
Labuan FSA attended the Islamic Financial Services Board (IFSB) annual general meeting and side events.

**16-17: Labuan**
Labuan FSA, in collaboration with the Economic Planning Unit, Prime Minister's office, organised the Skim Latihan 1Malaysia (SL1M) programme in Labuan.

**22: Labuan**
Briefing to visiting final year students from Universiti Sabah Malaysia (UMS).

**26: Kuala Lumpur**
Labuan FSA signed a Memorandum of Understanding with Bank Negara Malaysia.

**27: Kuala Lumpur**
Briefing to a delegation from the Maldives led by its Minister of Finance.

**28: Labuan**
The first bilateral meeting between Labuan FSA and the Association of Labuan Trust Companies (ALTC) for 2016.

**27-28: London**
Labuan FSA attended the Group of International Financial Centre Supervisors (GIFCS) meeting.

## May

**7: Labuan**
Labuan FSA presented awards to outstanding students in Labuan, as part of its CSR initiatives to support educational excellence.

**10: Kuala Lumpur**
Labuan FSA hosted the 34th IIFM Board meeting and IIFM Workshop on Islamic Finance Documentation and Product Standards. It also attended the 34th IIFM Board meeting.

**16: Kuala Lumpur**
The second Financial Stability Committee meeting for 2016.

**18-19: Labuan**
Labuan FSA organised an industry training programme on "Art of Negotiation Skills" for the industry players.

**27: Labuan**
The second bilateral meeting between Labuan FSA and LIIA for 2016.


## Jun

**2-3: Vietnam**
The first International Advisory Panel meeting for 2016.

**8-9: London**
Labuan FSA attended the Group of International Insurance Centre Supervisors (GIICS) annual general meeting and related knowledge sharing sessions.

**22, 24 & 27: Labuan**
Labuan FSA hosted a berbuka puasa dinner for the local community and Labuan media, as part of its CSR programmes.

## Jul

**12: Kuala Lumpur**
Shariah Supervisory Council meeting.

**18: Labuan**
Labuan FSA launched its Annual Report 2015.

**27: Labuan**
Labuan FSA hosted a Hari Raya Open House.

**29: Kuala Lumpur**
The third Financial Stability Committee meeting for 2016.

## Aug

**10-11: Labuan**
Labuan FSA, in collaboration with AICB, organised a two-day conference on "Combating Financial Fraud: The Perfect Storm".

**22-24: Labuan**
Labuan FSA organised a training session for the Labuan IBFC industry on "Modern Insurance & Its Implication in the 21st Century".

**26: Labuan**
Briefing to a delegation from MCA Kuala Lumpur.

EVENT HIGHLIGHTS 2016

# Sept

**1: Labuan**
Labuan FSA invited AKPK to present a talk on "Prudent Financial Management" for the local community as part of its CSR programmes.

**5: Labuan**
Briefing to the Deputy Minister of Finance II and his delegation.

**28: Kuala Lumpur**
Labuan FSA signed a Memorandum of Understanding with the Astana International Financial Centre.

**29: Labuan**
The second bilateral meeting between Labuan FSA and ALB for 2016.

# Oct

**6: Labuan**
Labuan FSA, in collaboration with LIBFC Inc. Sdn. Bhd., organised a masterclass on "Wealth Management Beyond Legal Tradition: A Study of Foundation vs. Trust".

**27: Labuan**
The third bilateral meeting between Labuan FSA and LIIA for 2016.

**27: Labuan**
The fourth Financial Stability Committee meeting for 2016.

**27: Labuan**
ALTC hosted the Annual Labuan Industry Dinner.

**28: Labuan**
Labuan FSA organised the Annual Labuan International Finance Lecture Series.

**29: Labuan**
The annual Labuan Industry Golf Tournament.

**30: Labuan**
Labuan FSA Day 2016, a flagship CSR event organised by Labuan FSA.

# Nov

**8: Labuan**
Labuan FSA signed a Memorandum of Understanding with the Isle of Man Financial Services Authority.

**10-11: Labuan**
Labuan FSA delivered a talk at the Asian Business Conference jointly organised by the Federation of Asian Institute of Management and Labuan Corporation.

**14-15: Labuan**
Strategic Management Conference of Labuan FSA.

**23: Labuan**
The second bilateral meeting between Labuan FSA and LIBG for 2016.


# Dec

**2: Kuala Lumpur**
Briefing to visiting students from Universiti Teknologi MARA (UiTM).

**8: Kuala Lumpur**
The fifth Financial Stability Committee meeting for 2016.

**14: Kuala Lumpur**
The second International Advisory Panel meeting for 2016.

**15: Kota Kinabalu**
Labuan FSA signed a Memorandum of Understanding with the Sabah Economic Development and Investment Authority (SEDIA).

**16: Labuan**
Second bilateral meeting between Labuan FSA and ALTC for 2016.

**19: Labuan**
Labuan FSA, in collaboration with the Ministry of Finance, organised a post-Budget 2017 talk for the Labuan community.

02

# OUR STRATEGIC PERFORMANCE



n (CAP) – to help further develop
inancial Sector Blueprint (FSBP)
em in Malaysia through well-

ial centre conforming to global
changes, the evaluation and
ofiling.

**g four pillars:**

04

**ORGANISATIONAL-WIDE EXCELLENCE**

Labuan FSA will continue to strive for overall operational excellence to support Labuan IBFC's growth. This involves engagement with important stakeholders to maintain the quality of services and increase the centre's visibility. Existing Memoranda of Understanding with various counterparts will be reviewed to create greater synergies. To enhance its delivery channels, Labuan FSA will invest in secure, cost effective and efficient ICT infrastructure.

In addition, a comprehensive talent development programme will be put in place to enhance internal competencies and skills. Labuan FSA will also focus on further developing industry players' knowledge and expertise to enable them to support growing demand and to provide quality service to investors.

spectrum of wealth management s
including trusts and foundations to ca
growing number of ultra HNWIs pop
the Asia Pacific region.

In 2015, the difficult economic and
conditions had a marked negative
global business volumes and cr
investments. Despite these advers
dynamics, the overall business perfo
Labuan IBFC remained stable, albeit a
moderate growth rate for key busines

The centre recorded a 7.2% annual
company incorporation. Though at
growth pace, the continued growth
that Labuan IBFC remains a f
destination for international compani
to expand into the Asia Pacific mar
is reflected in the Labuan company
which showed a wide geographic
terms of representation of the origi
companies. Companies originating
continued to be the majority in Labua

The Labuan banking sector remain
and stable with industry gross non-p
loan ratio further improving from 1.5
from 2014 to 2015. Total deposits inc
17.9% compared to a negative grov
preceding year. Total assets increased
USD47.4 billion and the total loans ou
grew marginally to USD32.3 billion
tax profit of the Labuan banking sect
from USD461.1 million to USD620
due to mainly improved quality
Islamic financing also increased by
USD1.8 billion from USD1.2 billion.

DID YOU KNOW...

**2016 –**

Labuan IBFC is home to:

**204**
**Insurance and Insurance-Related Licences**

# STRATEGIC INTENT OF LABUAN FSA

Labuan FSA had outlined a three-year business, regulatory and organisational strategy – Corporate Action Plan (CAP) – to help further develop Labuan IBFC from 2015-2017. CAP has been designed to be in line with recommendations under Malaysia's Financial Sector Blueprint (FSBP) which aim, ultimately, to support the establishment of a strong, comprehensive and progressive financial system in Malaysia through well-functioning financial institutions.

Labuan FSA aspires to transform Labuan IBFC into a vibrant and competitive international business and financial centre conforming to global standards. In developing CAP, therefore, we have analysed other international jurisdictions, global regulatory changes, the evaluation and assessment of international bodies, liberalisation of business and financial markets, as well as visibility and profiling.

**To ensure Labuan IBFC achieves sustainable growth, CAP focuses on the following four pillars:**

## 01 STRONG REGULATORY & SUPERVISORY REGIME

A key focus is to develop risk-based capital requirements for Labuan insurers and enhance the capital standards for Labuan banks. Labuan FSA is also enhancing the governance and market conduct standards in Labuan IBFC; strengthening macro-prudential risk identification, assessment and monitoring capabilities; as well as establishing more effective home supervisor support and collaboration.

## 02 VIBRANT CENTRE WITH REGIONAL AND INTERNATIONAL FINANCIAL LINKAGES

To further enhance the vibrancy of Labuan IBFC and reposition the centre's future businesses, Labuan FSA is reviewing its tax incentives, promoting value added niche areas, unlocking areas which offer high value added services, and improving Labuan's connectivity and infrastructure.

## 03 INTERNATIONAL ISLAMIC FINANCE

Labuan FSA will continue to identify and develop more Shariah-based products and instruments that can be structured or issued in Labuan IBFC. Areas to be considered include the creation of short-term Shariah-based instruments, the development of sukuk market and identification of preferred structures of family office set-up in wealth management.

## 04 ORGANISATIONAL-WIDE EXCELLENCE

Labuan FSA will continue to strive for overall operational excellence to support Labuan IBFC's growth. This involves engagement with important stakeholders to maintain the quality of services and increase the centre's visibility. Existing Memoranda of Understanding with various counterparts will be reviewed to create greater synergies. To enhance its delivery channels, Labuan FSA will invest in secure, cost effective and efficient ICT infrastructure.

In addition, a comprehensive talent development programme will be put in place to enhance internal competencies and skills. Labuan FSA will also focus on further developing industry players' knowledge and expertise to enable them to support growing demand and to provide quality service to investors.

# LABUAN IBFC INDUSTRY PERFORMANCE

## LABUAN BANKS

Generally, Labuan banks are in the business of providing credit facilities, receiving deposits, investment banking services, leasing and Islamic banking business and for Labuan investment banks, the main activities include providing consultancy and advisory services relating to corporate and investment and managing investments on behalf of their corporate or individual clients.

**Table 1 Total Assets and Number of Operating Labuan Banks**

| | 2012 | 2013 | 2014 | 2015 | 2016 | change (%) |
|---|---|---|---|---|---|---|
| Number of Banks | 59 | 58 | 55 | 53 | 51 | (3.8) |
| | | | USD Million | | | |
| **Total Assets** | 42,113.3 | 42,690.1 | 44,281.8 | 47,392.0 | 50,986.9 | 7.6 |

- In 2016, two commercial banks and one investment bank were granted approvals to establish their branches and subsidiary in Labuan IBFC, while three foreign banks and one investment bank surrendered their licences due to strategic decisions taken at their head offices level to reposition their banking presence in Asia. This brings the total number of operating banks in Labuan IBFC to 51.

- Despite the uncertainties and cautious business sentiment in the global market, Labuan's banking sector assets continued to grow by 7.6% to USD51 billion (2015: USD47.4 billion). This was driven by higher interbank placements as well as short-term funds, which increased to USD10.8 billion (2015: USD5.3 billion) and USD2.7 billion (2015: USD1.7 billion) respectively.

- Loans and advances comprised a large proportion of the total industry's asset.

**LABUAN'S BANKING SECTOR ASSETS GREW**

**7.6%**

USD51 billion
(2015: USD47.4 billion)

**SLIGHT DECREASE IN TOTAL LOANS AND ADVANCES**

**1.6%**

USD31.8 billion
(2015: USD32.3 billion)

**TOTAL DEPOSITS INCREASED**

**4.3%**

USD11.2 billion
(2015: USD10.8 billion)

**Table 2 Sources and Uses of Funds**

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2016 change (%) | 2016 share (%) |
|---|---|---|---|---|---|---|---|
| | USD Million | | | | | | |
| **Sources:** | | | | | | | |
| Deposits | 10,406.9 | 10,743.6 | 9,137.2 | 10,773.2 | 11,232.1 | 4.3 | 22.0 |
| Amount due to financial Institution/Interbank borrowing | 27,322.2 | 27,820.1 | 31,020.1 | 32,495.1 | 35,210.7 | 8.4 | 69.1 |
| Others | 4,384.2 | 4,126.3 | 4,124.4 | 4,123.7 | 4,544.1 | 10.2 | 8.9 |
| **Total** | 42,113.3 | 42,690.1 | 44,281.8 | 47,392.0 | 50,986.9 | 7.6 | 100.0 |

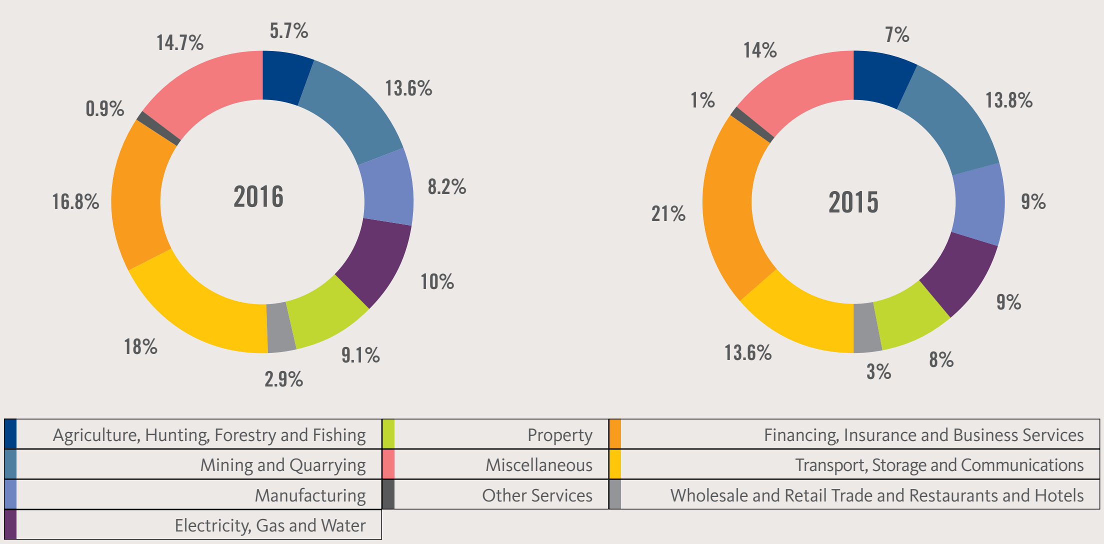
## LABUAN BANKS

**Table 3 Sources and Uses of Funds**

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2016 | |
|---|---|---|---|---|---|---|---|
| | USD Million | | | | | change (%) | share (%) |
| **Uses:** | | | | | | | |
| Cash and Short-term Funds | 1,598.7 | 1,192.3 | 1,922.1 | 1,680.0 | 2,691.8 | 60.2 | 5.3 |
| Balances due from Head Office and Branches Outside Malaysia | 7,884.9 | 7,428.8 | 3,432.0 | 5,290.3 | 10,814.4 | 104.4 | 21.2 |
| Investments | 4,100.7 | 4,430.1 | 4,118.5 | 3,806.5 | 3,200.5 | (15.9) | 6.3 |
| Loans and Advances | 26,203.7 | 27,742.4 | 31,971.0 | 32,318.2 | 31,809.1 | (1.6) | 62.4 |
| Fixed Assets | 7.7 | 7.5 | 4.1 | 3.8 | 3.7 | (4.7) | 0.0 |
| Others | 2,317.6 | 1,889.0 | 2,834.2 | 4,293.3 | 2,467.5 | (42.5) | 4.8 |
| **Total** | 42,113.3 | 42,690.1 | 44,281.8 | 47,392.0 | 50,986.9 | 7.6 | 100.0 |

- The main source of funding for Labuan banks continued to be borrowing from head offices and financial institutions, which contributed to 69.1% or USD35.2 billion (2015: USD32.5 billion) of the total.
- These were sourced mainly to finance loans and advances, which accounted for 62.4% or USD31.8 billion of the total funds in 2016 (2015: USD32.3 billion).
- Investment in money market instruments such as government money market instruments such as government debt securities, corporate debt securities and negotiable instruments of deposit (NID) accounted for 93.6% of total investments by Labuan banks.
- Investment in subsidiaries/associate companies contributed 6.4% from the total investments by Labuan banks in 2016.

**Chart 1 Direction of Lending by Sectors**



## LABUAN BANKS

**Table 4** **Loans by Sectors**

| Sectors | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| | USD Million | | | | |
| Agriculture, Hunting, Forestry and Fishing | 2,333.8 | 2,321.0 | 2,417.4 | 2,419.1 | 1,802.1 |
| Mining and Quarrying | 3,058.7 | 4,455.8 | 4,590.5 | 4,464.1 | 4,329.7 |
| Manufacturing | 2,168.1 | 2,400.2 | 2,817.0 | 2,857.7 | 2,614.1 |
| Electricity, Gas and Water | 1,997.4 | 1,925.7 | 3,894.2 | 2,927.9 | 3,190.1 |
| Property | 2,275.1 | 2,494.3 | 2,174.6 | 2,518.0 | 2,900.2 |
| Wholesale and Retail Trade and Restaurants and Hotels | 845.0 | 843.4 | 1,312.5 | 1,108.1 | 923.5 |
| Transport, Storage and Communications | 4,480.0 | 5,107.1 | 5,357.9 | 4,408.3 | 5,737.9 |
| Financing, Insurance and Business Services | 5,651.6 | 5,115.8 | 5,547.0 | 6,707.8 | 5,348.1 |
| Other Services | 87.8 | 134.6 | 280.2 | 253.7 | 293.6 |
| Miscellaneous | 3,306.1 | 2,944.5 | 3,579.5 | 4,653.6 | 4,669.6 |
| **Total** | **26,203.8** | **27,742.4** | **31,971.0** | **32,318.2** | **31,809.1** |

- Transportation, storage and communications, financing, insurance and business services, and miscellaneous (i.e. loans granted to investment holding companies, sovereigns & special purpose companies) sectors continued to be the main recipients of funding by Labuan banks in 2016.
- Assets quality remained strong as reflected by Labuan banks' gross non-performing loans (NPL) ratio improving to 0.7% (2015: 0.8%).
- The manufacturing sector contributed the highest NPL within the banking industry, accounting for 30.4% of the total NPL, followed by the finance, insurance and business services sector (24.3%), agricultural sector (18.1%) and oil and gas sector (14.9%). Most of the NPL exposure was from non-resident customers.

## LABUAN BANKS

### Table 5 Deposits and Loans Outstanding of Non-Bank Customers

| | 2012 | 2013 | 2014 | 2015 | 2016 | change (%) |
|---|---|---|---|---|---|---|
| | USD Million | | | | | |
| **Total Deposits** | 10,406.9 | 10,743.6 | 9,137.2 | 10,773.2 | 11,232.1 | 4.3 |
| Residents | 4,159.1 | 3,883.4 | 2,758.4 | 5,590.6 | 6,044.9 | 8.1 |
| *% share* | 40.0 | 36.1 | 30.2 | 51.9 | 53.8 | - |
| Non-Residents | 6,247.8 | 6,860.3 | 6,378.9 | 5,182.5 | 5,187.3 | 0.1 |
| *% share* | 60.0 | 63.9 | 69.8 | 48.1 | 46.2 | - |
| **Total Loans Outstanding** | 26,203.8 | 27,742.4 | 31,971.0 | 32,318.2 | 31,809.1 | (1.6) |
| Residents | 10,327.9 | 11,050.6 | 14,315.2 | 12,923.5 | 11,971.5 | (7.4) |
| *% share* | 39.4 | 39.8 | 44.8 | 40.0 | 37.9 | - |
| Non-Residents | 15,875.8 | 16,691.7 | 17,655.8 | 19,394.7 | 19,837.5 | 2.3 |
| *% share* | 60.6 | 60.2 | 55.2 | 60.0 | 62.4 | - |

### Chart 2 Deposits and Loans Outstanding

## LABUAN BANKS

- Loans and advances granted to clients from other countries, such as Japan, Hong Kong, Australia and India, constituted 16.4% of the total loans and advances, while 8.9% were granted to borrowers from Europe, 1.6% from the Middle East and 1.2% from the Latin America and Caribbean region.

- Total deposits increased by 4.3% to USD11.2 billion (2015: USD10.8 billion), of which deposits from residents accounted for 53.4% or USD5.9 billion (2015: 51.9% or USD5.6 billion). The increase was mainly due to additional term deposit placements by existing customers.

- In terms of geographical distribution, 76.8% of the total deposits were from ASEAN countries, mainly from Malaysia including Labuan IBFC (72.0%), Thailand (3%), Singapore (1.7%) and Indonesia (0.1%). Another 23.2% were from Europe (12.4%), Africa (1.0%), the Middle East (0.5%) and Latin America and Caribbean region (0.3%).

**Table 6** **Deposits & Loans Outstanding by Region for Non-Bank Customers**

| | 2016 | | | |
|---|---|---|---|---|
| | Deposits | | Loans Outstanding | |
| Region | USD'000 | share (%) | USD'000 | share (%) |
| ASEAN | 8,631,061 | 76.8 | 22,832,683 | 71.8 |
| Europe | 1,398,075 | 12.4 | 2,830,587 | 8.9 |
| Latin America | 32,189 | 0.3 | 390,866 | 1.2 |
| Africa | 110,147 | 1.0 | 27,053 | 0.1 |
| Middle East | 54,276 | 0.5 | 497,805 | 1.6 |
| Others | 1,006,357 | 9.0 | 5,230,078 | 16.4 |
| **Total** | 11,232,106 | 100.0 | 31,809,072 | 100.0 |

- Total loans outstanding to non-residents made up 62.4% of the total (2015: 60%).

- In terms of geographical distribution, 71.8% of total loans and advances were granted to customers originating from ASEAN countries, mainly from Malaysia including Labuan IBFC (58.8%), Thailand (3.5%), the Philippines (3.4%), Indonesia (2.7%), Singapore (2.2%) and Vietnam (1.3%).

### *Islamic Banking*

- Islamic banking in Labuan IBFC was represented by three full-fledged banks, two full-fledged investment banks and 11 Islamic windows of conventional banks.

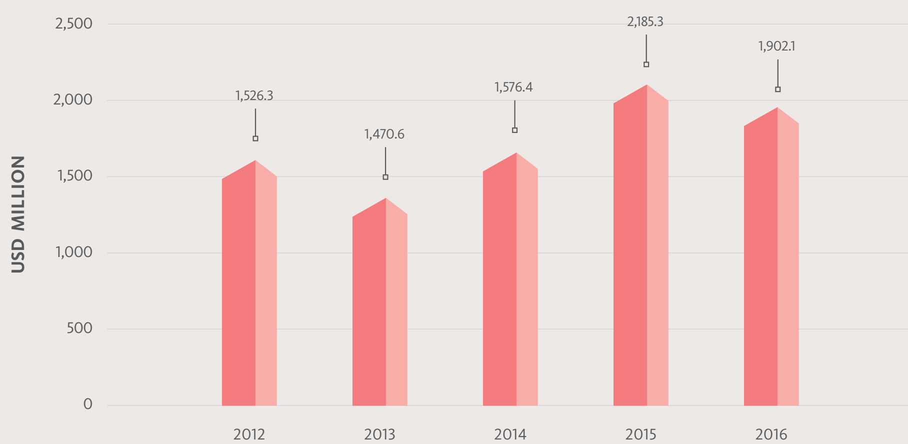
**Table 7** **Total Islamic Assets, Financing and Deposits**

| | 2012 | 2013 | 2014 | 2015* | 2016 | change (%) |
|---|---|---|---|---|---|---|
| | USD Million | | | | | |
| **Total Deposits** | 169.0 | 222.7 | 162.8 | 155.1 | 200.8 | 29.4 |
| Residents | 9.8 | 8.5 | 9.1 | 4.6 | 3.5 | |
| Non-Residents | 159.2 | 214.2 | 153.7 | 150.5 | 197.3 | |
| *% Market share* | 1.6 | 2.1 | 1.8 | 1.4 | 1.8 | |
| **Total Financing** | 528.5 | 775.6 | 1,161.8 | 1,807.7 | 1,570.2 | (13.1) |
| Residents | 136.6 | 236.8 | 442.7 | 411.2 | 230.8 | |
| Non-Residents | 391.9 | 538.8 | 719.2 | 1,396.5 | 1,339.4 | |
| *% Market share* | 2.0 | 2.8 | 3.6 | 5.6 | 4.9 | |

** Restated*

## LABUAN BANKS

**Chart 3** **Total Islamic Assets**




- The market share of Islamic assets stood at USD1.9 billion or 3.7% of Labuan's total banking industry's assets, marking a 13% decrease from the previous year (2015: 4.6% or USD2.2 billion). This decrease was due to a 13.1% drop in Islamic financing provided by Labuan Islamic banks (including conventional banks with Islamic windows) to USD1.6 billion (2015: USD1.9 billion).

- The decline was mainly due to settlement of financing by Islamic banks' customers.

- Islamic financing made up 4.9% of the banking industry's total loans and advances (2015: 5.6%), with non-resident clients dominating 85.3% of total Islamic financing.

- Total Islamic deposits generated by Labuan Islamic banks (including conventional banks with Islamic windows) accounted for 1.8% or USD200.8 million of total deposits in the industry, an increase of 29.4% from the previous year (2015: 1.4% or USD155.1 million).

- Most of the depositors were non-residents, who accounted for 98.3% or USD197.3 million of the total Islamic deposits (2015: 97% or USD150.5 million).

- In addition, profit before zakat (PBZ) for Labuan Islamic banks (including conventional banks with Islamic windows) increased significantly to USD10.6 million from USD1.9 million in 2015. This was mainly due to higher returns from investments in Islamic securities.

**ISLAMIC FINANCING**

**4.9%**

of the banking industry's total loans and advances (2015: 5.6%)

**TOTAL ISLAMIC DEPOSITS INCREASED**

**29.4%**

(2015: 1.4%)

**PROFIT BEFORE ZAKAT INCREASED TO**

**USD10.6 million**

(2015: USD1.9 million)

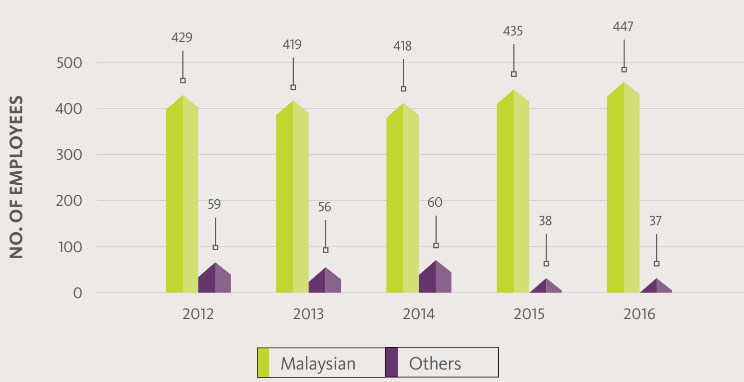
## LABUAN BANKS

**Table 8** **Key Data**

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| Profit Before Tax (USD mil) | 653.8 | 575.0 | 461.1 | 620.6 | 551.5 |
| Total Assets (USD mil) | 42,113.3 | 42,690.1 | 44,281.8 | 47,392.0 | 50,986.9 |
| Shareholders' Funds (USD mil) | 2,505.4 | 2,743.9 | 2,509.5 | 2,625.2 | 2,753.1 |
| RWCR (%) | 21.0 | 23.1 | 31.6 | 31.9 | 36.7 |
| Gross NPL Industry (%) | 1.3 | 1.5 | 1.5 | 0.8 | 0.7 |
| ROE (%) | 26.1 | 21.0 | 18.4 | 23.6 | 23.2 |
| ROA (%) | 1.6 | 1.3 | 1.0 | 1.3 | 1.1 |

- For the year ended 31 December 2016, the Labuan banking sector registered a profit before tax of USD551.5 million (2015: USD620.6 million). The 11.1% decrease was primarily due to higher loans loss and other provisions made by the banks.
- Total loan loss provision for the year 2016 increased significantly by 153% compared to the previous year, increasing the buffer against potential losses and subsequently reducing the return on assets (ROA) and return on equity (ROE) ratios.
- In terms of capital, most subsidiaries in Labuan maintained higher capital buffers, leading to a 36.7% enhancement in the industry's risk weighted capital ratio (RWCR).
- Overall, the Labuan banking sector continued to grow at a modest rate despite the fall in commodity prices and market uncertainties arising from recent developments in the global markets. The Labuan banking sector remained resilient in 2016 due to adequate net interest margin although in a low interest rate environment.
- Malaysian-based banks recorded the highest total deposits among Labuan banks while foreign banks were the major contributors in total loan outstanding in Labuan IBFC.
- The presence of reputable banks in Labuan IBFC is evidence that Labuan has become a key platform for players to provide financial services in the region.

**Chart 4** **Employment**




- The number of Malaysians working in Labuan banks has increased from 429 in 2012 to 447 in 2016, while the number of expatriates has decreased to 37 from 59 in the same five-year period.
- Currently, the total number of Labuan banks' co-located and marketing offices are four and 29, respectively. This flexibility provides Labuan banks the ability to conduct their banking business in Labuan IBFC and contribute to growth of the international financial market in Malaysia.

LABUAN IBFC INDUSTRY PERFORMANCE

## LABUAN INSURANCE

Labuan insurance business includes life, general, reinsurance, insurance manager, underwriting manager, insurance broking and (re)takaful. Aside, Labuan IBFC also offers a wide range of risk management structures such as captive and protected cell companies.

**Table 1** **Number and Type of Insurance and Insurance-Related Licences**

| Type of Licence | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| Life | 4 | 5 | 5 | 7 | 8 |
| General | 11 | 14 | 13 | 13 | 14 |
| Composite | 2 | 2 | 2 | 2 | 2 |
| Reinsurance | 41 | 46 | 46 | 46 | 44 |
| Captive | 41 | 41 | 40 | 40 | 39 |
| Insurance Manager | 5 | 4 | 3 | 3 | 3 |
| Underwriting Manager | 21 | 20 | 21 | 20 | 20 |
| Broker | 78 | 81 | 79 | 78 | 74 |
| **Total** | 203 | 213 | 209 | 209 | 204 |

- In 2016, 11 insurance and insurance-related entities were approved comprising one general insurer, three general reinsurers, one life insurer, four insurance brokers, one captive insurer and one captive takaful operator.
- That Labuan IBFC is a preferred centre for (re)insurance and (re)takaful was evidenced by the entrance of two well-rated general reinsurance companies from the United States of America and Germany, specialising in property and casualty insurance. The low operational start-up costs and stable political regime continued to be driving factors for their presence in Labuan IBFC.
- In addition, two existing (re)insurers have transferred their businesses to newly licensed Labuan (re)insurers due to repositioning at the head office level. The repositioning provides efficiency in the management and operations of the Group as a whole.
- The total number of approved Labuan insurance and insurance-related licences stood at 204, a 2.4% decline from the previous year (2015: 209) due to revocation and surrendering of licences.
- The year 2016 saw merger and acquisition (M&A) activity among major (re)insurance entities around the world due to ongoing need for growth, scale and new capabilities. This has affected five Labuan insurance and insurance related entities.

**TOTAL ASSETS INCREASED BY**

**4.5%**

USD4 billion
(2015: USD3.9 billion)

**NON-RESIDENT BUSINESS SHARE**

**57.9%**

(2015: 50.6%)

**NET RETENTION RATIO**

**71.9%**

(2015: 64.1%)

**PROFIT BEFORE TAX**

**USD387.3 million**

(2015: USD253.9 million)

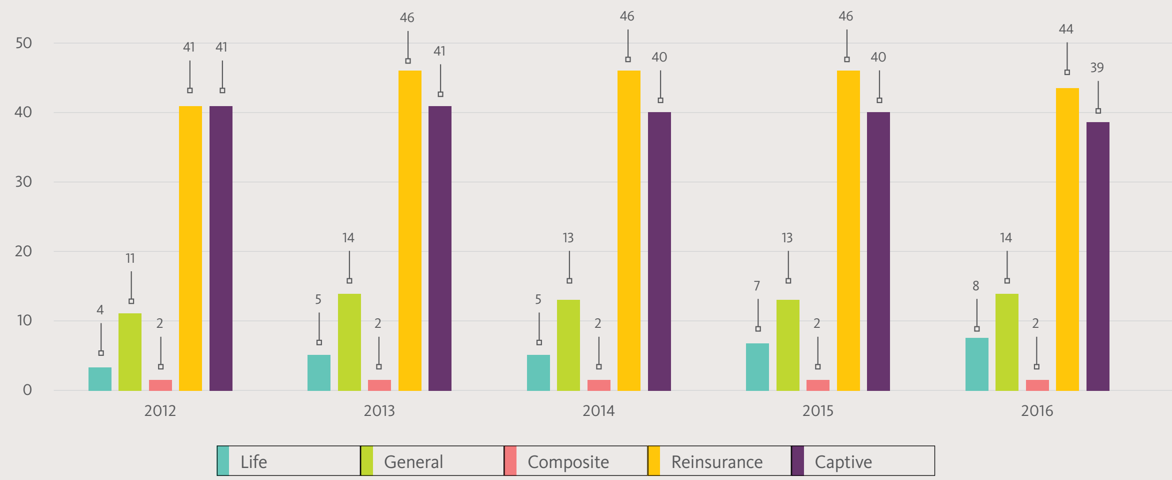
**TOTAL EMPLOYEES**

**991**

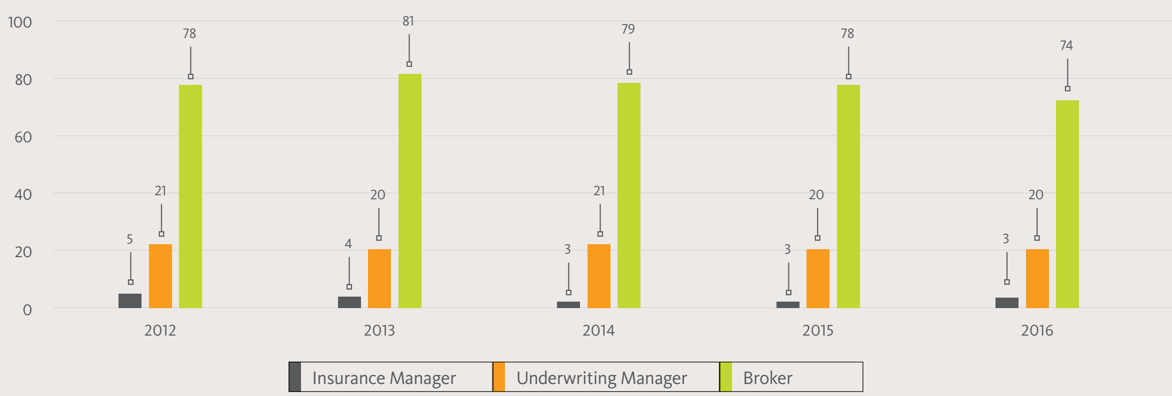
(2015: 1,015)

## LABUAN INSURANCE

### Chart 1 Number of Labuan Insurance Licences




### Chart 2 Number of Labuan Insurance-Related Licences

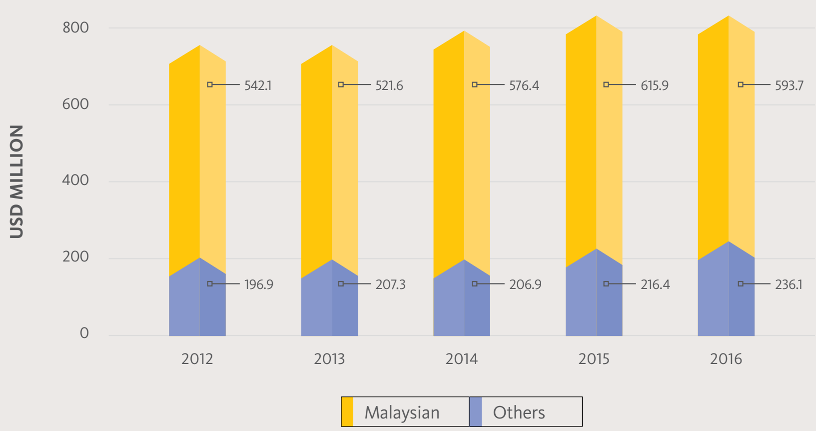



### Table 2 Total Capitalisation

| Held By | 2012 | | 2013 | | 2014 | | 2015 | | 2016 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | USD'000 | share (%) | USD'000 | share (%) | USD'000 | share (%) | USD'000 | share (%) | USD'000 | share (%) |
| Malaysian | 196,907 | 26.6 | 207,296 | 28.4 | 206,928 | 26.4 | 216,399 | 26.0 | 236,149 | 28.5 |
| Others | 542,132 | 73.4 | 521,597 | 71.6 | 576,353 | 73.6 | 615,929 | 74.0 | 593,704 | 71.5 |
| **Total** | 739,039 | 100.0 | 728,893 | 100.0 | 783,281 | 100.0 | 832,328 | 100.0 | 829,853 | 100.0 |

## LABUAN INSURANCE

**Chart 3** **Total Capitalisation**




- As a result of the decrease in number of licences, the total capitalisation of the Labuan insurance industry decreased by 0.3% to USD829.9 million (2015: USD832.3 million).
- Total shareholdings for the Labuan insurance industry were still dominated by foreign shareholdings which accounted for 71.5% (2015: 74%).

**Table 3** **Total Assets**

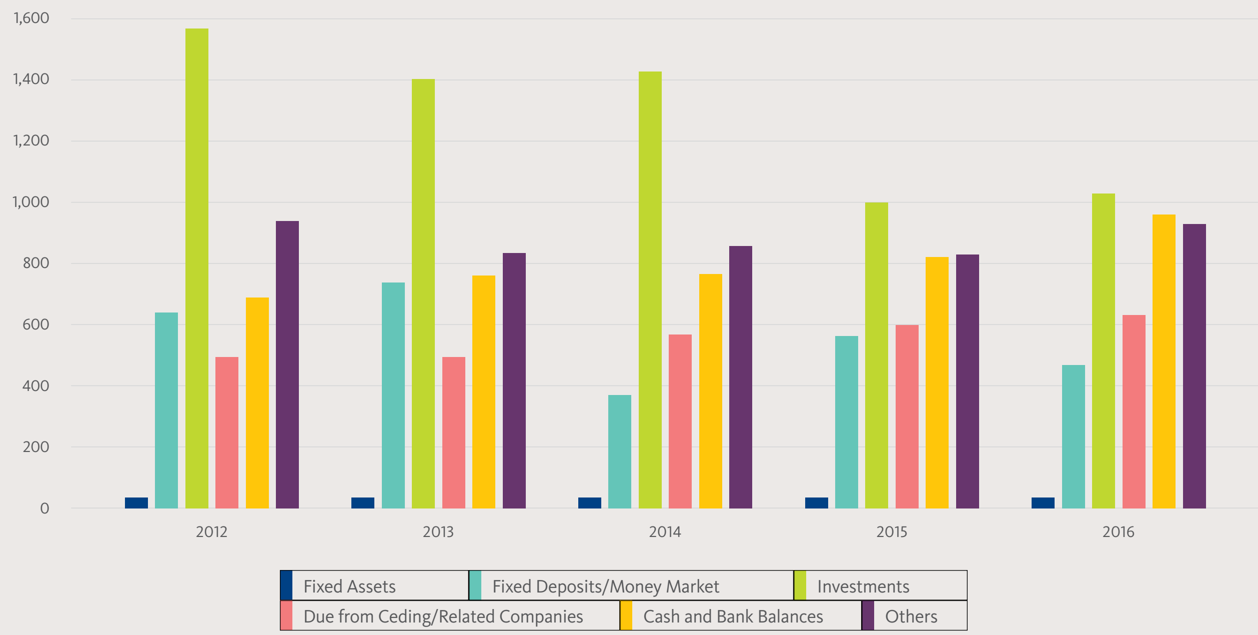
| Type of Assets | 2012* | | 2013 | | 2014* | | 2015* | | 2016 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | USD'000 | share (%) | USD'000 | share (%) | USD'000 | share (%) | USD'000 | share (%) | USD'000 | share (%) |
| Fixed Assets | 53,090 | 1.2 | 59,341 | 1.4 | 55,234 | 1.4 | 63,641 | 1.7 | 68,998 | 1.7 |
| Due from Ceding/ Related Companies | 669,006 | 15.3 | 720,278 | 16.7 | 526,018 | 13.3 | 521,126 | 13.5 | 473,465 | 11.8 |
| Fixed Deposits/ Money Market | 1,530,408 | 34.9 | 1,432,202 | 33.2 | 1,131,825 | 28.6 | 992,065 | 25.7 | 1,028,000 | 25.5 |
| Cash and Bank Balances | 499,883 | 11.4 | 470,821 | 10.9 | 578,021 | 14.6 | 605,901 | 15.7 | 640,341 | 15.9 |
| Investments | 694,363 | 15.8 | 777,020 | 18.0 | 784,809 | 19.8 | 827,850 | 21.5 | 938,870 | 23.3 |
| Others | 934,772 | 21.3 | 854,457 | 19.8 | 884,103 | 22.3 | 842,354 | 21.9 | 878,064 | 21.8 |
| **Total** | 4,381,521 | 100.0 | 4,314,119 | 100.0 | 3,960,011 | 100.0 | 3,852,938 | 100.0 | 4,027,738 | 100.0 |

** Restated*

*Note: Figures may not necessarily add up due to rounding*

## LABUAN INSURANCE

**Chart 4** **Total Assets**




- The Labuan insurance industry recorded an increase in total assets of 4.5% to USD4 billion (2015: USD3.9 billion). This was mainly due to increase in gross premium leading to growth in investments in corporate and debt securities by the Labuan (re)insurers.
- Due to the capital conserving nature of the industry, fixed deposits and money market continued to be the largest asset components of the industry, representing 25.5% of total assets or USD1 billion (2015: 25.7% and USD992.1 million).

## LABUAN INSURANCE

**Table 4** **Distribution of Gross Premiums**

| Year | Total | | Fire | Marine | Engineering | Motor | Other Classes | Total |
|---|---|---|---|---|---|---|---|---|
| | Malaysian | Others | USD'000 | | | | | |
| 2012 | 801,300 | 937,229 | 671,552 | 200,582 | 309,263 | 164,136 | 392,996 | 1,738,529 |
| 2013 | 766,913 | 853,184 | 582,483 | 159,978 | 392,782 | 110,595 | 374,260 | 1,620,098 |
| 2014* | 735,371 | 730,721 | 527,058 | 142,558 | 263,173 | 131,872 | 401,431 | 1,466,092 |
| 2015* | 656,137 | 672,427 | 465,724 | 115,683 | 283,118 | 93,128 | 370,912 | 1,328,564 |
| 2016 | 577,530 | 795,070 | 470,416 | 91,791 | 207,042 | 119,162 | 484,189 | 1,372,600 |
| **change (%)** | | | | | | | | |
| 2012 | (0.8) | 22.1 | 19.6 | (2.0) | (0.4) | (14.0) | 27.8 | 10.4 |
| 2013 | (4.3) | (9.0) | (13.3) | (20.2) | 27.0 | (32.6) | (4.8) | (6.8) |
| 2014* | (4.1) | (14.4) | (9.5) | (10.9) | (33.0) | 19.2 | 7.3 | (9.5) |
| 2015* | (10.8) | (8.0) | (11.6) | (18.9) | 7.6 | (29.4) | (7.6) | (9.4) |
| 2016 | (12.0) | 18.2 | 1.0 | (20.7) | (26.9) | 28.0 | 30.5 | 3.3 |
| **share (%)** | | | | | | | | |
| 2012 | 46.1 | 53.9 | 38.6 | 11.5 | 17.8 | 9.4 | 22.6 | 100.0 |
| 2013 | 47.3 | 52.7 | 36.0 | 9.9 | 24.2 | 6.8 | 23.1 | 100.0 |
| 2014* | 50.2 | 49.8 | 35.9 | 9.7 | 18.0 | 9.0 | 27.4 | 100.0 |
| 2015* | 49.4 | 50.6 | 35.1 | 8.7 | 21.3 | 7.0 | 27.9 | 100.0 |
| 2016 | 42.1 | 57.9 | 34.3 | 6.7 | 15.1 | 8.7 | 35.3 | 100.0 |

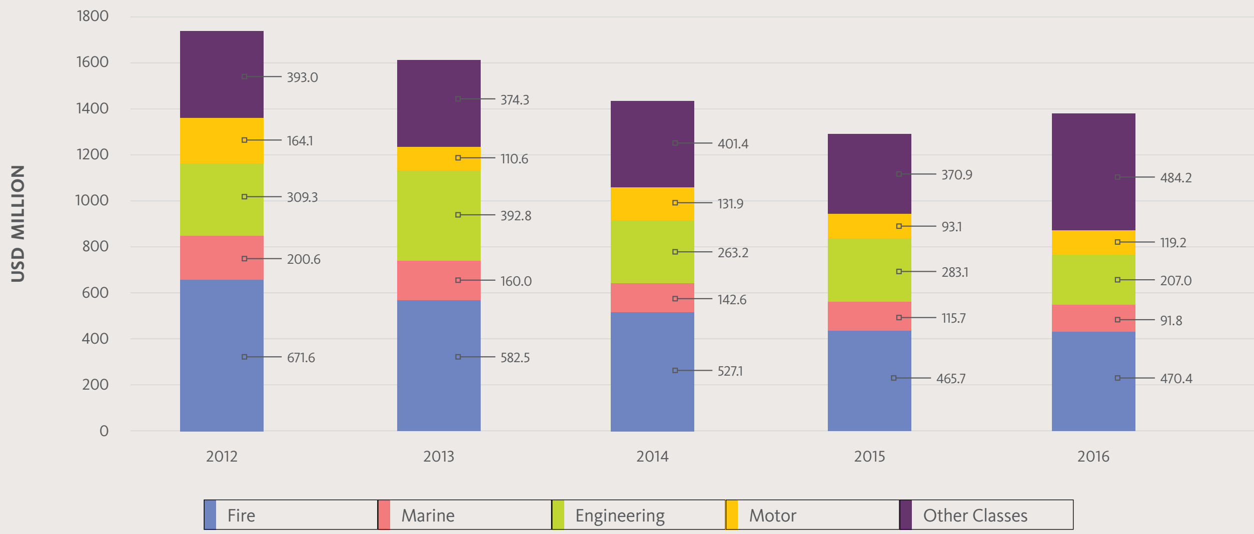
** Restated*
*Note: Figures may not necessarily add up due to rounding*

- In 2016, there was a 3.3% increase in total gross premiums of (re)insurers to USD1.4 billion (2015: USD1.3 billion) despite a decrease in total gross premiums over the past three years. This was mainly due to the increase in gross premiums written on motor and other classes of insurance outside Malaysia by Labuan general insurers and reinsurers.

- The non-resident business continued to contribute the highest share of 57.9% (2015: 50.6%) of the industry premiums, reflecting the centre's efforts to promote the international (re)insurance business.

## LABUAN INSURANCE

**Chart 5** Distribution of Gross Premiums




- Other Classes and the Fire sector continued to contribute the most to gross premiums, representing 35.3% or USD484.2 million and 34.3% or USD470.4 million of the total (2015: 27.9% or USD370.9 million and 35.1% or USD465.7 million).

**Table 5** Net Retention Ratio (%)

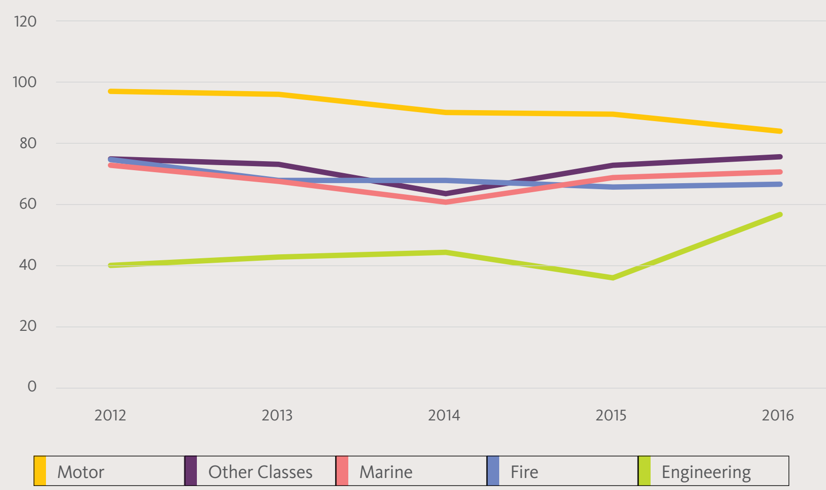
| Year | Malaysian | Others | Fire | Marine | Engineering | Motor | Other Classes | Total |
|---|---|---|---|---|---|---|---|---|
| 2012 | 60.7 | 79.1 | 73.9 | 73.7 | 40.4 | 98.3 | 75.6 | 70.6 |
| 2013 | 53.4 | 76.3 | 68.6 | 68.6 | 42.3 | 97.3 | 73.9 | 65.4 |
| 2014* | 54.5 | 77.0 | 70.5 | 61.3 | 43.9 | 96.5 | 65.1 | 65.7 |
| 2015* | 55.4 | 72.7 | 64.6 | 69.6 | 38.7 | 91.8 | 74.4 | 64.1 |
| 2016 | 58.7 | 81.5 | 68.7 | 72.5 | 58.4 | 83.1 | 77.9 | 71.9 |

** Restated*
*Note: Figures may not necessarily add up due to rounding*

- The overall net retention ratio of the industry grew to 71.9% as compared to the previous year (2015: 64.1%). This was due to a significant increase in retention in the Engineering sector.

## LABUAN INSURANCE

**Chart 6** **Net Retention Ratio (%) by Sector**




- Motor sector continued to have the highest net retention ratio of 83.1% in 2016 (2015: 91.8%).

**Table 6** **Underwriting Experience**

| Year | Earned Premium Income | Net Claims Incurred | | Commission | | Management Expenses | | Underwriting Margin | |
|---|---|---|---|---|---|---|---|---|---|
| | USD'000 | USD'000 | ratio (%) | USD'000 | ratio (%) | USD'000 | ratio (%) | USD'000 | ratio (%) |
| 2012* | 1,262,813 | 719,461 | 57.0 | 302,165 | 23.9 | 48,193 | 3.8 | 192,994 | 15.3 |
| 2013 | 1,085,450 | 513,125 | 47.3 | 234,944 | 21.6 | 60,920 | 5.6 | 276,462 | 25.5 |
| 2014* | 999,663 | 454,614 | 45.5 | 191,376 | 19.1 | 67,883 | 6.8 | 285,790 | 28.6 |
| 2015* | 945,824 | 388,020 | 41.0 | 173,214 | 18.3 | 60,017 | 6.3 | 324,572 | 34.3 |
| 2016 | 970,085 | 341,523 | 35.2 | 196,567 | 20.3 | 64,863 | 6.7 | 367,131 | 37.8 |

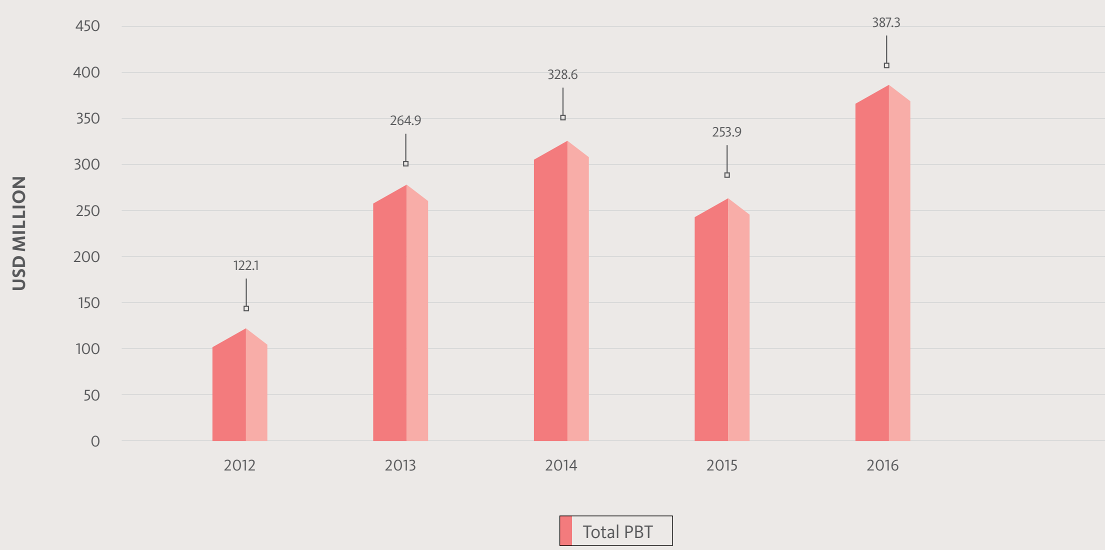
** Restated*
*Note: Figures may not necessarily add up due to rounding*

- In line with moderated growth in total assets, total gross premiums and net retention ratio, the industry earned premium income also increased, by 2.6%, to USD970.1 million (2015: USD945.8 million).

- Despite commission and management expenses increasing by 13.5% and 8.1% to USD196.6 million and USD64.9 million, respectively (2015: USD173.2 million and USD60 million respectively), the net claims incurred ratio improved to 35.2% (2015: 41%). As a result of better claims experience during the year, the underwriting margin also improved to 37.8% (2015: 34.3%).

## LABUAN INSURANCE

**Chart 7** **Total Profit Before Tax**




- Profit before tax increased significantly, by 52.5%, to USD387.3 million (2015: USD253.9 million), reflecting an improvement in quality of risk underwritten and retained by Labuan insurers and reinsurers in 2016.

## LABUAN INSURANCE

**Table 7** **Statistics on Investment-Linked Policies**

| Year | | New Policies | | | Policies in Force | | |
|---|---|---|---|---|---|---|---|
| | | Malaysian | Others | Total | Malaysian | Others | Total |
| 2012 | **No. of Policies** | 155 | 11 | 166 | 970 | 45 | 1,015 |
| | | | | USD'000 | | | |
| | Sum Insured | 11,590 | 256 | 11,846 | 21,648 | 1,560 | 23,208 |
| | Single Premiums | 2,746 | 142 | 2,888 | 19,062 | 1,482 | 20,544 |
| 2013 | **No. of Policies** | 183 | 12 | 195 | 652 | 53 | 705 |
| | | | | USD'000 | | | |
| | Sum Insured | 4,658 | 609 | 5,267 | 20,858 | 2,209 | 23,067 |
| | Single Premiums | 3,383 | 288 | 3,671 | 19,606 | 1,676 | 21,282 |
| 2014 | **No. of Policies** | 182 | 2 | 184 | 781 | 49 | 830 |
| | | | | USD'000 | | | |
| | Sum Insured | 8,339 | 519 | 8,858 | 31,436 | 2,185 | 33,621 |
| | Single Premiums | 4,854 | 533 | 5,387 | 16,579 | 1,513 | 18,093 |
| 2015 | **No. of Policies** | 144 | 5 | 149 | 875 | 49 | 924 |
| | | | | USD'000 | | | |
| | Sum Insured | 4,384 | 168 | 4,552 | 30,933 | 1,400 | 32,333 |
| | Single Premiums | 5,166 | 175 | 5,340 | 19,877 | 1,589 | 21,466 |
| 2016 | **No. of Policies** | 64 | 272 | 336 | 903 | 772 | 1,675 |
| | | | | USD'000 | | | |
| | Sum Insured | 2,565 | 5,972 | 8,537 | 31,402 | 20,678 | 52,080 |
| | Single Premiums | 2,131 | 6,136 | 8,267 | 19,645 | 21,491 | 41,135 |

- For investment-linked products, a total of 336 new policies were issued in 2016, marking a significant 125.5% increase from the previous year (2015: 149). The total number of policies in force also increased, by 81.3%, to 1,675 (2015: 924).
- In terms of value, USD8.3 million worth of premiums was underwritten compared to USD5.3 million in 2015. The total sum insured increased to USD8.5 million (2015: USD4.6 million).

## LABUAN INSURANCE

**Table 8 Distribution of Gross Premiums for Captive Business**

| Year | Malaysian | Others | Fire | Marine | Engineering | Motors | Other Classes | Total |
|---|---|---|---|---|---|---|---|---|
| | USD'000 | | | | | | | |
| 2012 | 231,603 | 95,464 | 34,173 | 24,210 | 185,088 | - | 83,595 | 327,066 |
| 2013 | 287,804 | 146,551 | 36,497 | 21,171 | 274,718 | 36 | 101,934 | 434,356 |
| 2014* | 242,978 | 135,278 | 40,646 | 22,929 | 164,350 | 631 | 149,701 | 378,257 |
| 2015* | 232,336 | 142,254 | 28,379 | 14,500 | 209,830 | 216 | 121,665 | 374,589 |
| 2016 | 161,423 | 187,174 | 22,276 | 14,844 | 131,293 | 2,148 | 178,036 | 348,596 |
| | change (%) | | | | | | | |
| 2012 | (10.7) | 76.7 | 61.7 | 23.2 | (5.8) | (100.0) | 10.8 | 4.4 |
| 2013 | 24.3 | 53.5 | 6.8 | (12.6) | 48.4 | 0.0 | 21.9 | 32.8 |
| 2014* | (15.6) | (7.7) | 11.4 | 8.3 | (40.2) | 1648.0 | 46.9 | (12.9) |
| 2015* | (4.4) | 5.2 | (30.2) | (36.8) | 27.7 | (65.8) | (18.7) | (1.0) |
| 2016 | (30.5) | 31.6 | (21.5) | 2.4 | (37.4) | 894.5 | 46.3 | (6.9) |
| | share (%) | | | | | | | |
| 2012 | 70.8 | 29.2 | 10.4 | 7.4 | 56.6 | 0.0 | 25.6 | 100.0 |
| 2013 | 66.3 | 33.7 | 8.4 | 4.9 | 63.2 | 0.0 | 23.5 | 100.0 |
| 2014* | 64.2 | 35.8 | 10.7 | 6.1 | 43.4 | 0.2 | 39.6 | 100.0 |
| 2015* | 62.0 | 38.0 | 7.6 | 3.9 | 56.0 | 0.1 | 32.5 | 100.0 |
| 2016 | 46.3 | 53.7 | 6.4 | 4.3 | 37.7 | 0.6 | 51.1 | 100.0 |

** Restated*

*Note: Figures may not necessarily add up due to rounding*

- In 2016, the total gross premium for the captive insurance business declined by 6.9% to USD348.6 million (2015: USD374.6 million). This was mainly due to a decrease in gross premiums generated from the Engineering sector. Despite of the decrease in total gross premiums, the total earned premium for captive insurance business increased by 18.8% to USD252 million (2015: USD212.1 million), due to higher retention for all sectors.

- The Engineering sector and Other Classes of business continued to contribute the highest to gross premiums with 37.7% or USD131.3 million and 51.1% or USD178 million of the total for the year, respectively (2015: 56% or USD209.8 million and 32.5% or USD121.7 million).

- Most of the total gross premiums for the captive insurance business were derived from outside Malaysia, reflecting the centre's efforts to promote international business in support of insuring group risks.

## LABUAN INSURANCE

**Chart 8** Distribution of Gross Premiums for Captive Business

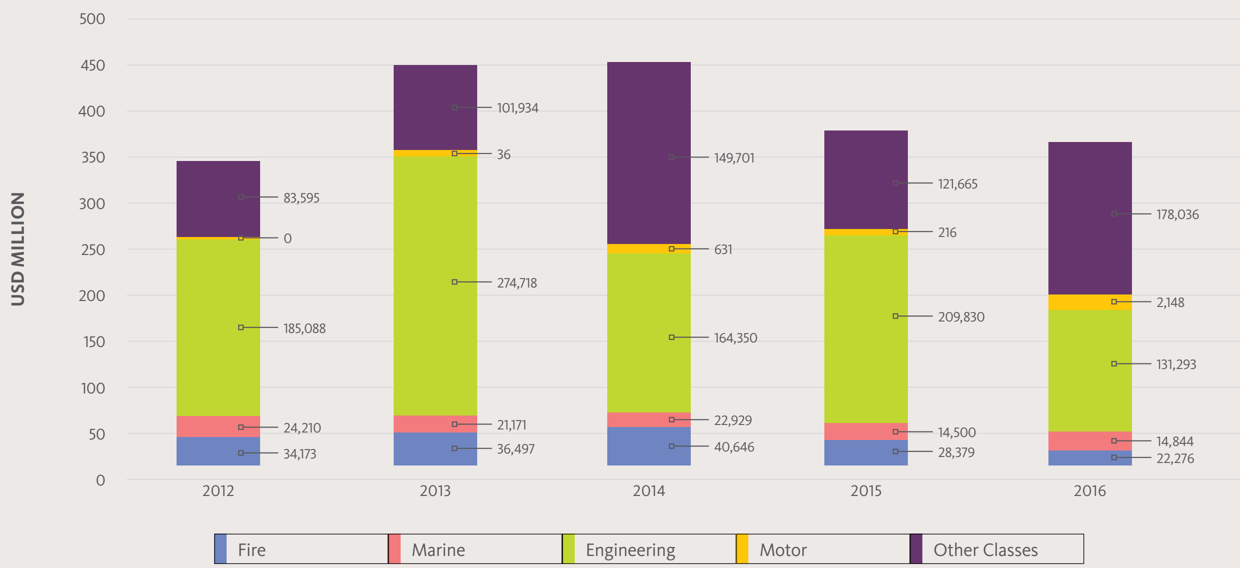



**Table 9** Underwriting Experience of Captive Business

| Year | Earned Premium Income | Net Claims Incurred | | Commission | | Management Expenses | | Underwriting Margin | |
|---|---|---|---|---|---|---|---|---|---|
| | USD'000 | USD'000 | ratio (%) | USD'000 | ratio (%) | USD'000 | ratio (%) | USD'000 | ratio (%) |
| 2012* | 123,051 | 56,448 | 45.9 | (13,378) | (10.9) | 3,435 | 2.8 | 76,546 | 62.2 |
| 2013 | 129,914 | 34,461 | 26.5 | (15,721) | (12.1) | 4,389 | 3.4 | 106,785 | 82.2 |
| 2014* | 180,816 | 111,179 | 61.5 | (1,903) | (1.1) | 3,687 | 2.0 | 67,853 | 37.5 |
| 2015* | 212,110 | 126,345 | 59.6 | (8,940) | (4.2) | 2,939 | 1.4 | 91,766 | 43.3 |
| 2016 | 252,020 | 129,629 | 51.4 | 5,846 | 2.3 | 3,522 | 1.4 | 113,023 | 44.8 |

** Restated*

*Note: Figures may not necessarily add up due to rounding*

## LABUAN INSURANCE

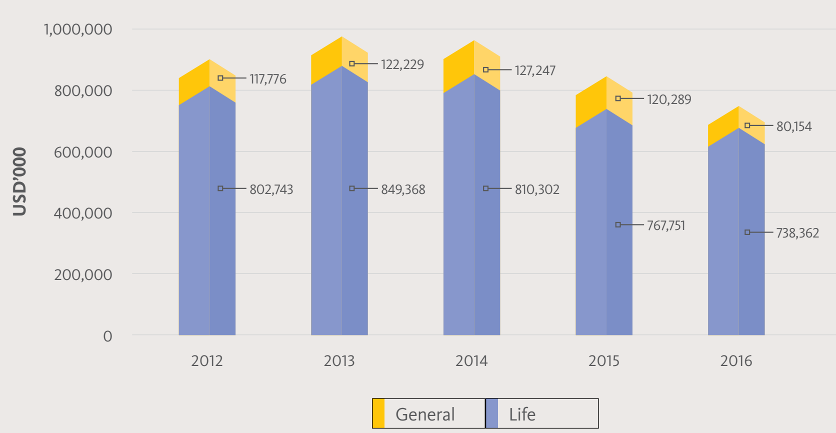
**Table 10 Premiums Placement by Insurance Brokers**

| | 2012 | 2013 | 2014* | 2015 | 2016 | Yearly Change | Market Share |
|---|---|---|---|---|---|---|---|
| **General Business** | | | USD'000 | | | % | |
| Labuan | 134,142 | 138,223 | 111,228 | 104,205 | 113,742 | 9.2 | 13.9 |
| Malaysia | 323,337 | 317,097 | 338,748 | 268,851 | 240,963 | (10.4) | 29.4 |
| Others | 345,264 | 394,048 | 360,326 | 394,695 | 383,657 | (2.8) | 46.9 |
| **Sub Total** | 802,743 | 849,368 | 810,302 | 767,751 | 738,362 | (3.8) | 90.2 |
| **Life Business** | | | USD'000 | | | % | |
| Labuan | 2,309 | 4,901 | 1,595 | 2,249 | 4,247 | 88.8 | 0.5 |
| Malaysia | 741 | - | - | - | 1 | 0.0 | 0.0 |
| Others | 114,726 | 117,328 | 125,653 | 118,040 | 75,906 | (35.7) | 9.3 |
| **Sub Total** | 117,776 | 122,229 | 127,247 | 120,289 | 80,154 | (33.4) | 9.8 |
| **Grand Total** | 920,519 | 971,597 | 937,549 | 888,040 | 818,515 | (7.8) | 100.0 |

** Restated*

- Total premiums processed by Labuan insurance brokers has been declining in the last two years.

**Chart 9 Premiums Placement by Insurance Brokers**




- In 2016, total premium placements by Labuan insurance brokers further decreased by 7.8% to USD818.5 million (2015: USD888 million), of which 90.2% was derived from the general insurance business.

- The decrease was mainly due to a continued decline in premium placements by life insurance brokers and number of policies issued by Labuan life (re)insurers.

- Premium placements for general insurance business by Labuan insurance brokers were mainly derived from the international market with 46.9% of the total placement. In life insurance broking, nearly all the premiums were derived from direct businesses placed with overseas insurers.

## LABUAN INSURANCE

**Table 11** **Brokerage Fee Earned by Insurance Brokers**

| | 2012 | 2013 | 2014* | 2015 | 2016 | Yearly Change | Market Share |
|---|---|---|---|---|---|---|---|
| **General Business** | USD'000 | | | | | % | |
| Labuan | 6,088 | 6,641 | 5,524 | 4,832 | 10,069 | 108.4 | 20.5 |
| Malaysia | 14,045 | 12,710 | 13,119 | 9,896 | 7,397 | (25.3) | 15.1 |
| Others | 37,853 | 45,041 | 36,141 | 25,532 | 22,607 | (11.5) | 46.1 |
| **Sub Total** | 57,986 | 64,392 | 54,785 | 40,260 | 40,073 | (0.5) | 81.7 |
| **Life Business** | USD'000 | | | | | % | |
| Labuan | 473 | 324 | 135 | 454 | 949 | 109.1 | 1.9 |
| Malaysia | 16 | - | 2 | 3 | 1 | (59.2) | 0.0 |
| Others | 10,188 | 10,465 | 11,280 | 11,109 | 8,017 | (27.8) | 16.3 |
| **Sub Total** | 10,678 | 10,789 | 11,417 | 11,566 | 8,967 | (22.5) | 18.3 |
| **Grand Total** | 68,663 | 75,181 | 66,201 | 51,826 | 49,039 | (5.4) | 100.0 |

** Restated*
*Note: Figures may not necessarily add up due to rounding*

- Brokerage fees earned by Labuan insurance brokers decreased by 5.4% to USD49 million (2015: USD51.8 million) consistent with the market decline in life insurance placements by life insurance brokers.

## LABUAN INSURANCE

**Table 12 Gross Contribution of Retakaful Business**

| Year | Total | | Fire | Marine | Engineering | Motor | Other Classes | Total |
|---|---|---|---|---|---|---|---|---|
| | Malaysian | Others | | | | | | |
| | USD'000 | | | | | | | |
| 2012 | 94,910 | 295,231 | 142,142 | 31,840 | 30,341 | 73,149 | 112,667 | 390,140 |
| 2013 | 17,232 | 119,627 | 64,534 | 14,088 | 14,902 | 6,253 | 37,082 | 136,859 |
| 2014* | 53,728 | (15,591) | 13,120 | (4,074) | (1,455) | 34,971 | (4,425) | 38,136 |
| 2015* | 44,565 | 10,730 | 21,432 | 1,818 | 3,218 | 25,202 | 3,624 | 55,295 |
| 2016 | 42,716 | 11,958 | 23,953 | 1,785 | 3,173 | 20,800 | 4,964 | 54,675 |
| | change (%) | | | | | | | |
| 2012 | (31.6) | (8.0) | (17.5) | (30.2) | (25.7) | (39.0) | 39.4 | (15.1) |
| 2013 | (81.8) | (59.5) | (54.6) | (55.8) | (50.9) | (91.5) | (67.1) | (64.9) |
| 2014* | 211.8 | (113.0) | (79.7) | (128.9) | (109.8) | 459.3 | (111.9) | (72.1) |
| 2015* | (17.1) | (168.8) | 63.4 | (144.6) | (321.2) | (27.9) | (181.9) | 45.0 |
| 2016 | (4.1) | 11.5 | 11.8 | (1.8) | (1.4) | (17.5) | 37.0 | (1.1) |
| | share (%) | | | | | | | |
| 2012 | 24.3 | 75.7 | 36.4 | 8.2 | 7.8 | 18.7 | 28.9 | 100.0 |
| 2013 | 12.6 | 87.4 | 47.2 | 10.3 | 10.9 | 4.6 | 27.1 | 100.0 |
| 2014* | 140.9 | (40.9) | 34.4 | (10.7) | (3.8) | 91.7 | (11.6) | 100.0 |
| 2015* | 80.6 | 19.4 | 38.8 | 3.3 | 5.8 | 45.6 | 6.6 | 100.0 |
| 2016 | 78.1 | 21.9 | 43.8 | 3.3 | 5.8 | 38.0 | 9.1 | 100.0 |

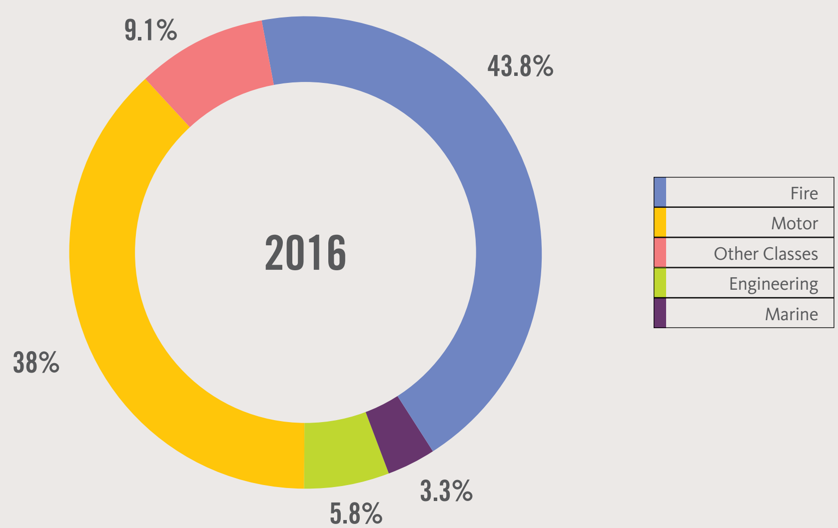
** Restated*

*Note: Figures may not necessarily add up due to rounding*

- In the (re)takaful sector, there was a 1.1% decrease in total gross contribution to USD54.7 million (2015: USD55.3 million). Fire and Motor sectors remained the key business classes for (re)takaful, contributing to 43.8% or USD24 million and 38% or USD20.8 million of the market, respectively. (2015: 38.8% or USD21.4 million and 45.6% or USD25.2 million).

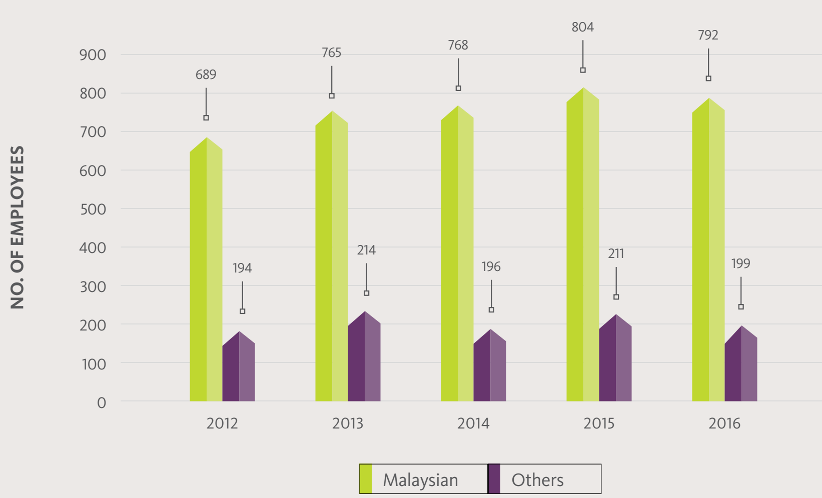
## LABUAN INSURANCE

**Chart 10** **Gross Contribution of Retakaful Business**




- Looking at the past four years, the (re)takaful industry has been difficult for emerging market economies due to several challenges in pricing, optimal model for (re)takaful and human capital. Nevertheless, the maturity of the (re)takaful industry will elevate its operators to face these challenges, and positive growth can be expected in the future.

**Chart 11** **Employment**




- In terms of employment, a total of 991 employees were hired by the Labuan insurance and insurance-related entities (2015: 1,015).
- Most of the employees are Malaysian, holding middle and senior management positions. Most of the employees are stationed at marketing offices and co-located offices in Malaysia. As at 31 December 2016, Labuan insurance and insurance-related entities had established 65 co-located offices and 45 marketing offices to cater for increasing business demand in the domestic market.

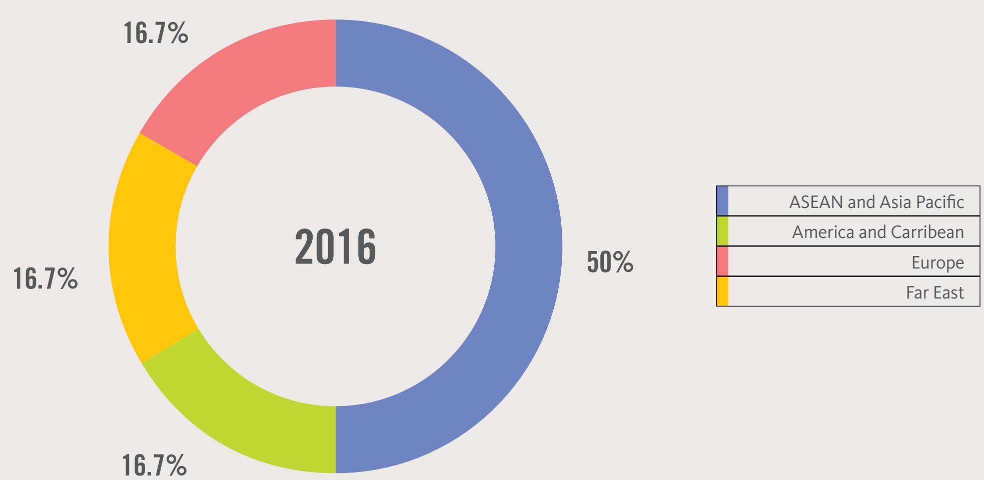
## CAPITAL MARKET

**Table 1 Number of Approved Fund Management Companies and Securities Licensees**

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| Fund Manager | 12 | 8 | 9 | 11 | 12 |
| Securities Licensee | - | 4 | 5 | 6 | 6 |
| **Total** | 12 | 12 | 14 | 16 | 18 |

- Year 2016 witnessed continuing growth of the capital market sector despite the challenging economy and market conditions. Three new fund management businesses and one new securities licensee were approved.
- At the same time, one fund management company voluntarily decided to surrender its licence and one securities licensee was deemed as null and void due to its inability to comply with the licensing conditions.
- This brought the total number of fund management companies and securities licensees to 12 and six, respectively (2015: 11 and 6).

**Chart 1 Fund Manager by Region**




- In terms of geographical distribution, 50% of these fund managers originated from the ASEAN and Asia Pacific region, mainly from Malaysia (25%) and Singapore (25%). This was followed by the Far East (16.7%), America and Caribbean (16.7%) and Europe (16.7%).

## CAPITAL MARKET

**Table 2** **Number of Private Funds and Public Funds**

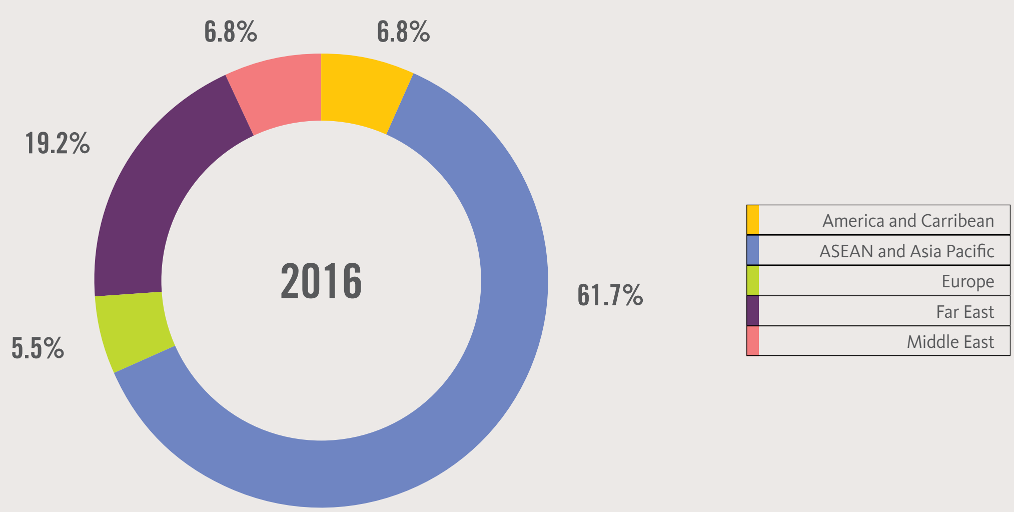
| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| Private Funds | 51 | 59 | 61 | 65 | 73 |
| Public Funds | 1 | 0 | 0 | 0 | 0 |
| **Total** | 52 | 59 | 61 | 65 | 73 |

**Table 3** **Mutual Funds - Cumulative Approved Fund Size**

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| | USD Million | | | | |
| Private Fund | 10,974 | 12,048 | 12,153 | 12,265 | 13,086 |
| Public Fund | 100 | 0 | 0 | 0 | 0 |
| **Fund Size** | 11,074 | 12,048 | 12,153 | 12,265 | 13,086 |

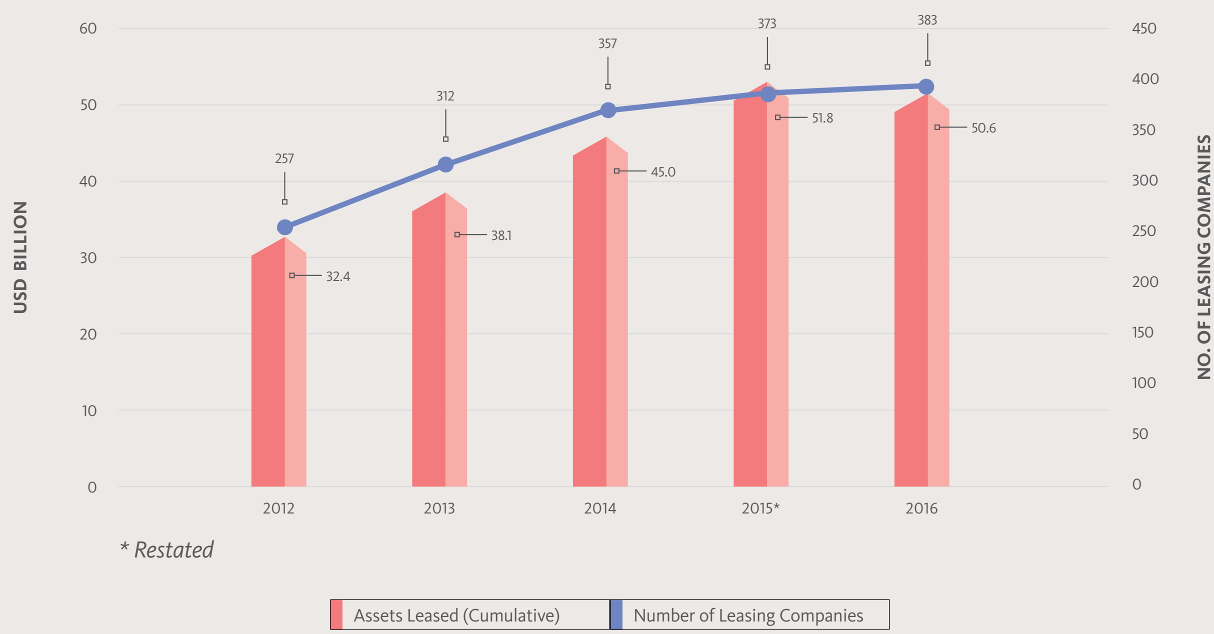
- In 2016, eight notifications were submitted to Labuan FSA for registration of private funds, bringing the total number to 73 (2015: 65), with the total cumulative fund size increasing to USD13.1 billion (2015: USD12.3 billion).
- In terms of geographical distribution, about 61.7% of these private funds originated from the ASEAN and Asia Pacific region, mainly from Malaysia (45.2%), Singapore (8.2%), Australia (4.1%), China (1.4%), Indonesia (1.4%), Thailand (1.4%) and New Zealand (1.4%). The remaining 38.3% represented the Far East region (19.2%), Middle East (6.8%), America and Caribbean (6.8%) and Europe (5.5%).
- Most of these private funds were invested in various infrastructure developments outside Malaysia, reflecting Labuan IBFC's role as a regional investment gateway for emerging markets.

**Chart 2** **Mutual Funds by Region**



## LABUAN LEASING

**Chart 1** **Assets Leased and Number of Leasing Companies in Operation**




* Restated

- In 2016, 36 new leasing companies (2015: 45 companies) were approved, 20% less than in the previous year. This was consistent with the challenges faced by the oil and gas sector, particularly with regard to the volatility of oil prices, and developments in various economies which have affected the Labuan leasing industry and the centre as a whole.

- Labuan IBFC has, however, become the centre of choice for the aviation sector with 24 new leasing companies (2015: 14) established to cater to demand for the leasing structure.

- Notwithstanding, 24 leasing companies have ceased operations due to completion of leasing arrangements and two approvals granted were deemed null and void as the applicants were unable to comply with the licensing conditions. As a result, the total number of leasing companies as at 31 December 2016 increased to 383 (2015: 373 companies), comprising 240 companies involved in oil and gas, 114 companies involved in aviation, and the remaining from other sectors.

- In addition, 143 approvals were granted to the existing leasing companies to conduct subsequent leasing transactions, marking a 138% increase from the previous year (2015: 60). The significant increase was mainly due to a restructuring exercise carried out by a leasing company owned by a Malaysian Government linked company.

- The cumulative value of assets leased decreased by 2.3% to USD50.6 billion (2015: USD51.8 billion), with the oil and gas and aviation sectors contributing 62.7% and 29.8% of the total assets leased, respectively.

## LABUAN LEASING

**Table 1 Breakdown of Origin by Region**

| | 2012 | | 2013 | | 2014 | | 2015* | | 2016 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | No. of leasing | share (%) | No. of leasing | share (%) | No. of leasing | share (%) | No. of leasing | share (%) | No. of leasing | share (%) |
| America and the Caribbean | 53 | 20.6 | 52 | 16.7 | 49 | 13.7 | 46 | 12.3 | 49 | 12.8 |
| Southeast Asia and the Pacific | 150 | 58.4 | 201 | 64.4 | 246 | 68.9 | 265 | 71.1 | 265 | 69.2 |
| Europe | 40 | 15.6 | 48 | 15.4 | 51 | 14.3 | 49 | 13.1 | 56 | 14.6 |
| Far East | 6 | 2.3 | 6 | 1.9 | 6 | 1.7 | 7 | 1.9 | 8 | 2.1 |
| Middle East and Africa | 8 | 3.1 | 5 | 1.6 | 5 | 1.4 | 6 | 1.6 | 5 | 1.3 |
| **Total** | 257 | 100.0 | 312 | 100.0 | 357 | 100.0 | 373 | 100.0 | 383 | 100.0 |

** Restated*

**Chart 2 Breakdown of Origin**


- In terms of geographical distribution, leasing companies originating from Southeast Asia, mainly from Malaysia and Singapore, and the Pacific region continue to dominate the industry, accounting for 69.2% of the market. This was followed by Europe as well as the America and the Caribbean regions with 14.6% and 12.8% market share, respectively.

## LABUAN INTERNATIONAL COMMODITY TRADING COMPANY

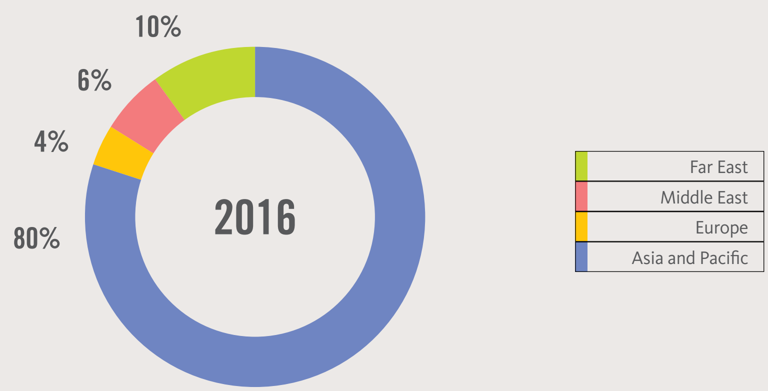
**Chart 1** **Breakdown by Type of Commodities**


- Since the introduction of the Global Incentives for Trading Programme (GIFT Programme), the centre has attracted greater interest from commodity traders to set up Labuan International Commodity Trading Company (LITC). In 2016, approvals were given to 12 trading companies to undertake the Labuan international commodity trading business. One LITC surrendered its licence due to a strategic decision while four approvals granted earlier have been deemed null and void due to the inability of the applicants to comply with the licensing conditions. This brings the total number of LITCs approved to 50 (2015: 43).

- Out of the total, 24 companies were involved in trading of petroleum and petroleum-related products (2015: 25), followed by 11 companies involved in trading of base minerals and refined raw material products (2015: 5), nine companies in agricultural products (2015: 7) and six companies in chemical products (2015: 6).

## LABUAN INTERNATIONAL COMMODITY TRADING COMPANY

**Chart 2** **Breakdown by Origin by Region**




- About 80% of the LITC companies originated from the Asia and Pacific region, mainly from Malaysia and Singapore.

- In terms of operations of the LITCs, there were 32 LITC companies operating during the year 2016 (2015: 20). The total income for trading and non-trading activities were USD16.5 billion, a decrease of 15.8% from the previous year (2015: USD19.6 billion). Majority of the total income were collected from LITC companies trading in petroleum and petroleum related products.

- Total expenditure by the LITC companies for the year 2016 was USD301.2 million, an increase of 32.2% (2015: USD227.8 million). Based on the GIFT Programme, LITC companies are required to have a minimum annual business spend of RM3 million payable to Malaysian residents. The operating companies exceeded this requirement, with a total expenditure spent with Malaysian residents recorded at USD106.5 million (2015: USD111 million).

- In terms of employment, a total of 531 employees were employed by the LITC companies (2015: 528). Out of the 518 Malaysians (2015: 516), 66 were professional traders (2015: 60). This programme supports the Government's initiative in creating opportunities for local talent.

- Consistent with the decrease in total income from trading and non-trading activities, profit before tax recorded in 2016 also decreased by 92% to USD230.4 million (2015: USD2.9 billion). The significant decrease resulted from the various challenges faced by the oil and gas sector.

## LABUAN MONEY BROKER

- In 2016, 10 new approvals were granted to conduct money-broking while one approval was deemed null and void due to the inability of the applicant to comply with the licensing requirements. The total number of Labuan money brokers increased to 24 (2015: 15).

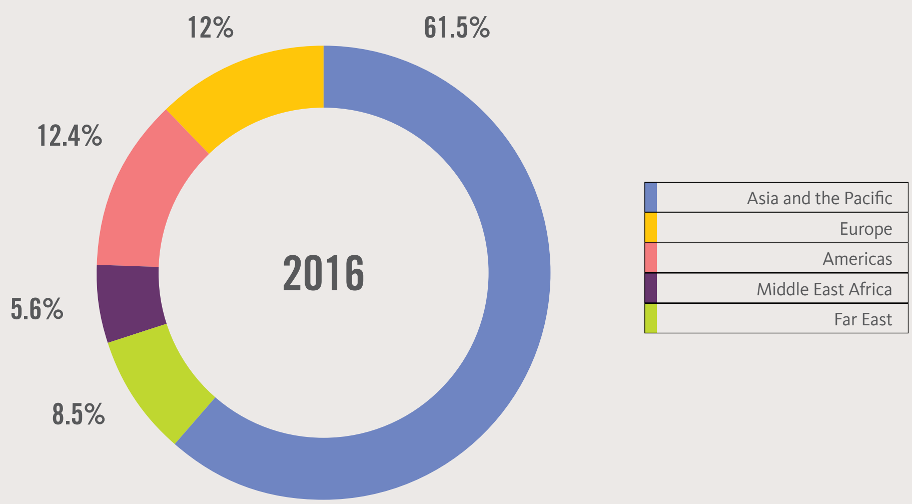
## LABUAN COMPANIES

**Chart 1** **Number of Registered and Operating Companies**


- There was a 6.3% growth in number of Labuan companies, bringing the cumulative total to 13,260 (2015: 12,470).
- In 2016, 790 new companies (2015: 836) were registered, of which 779 were companies limited by shares and 11 were foreign branches.
- Labuan companies are allowed to be incorporated or registered for the purpose of trading, non-trading, or a combination of both. As at 31 December 2016, 52.6% or 3,027 of the operating Labuan companies were established for various trading purposes including licensed activities, consultancy, manufacturing and engineering. The remaining 36.4% or 2,094 were incorporated as non-trading companies or investment holding vehicle and 11% or 639 represent a combination of trading and non-trading activities.

## LABUAN COMPANIES

**Chart 2** **Breakdown of Origin by Region**




- The breakdown of companies according to originating region showed continued dominance of the Asia and the Pacific region with 61.5% (2015: 56.3%) of the companies. This was followed by the Americas, namely British Virgin Islands, Cayman Islands and the United States of America which made up 12.4% (2015: 8%). Representation from Europe stood at 12% (2015: 13.9%) while the Far East accounted for 8.5% (2015: 14.3%) and the Middle East and Africa 5.6% (2015: 7.5%).

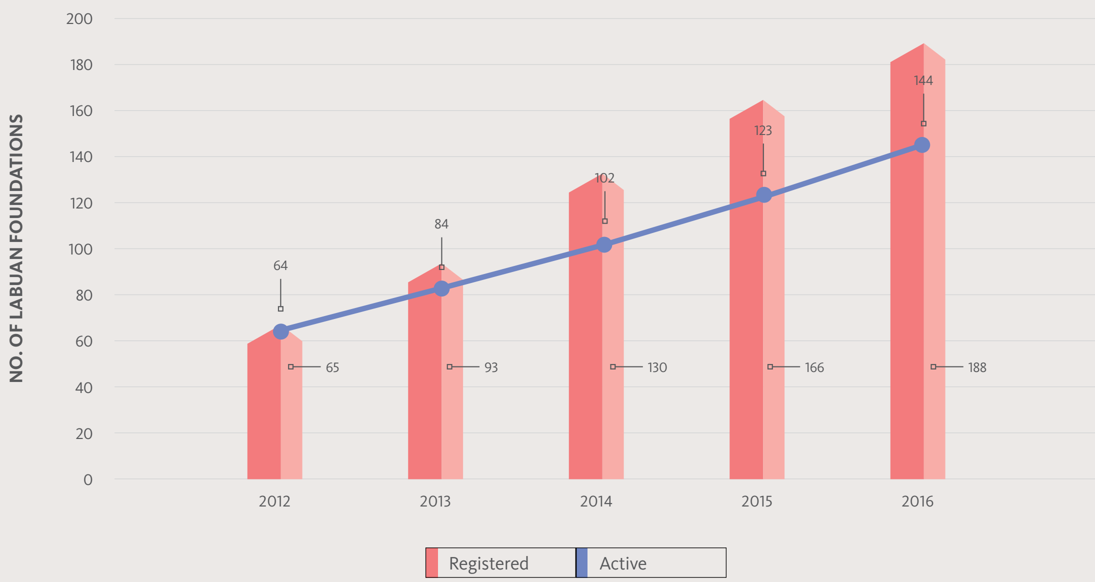
- For the Asia and the Pacific region, companies originating from Malaysia, Singapore and Australia represented 73%, 9.4% and 3.6%, respectively. The others were from various countries including Indonesia, Bangladesh, India, Pakistan and Thailand.

- Total revenue collected during the period under review was RM15.8 million (2015: RM15.9 million). Most of the income was derived from annual and incorporation/registration fees which represented 82.4% or RM13 million of the total. Additional income came from the registration of foundations, annual fees of approved auditors and liquidators, application fees for operational purposes and penalty payments.

## LABUAN F0UNDATIONS AND LABUAN TRUSTS

Labuan IBFC offers a comprehensive range of wealth management solution for high net-worth individuals, family offices and wealth managers needing structures for efficient wealth transfer and inheritance management. The introduction of Labuan Foundation Act 2010 is a significant effort to further diversify the structures offered to investors, enables investors from civil law countries to enjoy the benefits by using foundations as a viable alternative to trusts.

**Chart 1** **Growth in Number of Labuan Foundations**




- In 2016, a total of 22 (2015: 36) new foundations were registered in Labuan IBFC bringing the total number of registered foundations to 188 (2015: 166).

- Out of the total registered, 144 (2015: 123) are active foundations while the remaining 44 foundations were either struck off or dissolved. Reasons for foundations being struck off included non-payment of annual fees, or the resignation of secretaries and/or officers; while dissolutions were mainly due to decisions to discontinue made by the relevant founders.

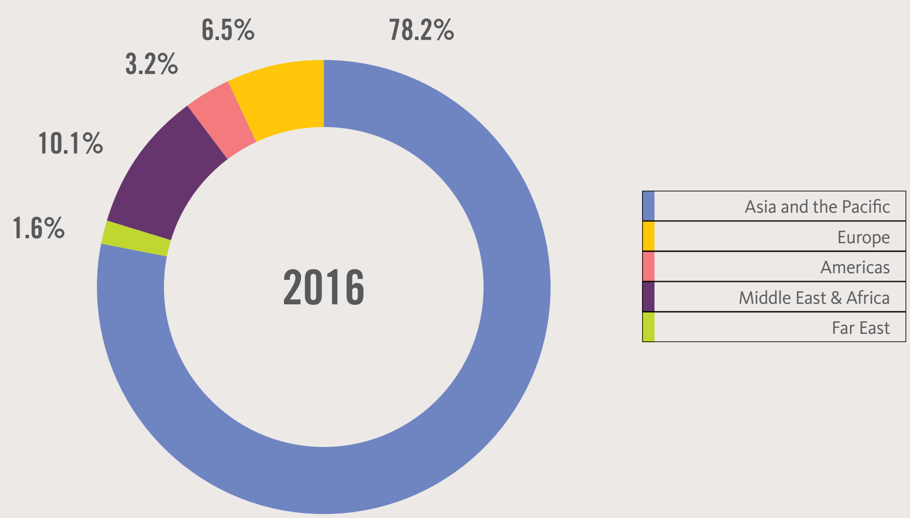
- Issuance of the Guidelines on the Establishment of Labuan International Waqf Foundation in March 2015 contributed to the establishment of two private charitable waqf foundations during the year originating from Jordan/Saudi Arabia and Malaysia.

- Their objectives include raising awareness of institutional waqf in Muslim society and where Muslims are a minority; extending assistance to deserving Muslim poor and orphans; developing good Muslims who can help to fulfil the needs of the Muslim ummah and collaboration; and establishing international cooperation and integration of expertise, especially in Muslim countries, to develop waqf properties for the benefit of the Muslim ummah.

- To date, Labuan IBFC has registered 44 charitable foundations and 144 non-charitable foundations. Charitable foundations are set up for various non-profit or philanthropic goals which include relief of poverty, advancement of education and other socio-economic purposes for the benefit of the community, while the non-charitable foundations are geared towards wealth management or estate planning.

## LABUAN FOUNDATIONS AND LABUAN TRUSTS

**Chart 2** **Labuan Foundations by Region**




- In terms of geographical distribution, the foundations registered in Labuan IBFC originate mainly from the Asia and the Pacific region which accounts for 78.2% (2015: 77.1%) of the total, the Middle East and Africa at 10.1% (2015: 9.6%), Europe 6.9% (2015: 7.8%), the Americas 3.2% (2015: 3.6%) and the Far East with 1.6% (2015: 1.8%). For the Asia and the Pacific region, 85% or 125 were from Malaysia and the rest from various countries including Australia, New Zealand, India, Singapore and Brunei.

### LABUAN TRUSTS

- As at end 2016, Labuan IBFC had registered a total of 52 Labuan trusts, out of which 21 are active and the remaining 31 were inactive due to either termination or deregistration. There was no new registration of a Labuan trust in the year under review.
- A Labuan trust may be created for a specific purpose which could be charitable or otherwise. A 'charitable purpose' includes the relief or eradication of poverty, educational advancement, the promotion of art, science and religion, protection of the environment, and advancement of human rights and fundamental freedom. The number of new Labuan trust registrations has reduced drastically since the introduction of the Labuan Foundations Act in 1990.
- In terms of geographical distribution, 81% of the trusts registered in Labuan IBFC originate from the Asia and the Pacific region, and predominantly from Malaysia, Australia and New Zealand. The remaining 19% are from countries such as the United Kingdom, Jersey, Saudi Arabia and Algeria.

## LABUAN TRUST COMPANIES

**Table 1** **Key Data**

| | 2012 | 2013* | 2014* | 2015* | 2016 | Yearly change |
|---|---|---|---|---|---|---|
| Number of Trust Companies | 37 | 37 | 39 | 43 | 47 | |
| | USD'000 | | | | | (%) |
| Total Income | 19,672 | 21,783 | 24,564 | 23,633 | 23,459 | (0.7) |
| Profit Before Tax | 6,571 | 7,204 | 7,432 | 7,854 | 9,132 | 16.3 |

** Restated*

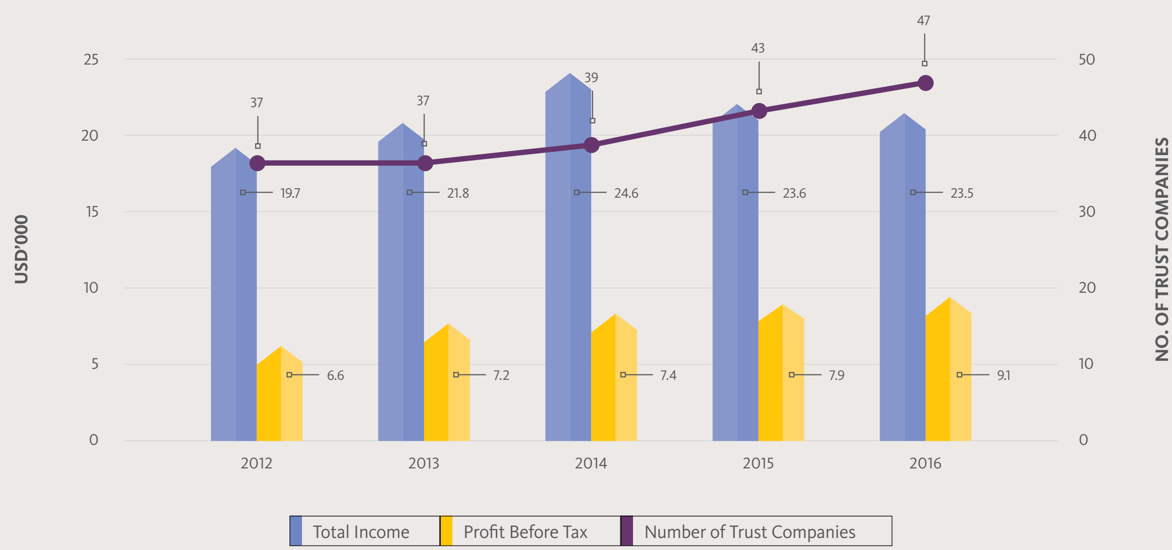
- The function of trust companies – which serve as gatekeepers and front liners of Labuan IBFC – was enhanced to ensure the best quality of service. Approved trust officers are required to have acceptable skills, competencies and the capability to represent Labuan IBFC. Labuan FSA has continuously sought to ensure these trust officers uphold high standards of integrity and display a credible level of professionalism in carrying out their fiduciary duties.

- In 2016, there was continued growth in interest to establish trust companies in Labuan. Six trust companies were approved comprising one full-fledged trust company and five managed trust companies. Nevertheless, one approval for a private trust company and one approval for a full-fledged trust company have be deemed null and void as the applicants were unable to comply with the licensing conditions. This brings the total number of trust companies to 47 (2015: 43), consisting of 32 full-fledged trust companies, 14 managed trust companies and one private trust company.

- The increase in number of trust companies in 2016 was due to opportunities offered by Labuan IBFC, particularly in comprehensive wealth management products and offerings.

## LABUAN TRUST COMPANIES

**Chart 1** **Key Data**




- Secretarial services have been the main revenue generator for trust companies, followed by administrative services and trustee services, with three-year average contributions of 60.4%, 19.4% and 10.6% of total income respectively. However, contributions from secretarial services and accounting services are declining, from 62.5% in 2015 to 56.5% in 2016 and from 9.7% to 3.9%, respectively; while that from administrative services and trustee services have been increasing (from 16.6% to 24.2%, and 9.5% to 12.4%, respectively).

- Total industry income declined to USD23.5 million in 2016 from USD23.6 million in 2015, despite the increase in number of trust companies. This was mainly due to the reduction in income from secretarial and accounting services which dropped by USD1.6 million and USD1.3 million respectively, as a result of the striking-off of Labuan companies and fewer incorporations during the year. The reduction was nevertheless cushioned by the increase in revenue from administrative and advisory services by USD1.7 million and USD0.4 million, respectively.

- Despite the reduction in total income, the industry's profitability had increased. Profit before tax increased to USD9.1 million in 2016 from USD7.9 million in the preceding year, mainly due to the reductions in administrative expenses (by USD1.2 million) and human resource costs (by USD0.4 million). This can be attributed to the strengthening of US Dollar against Malaysian Ringgit as the fees for their services are in US Dollar.

- Total industry capital improved to USD29.7 million as at end 2016 (end 2015: USD29.1 million) from an increase in retained profits (up USD4.2 million) and increase in total paid-up capital (up USD0.3 million) as a result of the increase in total number of licensees.

## LABUAN TRUST COMPANIES

**Chart 2** **Employment**


- Employment opportunities created by Labuan trust companies have been increasing. In 2016, a total of 537 employees were employed by Labuan trust companies, marking an increase of 5.9% from the previous year (2015: 507). Most of the employees were Malaysian, and 99 were approved trust officers.

## LABUAN INTERNATIONAL FINANCIAL EXCHANGE

**Table 1** **Market Capitalisation and Number of Active Listings**

| Market Capitalisation and Number of Accumulative Listings | 2012 | 2013 | 2014 | 2015 | 2016 | change (%) |
|---|---|---|---|---|---|---|
| Market Capitalisation (USD Bil) | 19.7 | 23.5 | 23.9 | 27.3 | 25.6 | (6.1) |
| Number of Listings | 32 | 32 | 35 | 33 | 32 | (3.0) |

- There were six new listings on the Labuan International Financial Exchange (LFX) in 2016 while seven existing instruments matured, bringing the total number of active listings to 32 (2015: 33).
- The market capitalisation of LFX dropped by 6.1% to USD25.6 billion (2015: USD27.3 billion) with Islamic instruments making up 31.8% of the total.
- In general, further decline in oil prices and concerns over its impact on emerging economies reliant on petroleum exports have led to higher volatility in the global capital market, affecting the issuances of capital market instruments.

**Table 2** **Islamic Market Capitalisation and Number of Active Listings**

| Islamic Market Capitalisation and Number of Accumulative Listings | 2012 | 2013 | 2014 | 2015 | 2016 | change (%) |
|---|---|---|---|---|---|---|
| Islamic Market Capitalisation (USD Bil) | 6.8 | 6.8 | 7.6 | 9.4 | 8.1 | (13.8) |
| Number of Listings | 9 | 9 | 11 | 11 | 12 | 9.1 |
| Market share (%) | 34.7 | 28.8 | 31.6 | 34.6 | 31.8 | - |

## LABUAN INTERNATIONAL FINANCIAL EXCHANGE

**Chart 1** **Market Capitalisation and Number of Accumulative Listings**

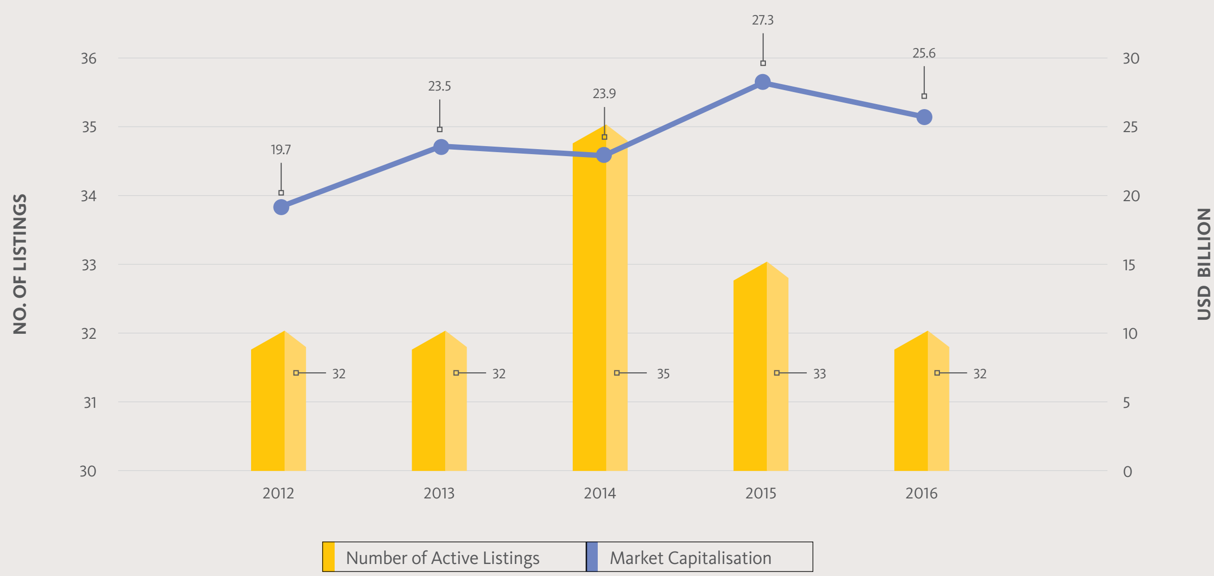
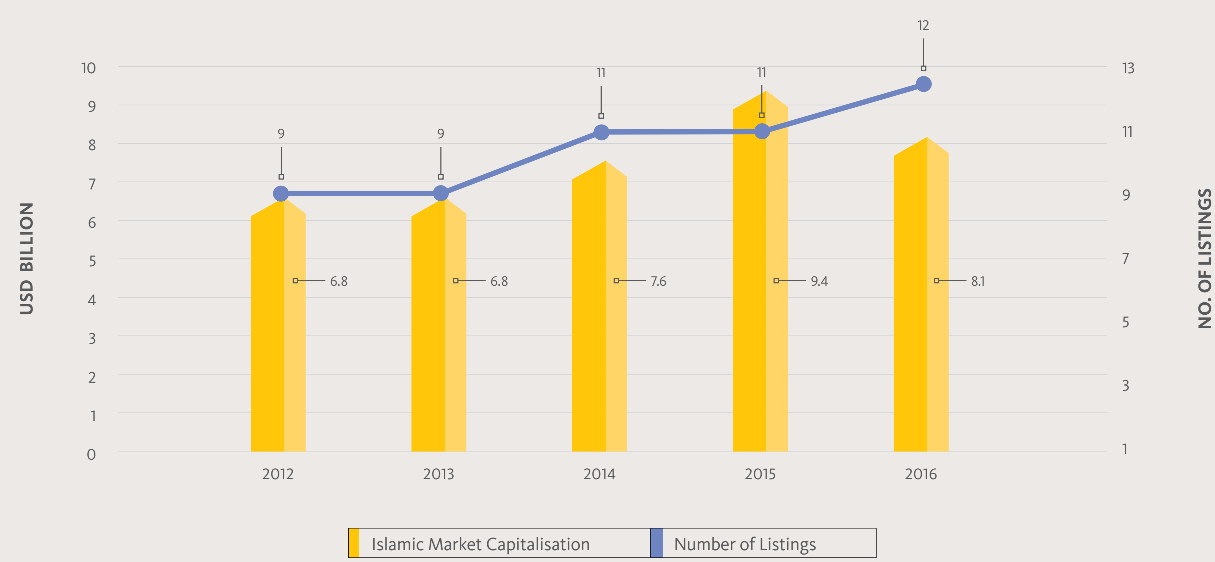



**Chart 2** **Islamic Market Capitalisation and Number of Accumulative Listings**



# LABUAN FSA'S REGULATORY AND SUPERVISORY ACTIVITIES

## POLICY DEVELOPMENT

### Prudential Policy Development

#### BUILDING HIGHER FINANCIAL CAPACITY AND RESILIENCE

In 2016, the Authority continued to develop policies aimed at strengthening the financial footing of financial institutions in Labuan IBFC to be able to better withstand the challenges and volatility brought about by global economic uncertainties. The key capital enhancement regulations introduced during the year were:

01 **Banking Capital Adequacy Framework (BCAF)**

BCAF was introduced via ***Guidelines on Capital Components and Guidelines on Risk Weighted Assets*** issued on 30 December 2016. The framework helps the Labuan banking sector transition into the more current capital requirements of Basel II and III. It modernises the capital adequacy requirements to enable Labuan banking institutions to sufficiently address their credit, market and operational risk exposures. In general, BCAF strives to:

- provide for a more risk-sensitive capital adequacy measurement to better reflect the risk exposures of Labuan banks
- outline clearly the expected regulatory capital that Labuan banks need to maintain to appropriately mitigate their risk exposures
- allow for better capital management processes to cater for the differing risk profiles of Labuan banks
- promote greater transparency via enhanced disclosure requirements on the capital adequacy of Labuan banks

02 **Insurance Capital Adequacy Framework (ICAF)**

Following the release of valuation requirements for the Labuan insurance sector in 2015, comparable regulations were issued on 1 November 2016 for the Labuan takaful sector to embark into ICAF. Two regulatory requirements were introduced – ***Guidelines on Valuation Basis for Liabilities of General Takaful Business and Guidelines on Valuation Basis for Liabilities of Family Takaful Business*** – providing a risk-based capital foundation to cater for Shariah-compliant takaful businesses. These Guidelines are envisaged to provide:

- a harmonised approach for takaful liabilities valuation that are actuarially certified
- an adequate reserving buffer to mitigate any shortfall in takaful liabilities valuation as a result of unforeseen business fluctuations
- standardised regulatory disclosure and reporting for Labuan takaful liability valuation and reserving

#### ENHANCING FINANCIAL DISCLOSURE AND TRANSPARENCY

To promote Islamic finance in Labuan IBFC, the Authority issued a ***Clarification Note for the Directive on Financial Reporting Standards for Labuan Financial Institutions*** on 23 September 2016. This forms part of ongoing efforts to ensure Labuan regulations, including the financial reporting requirements, remain appropriate and relevant to cater for the unique circumstances of Shariah-compliant business. The clarification grants the flexibility to Labuan financial institutions undertaking Shariah-compliant transactions to adopt the accounting standards of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). This then allows for appropriate accounting treatment and disclosures to be made in relation to Shariah-compliant transactions which are not or inadequately dealt with by the permitted international accounting standards.

#### PROMOTING EFFECTIVE CORPORATE GOVERNANCE AND SOUND MARKET PRACTICES

The Authority continued to complement its regulations on the financial soundness of Labuan financial institutions with those focused on strengthening the industry's observance of good governance principles and sound business practices.

01 **Governance and Market Conduct requirements for Labuan Trust Companies**

Revisions to the ***Governance and Market Conduct Framework for Labuan Trust Companies*** were released on 21 July 2016. These provide greater clarity on the Authority's expectations of the industry's observance with regard to the following key areas:

- Preserving elements of independence within the boards of directors of Labuan trust companies (LTCs)
- Ensuring the roles of senior management vis-à-vis the boards are practical, given that most LTCs are managed exclusively by their shareholders
- Suitable internal audit scope and approach that promote sound risk management

Meanwhile, a ***Directive on Internal Audit Requirements for Labuan Managed Trust Companies*** was issued on 28 September 2016.

### 02 Market Conduct of Labuan Insurance and Takaful Brokers

To promote a conducive, sound and orderly insurance broking market in Labuan IBFC, the Authority issued ***Guidelines on the Conduct and Roles of Labuan Insurance and Takaful Brokers*** on 31 October 2016. The new regulation serves to:

- outline key market conduct requirements and the roles of Labuan insurance and takaful brokers
- reinforce and complement existing regulatory requirements on market conduct and general reinsurance arrangement
- address imprudent broking practices observed by the Authority's supervisory monitoring of the industry

### 03 Shariah Governance for Labuan Islamic Financial Institutions

As part of efforts to promote the development of Islamic finance, ***Guidelines on Shariah Governance for Labuan Islamic Financial Institutions*** were issued in 09 December 2016. The new requirements detail the expectations on the Shariah governance framework to be implemented by Labuan Islamic financial institutions (LIFIs) to ensure every aspect of their business operations is Shariah-compliant. The Guidelines further outline the institutional and governance arrangements needed to ensure effective oversight of the Board of Directors and the Internal Shariah Advisory Board of the LIFIs in implementing and enforcing Shariah compliance in their organisations.

## Business Policy Developments

The Authority is committed to ensuring that business development policies within Labuan IBFC remain conducive for the market to operate, and are sufficiently attractive to entice prospective investors. Focus is accorded to niche as well as active sectors to cultivate orderly and sustainable market developments.

### ENSURING CONDUCIVE AND CLEAR BUSINESS REQUIREMENTS FOR LABUAN FOUNDATIONS

For greater clarity, the ***Guidelines on the Establishment of Labuan Foundations*** including Islamic Foundations were revised on 4 April 2016. Clarification was made on the following key areas:

- Expectations on the endowment of assets by founders
- The delegation of power of founders to other persons
- Establishment of representative offices by Labuan charitable foundations

The Frequently Asked Questions was also reviewed and updated to ensure the business guide remains relevant and comprehensive for prospects as well as market participants.

### ENSURING SUSTAINABILITY OF LABUAN PROTECTED CELL COMPANIES AS RISK MANAGEMENT VEHICLES

As flagship structures promoted by Labuan IBFC for self-risk management, it is imperative that Labuan Protected Cell Companies (PCCs) remain viable. The ***Guidelines on the Establishment of Labuan Protected Cell Companies*** were therefore revised on 10 October 2016 to state that sufficient capital has to be maintained at the organisational level as well as the individual cells of a PCC. This is imperative to heighten prospective investors' confidence and build more credibility of the PCC as a sound vehicle for managing risks.

### ENSURING CONTINUAL RELEVANCE OF EXISTING BUSINESS REGULATIONS

In 2016, the Authority also reviewed key business policies of certain sectors in Labuan IBFC so as to ensure that current regulations remain relevant and effective to cater to developments and changes in the market environment. Focus was accorded to the entry requirements of the following sectors:

i. Labuan investment banking business
ii. Labuan insurance-related business
iii. Labuan money broking business
iv. Labuan international trading commodities business under the Global Incentives for Trading Programme (GIFT)

Once completed, these reviews are expected to change the existing licensing regulations and may even inspire the development of new guidelines to serve as reference for prospective investors.

## SUPERVISION & MONITORING

Labuan FSA employs a risk-based approach for the supervision of its licensed entities. Institutions that are well-managed relative to their risks will be subjected to less supervision and any selected areas within an institution will be reviewed every year. In the process, Labuan FSA will direct more supervisory resources to and conduct closer and more frequent scrutiny on licensees or activities deemed to be of higher risk.

Throughout the year, relationship managers from the Supervision & Monitoring Department conducted periodical analytical reviews of financial and non-financial data submitted by the licensed entities. These reviews were augmented by supervisory engagements aimed at obtaining current information about the business conduct and affairs of the respective licensees.

### Banking

Overall, Labuan banks have remained healthy due to good quality assets and adequate buffers above the minimum capital requirements. Sector risk exposures to the volatilities of the commodities and foreign exchange markets during the period were manageable, mainly due to the limited exposures of the sector to those areas as well as sufficient risk mitigation measures.

During the year, the banks' risk profiles were updated, except for inactive banks which were not rated. The main source of reference for the updates were the audited financial statements and financial returns, internal and external auditor reports and compliance reports. In addition, supervisory engagements conducted with the banks' managements and boards during the year provided valuable insights into their condition and operations.

The Composite Risk Rating (CRR) accorded to a bank is based on the updated profile and is the result of the assessment of the bank's significant activities, quality of operational management, level of earnings and capital.

The majority of the full-fledged subsidiary banks were rated as "*Low to Moderate*" in risk with the exception of one bank that posed legal and regulatory compliance concerns. As for investment banks, half were rated "*Above Average and High*" largely due to capital concerns and low earnings performance. Nevertheless, these banks did not pose any significant threat to the stability of the financial system in Labuan IBFC. For banks operating as branches, the majority were rated as "*Low to Moderate*", while the remaining branches showed higher vulnerabilities arising from poor earnings performance and asset quality concerns.

During the year, 20 supervisory engagements were held with the senior management of selected banks while four focused onsite examinations were conducted. These supervisory interactions showed an overall improvement in the entities' understanding of regulatory requirements and expectations. Labuan FSA noted an improvement in the submission of annual audited financial statements with a significant drop in the number of requests for extensions of time.

As Labuan banks are predominantly branches of banks from other countries, the relationship with the home supervisor is an important element in the supervisory framework. With a view to working closely with the home supervisor, contacts were established during the year, and home-host relationships are being formalised to support the effective monitoring and exchange of information.

In 2016, one home supervisor conducted an examination of a subsidiary of its licensed bank in Labuan. Two more home supervisory agencies have scheduled onsite examinations in Labuan for 2017.

## Insurance

The insurance sector grew steadily with total industry shareholders' funds reaching USD1.8 billion as at 31 December 2016 compared with USD1.6 billion in 2015. The margin of solvency was healthy and stood at more than six times the minimum requirement.

The risk exposure of the insurance sector remains manageable with no major incidents during the year, and a lower loss ratio. This was supported by prudent risk management measures through reinsurance arrangements and conservative investment strategies in low-risk investments. Profitability and underwriting margins improved during the year as a result.

As with the banking sector, the (re)insurers' risk profiles were updated for 2016 except for those that were inactive. Onsite examinations, financial analysis, reviews of the internal audit and external audit reports and compliance reports as well as the engagements held with the senior managements and board were the main source of reference for the updates. The majority of the (re)insurance licences were rated as "*Low to Moderate*" in risk, while a few had higher risk profiles due to weak earnings and low business volumes.

Continuous engagement with the senior management and board of (re)insurers formed part of the supervisory approach undertaken during the year. A total of 40 supervisory engagements were held with selected (re)insurers to discuss significant events or transactions. Operating strategies and business plans were also discussed for better understanding of the (re)insurers' risk exposures and to plan subsequent follow-up reviews. More frequent engagements were held with the management and board of (re)insurers that were of concern in order to keep updated on and monitor their rectification progress.

From our supervisory engagements and ongoing monitoring, improvements were noted among some of the licensees. Such improvements included: increases in capital levels, regularisation of operational arrangements and accounting practices, and restructuring of asset composition. Moreover, the department noted an improvement in the submission of annual audited financial statements with a significant drop in the number of requests for extensions of time.

For the captive insurance segment, given the implicit risk management strategy taken by captive owners to manage their own in-house insurance requirements, the department engaged with 19 licensees to ensure their operations, business plans and cash flow management were in line with the captive owners' strategies.

For insurance intermediaries, the department focused on compliance with minimum capital requirements. Those with inadequate capital were required to rectify deficiencies. Going forward, the department will be focusing on premium monies handling and payment turnaround time to ensure proper conduct of broking activities amongst insurance brokers.

As Labuan FSA is also host supervisor to the majority of banking and (re)insurance licensees, including Lloyds' service companies operating in Labuan, an initiative is currently underway to establish working relationships with the relevant home supervisory bodies to facilitate an exchange of supervisory information, better cooperation and leveraging of home supervisory assessments.

*The risk exposure of the insurance sector remains manageable with no major incidents during the year, and a lower loss ratio.*

## Money Brokers

In response to the rise in new money broking start-ups, the department has begun engaging with Labuan money brokers to better understand the nature of their business operations and strategies. Engagements were held with 11 money brokers to discuss key aspects of the business, and all disclosures were documented. Arising from these engagements, follow-ups were conducted including an onsite examination of a money broker to assess compliance with legal and operating requirements.

The updated risk profiles established during the year from the engagements as well from the reviews of their financial condition were the main source of reference for the identification of risk areas, supervisory focus and supervisory planning.

The money broking sector's capital level was strengthened due to profits generated from broking activities, mainly in foreign exchange. With the increase in number of licensees, business activities from the sector are expected to grow moving forward. Work is under way to enhance the returns submitted from this sector to facilitate continuous monitoring.

The business structure of the money broking business provides protection to clients through segregation of client funds from the money broker's funds. This is further supported by retention deposits from client funds that act as a cushion against principal dealers' counterparty risks. In the coming year the sector is expected to see further growth as a result of the increase in the number of licensees.

## Capital Market

Capital market intermediary activities in Labuan remained low with only three out 12 fund managers and one out of six securities licensees reporting much activity during the year. These entities required minimal supervision because their business transactions were largely private fund management and investment advisory in nature, both of which are not expected to pose a significant threat to the stability of the financial system in Labuan IBFC.

## Trust Company

For the trust company sector, the department engaged with the managements of 17 trust companies and discussed, among others, operational arrangements, business focus accounting practices, inactive accounts and outstanding debts. The engagements indicated that certain operational and accounting practices could be further improved, and further supervisory work is being directed towards this end.

Information obtained from these sessions is useful in designing the supervisory approach for the sector and areas of supervisory focus for onsite examination, in line with the risk-based supervisory framework.

## INVESTIGATION & PROSECUTION

The Labuan Financial Services Authority Act 1996 confers both the mandate and adequate power for Labuan FSA to initiate and to undertake investigation, enforcement and prosecution against all Labuan institutions for any non-compliance of the various Labuan legislations. These powers also extend into breaches of other laws governing Labuan IBFC such as the Anti-Money Laundering, Anti-Terrorism Financing, and Proceeds of Unlawful Activities Act 2001 (AMLATFAPUAA).

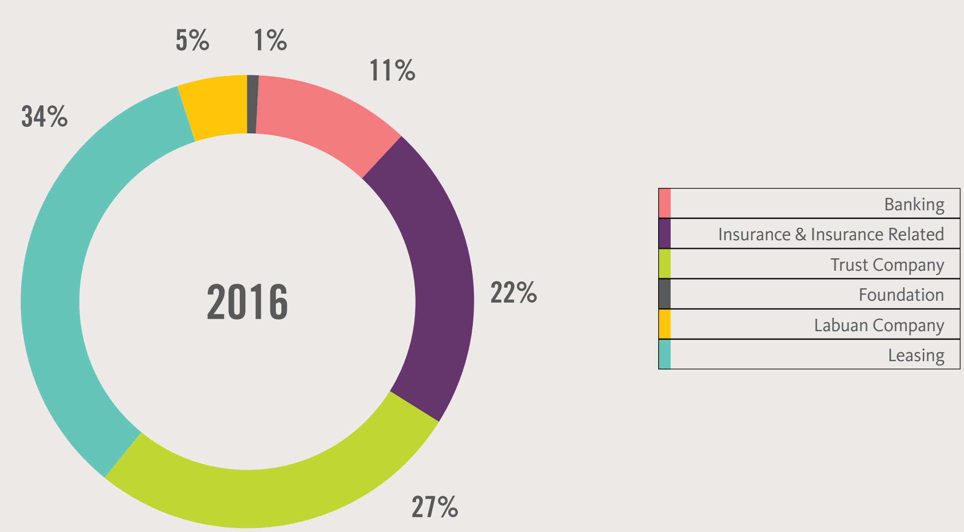
Active surveillance and strong enforcement measures are taken to foster good compliance and discipline among the Labuan institutions. This, in turn, will ensure the soundness and stability of the Labuan IBFC as a whole. During the year, Labuan FSA undertook closer surveillance and monitoring of the Labuan entities, particularly in addressing misconduct and contraventions. At the same time, Labuan FSA brought a number of new cases to book.

In 2016, the effectiveness of enforcement measures for Labuan institutions was enhanced through the implementation of the Prosecution Framework, 2016. This framework reinforces Labuan FSA's power to undertake enforcement and prosecution against Labuan entities for non-compliance to Labuan laws and regulations. It also sets out appeal mechanisms to entertain grievances by Labuan institutions against any enforcement action. Implementation of the Prosecution Framework has elevated Labuan FSA's commitment to transparency and better governance in carrying out its mandate as a financial regulator.

Further, Labuan FSA actively liaised with other financial regulators and law enforcement agencies such as the Attorney General's Chambers, Bank Negara Malaysia and the Royal Malaysian Police in its effort to ensure a strong surveillance monitoring mechanism to maintain confidence in the Labuan IBFC.

Labuan FSA's commitment to stronger enforcement measures was reflected in a 25.5% decline in non-compliance cases in 2016 from the previous year. This indicates that the compliance index in the Labuan IBFC is gradually increasing. In 2016, a total of 146 non-compliance and enforcement cases was recorded involving banking entities, insurance entities, trust companies, leasing business activities and Labuan companies.

### Show Cause Notice by Industry Sector




In regard to the cases investigated, 2016 also shows a decline in investigation action by 36.4% compared to 2015. This decline in cases investigated and prosecuted further reinforces the signs of improvement in the compliance index, a direct and positive outcome of the robust enforcement measures undertaken by Labuan FSA in 2016.

## ANTI-MONEY LAUNDERING & COUNTER FINANCING OF TERRORISM (AML/CFT)

Malaysia was accepted as a member of the Financial Action Task Force (FATF) in February 2016, a global inter-governmental body which sets standards for combatting financial crime and threats to the integrity of the international financial system. Prior to its acceptance, Malaysia had submitted to the FATF the National Strategic Action Plans (NSAP) which structured and detailed Malaysia's relevant action plans for implementation by the relevant government agencies under the National Coordination Committee to Counter Money Laundering (NCC). These action plans were aimed at addressing and resolving various issues raised in the Malaysia Mutual Evaluation Report (MER). The MER was issued by the FATF after the country went through a Mutual Evaluation Exercise conducted by the Asia/Pacific Group on Money Laundering (APG) with the objective, among others, of ensuring the adoption, implementation and enforcement of internationally accepted standards against money laundering and financing of terrorism (ML/TF).

The NSAP is Malaysia's five-year blueprint and encompasses various action plans and targeted key performance indicators which aim to close all findings and gaps raised in the MER in relation to Malaysia, including Labuan IBFC. All related ministries and agencies were entrusted to undertake specific action plans under the NSAP. The implementation of these initiatives was monitored by six NCC sub-committees as follows:

i. Risk Sub-Committee (RISC)
ii. Financial Sector Sub-Committee (FSSC)
iii. Sub-Committee on Capacity Building (SUCAB)
iv. Sub-Committee of Non-Profit Organisation (SCONPO)
v. Designated Non-Financial Business and Professions and Business Working Group (DNFBP WG)
vi. Financial Intelligence, Law Enforcement and Prosecution Sub-Committee (FLEP)

Labuan FSA, as a member of the above six sub-committees, has continuously received the full commitment of the Authority in executing the applicable actions under the NSAP primarily to strengthen Labuan IBFC's effectiveness in combating ML/TF threats and other financial crimes. Among the major exercises that Labuan FSA either embarked on or participated in since 2016 were:

### MAJOR EXERCISES THAT LABUAN FSA EITHER EMBARKED ON OR PARTICIPATED IN SINCE 2016 — 5

#### 01 NATIONAL RISK ASSESSMENT (NRA)

The NRA is an assessment of the country's exposure to prevailing crimes (domestic and foreign) and the vulnerability of various sectors to money laundering and terrorism financing risks. In this exercise, Labuan FSA needs to carry out assessment on the initial risks and threats for Labuan IBFC by collating the relevant data and statistics.

#### 02 LABUAN RISK ASSESSMENT (LRA)

The LRA is an assessment of Labuan's exposure (including Labuan IBFC) that mirrors similar assessments and methodologies undertaken under the NRA but is limited to risks that might pose exposure to only Labuan Island as a whole. To carry out this assessment, Labuan FSA spearheads a committee comprising the relevant Labuan law enforcement agencies overseeing potential crimes that may pose ML threats and risks to Labuan Island. Among the work undertaken in 2016 by this exercise was collation of the relevant data and drafting of the initial analysis of the assessment.

Once completed, the outcomes of the NRA and LRA will be communicated to the relevant reporting institutions, supervisors, regulators and law enforcement agencies to assist them in prioritising the deployment of resources to tackle high-impact risks in a more effective and targeted manner. It would also shape better national AML/CFT strategies and policy responses proportionate to the identified risks and priorities.

## 03 TRANSPARENCY OF BENEFICIAL OWNERSHIP

Labuan FSA will amend the Labuan Companies Act 1990 to insert the relevant provisions that would enhance the transparency of beneficial ownership of Labuan companies. Once the amendments come into effect, the respective Labuan trust companies will be required to maintain accurate and up-to-date records of all beneficial owners of Labuan companies. Such information and any changes to it will be required to be submitted to Labuan FSA in a timely manner for monitoring and record purposes. Its main objective is to strengthen the requirements which are aimed at preventing Labuan companies from being used as conduits to conceal the identities of unwarranted individuals through nominee shareholding.

## 04 DEVELOPMENT OF ADDITIONAL GUIDANCE NOTES ON AML/CFT

Bank Negara Malaysia, the Securities Commission Malaysia and Labuan FSA under the ambit of the FSSC are undertaking collaborative efforts to develop AML/CFT guidelines and/or technical notes covering the following matters:

1. Politically Exposed Persons
2. Tipping Off
3. Risk-Based Approach
4. Beneficial Ownerships
5. Terrorism Financing

The above areas need to be addressed to strengthen and ensure the comprehensiveness of measures to counter money laundering, terrorist financing or any other unlawful activities stated in the respective guidelines. The issuance of such guidelines and/or technical notes will be carried out in stages to be completed in 2017.

## 05 CREATION OF SPECIALISED AML/CFT TEAM

Labuan FSA had established a dedicated AML/CFT Supervision Unit which is primarily tasked to increase awareness and monitor compliance with the relevant AML/CFT requirements applicable to the relevant Labuan entities. The unit has completed the relevant Labuan IBFC's industry risk profiling which will assist them in prioritising the deployment of resources to high-impact risks industries and carry out the relevant off-site or on-site AML/CFT supervisory work.

Apart from the completion of the industry risk profiling, the unit has carried out a number of supervisory activities throughout the year, which included nine follow-up examinations based on concerns about deficiencies in AML/CFT operational and compliance measures highlighted during the joint examination with Bank Negara Malaysia in 2014. From the follow-up examination, it was noted that there were significant improvements particularly in the effective oversight of AML/CFT measures undertaken by the respective reporting institutions. Additionally, seven supervisory meetings were conducted with Labuan banks and trust companies focusing on the key identified supervisory concerns which required immediate attention. The meetings also provided updates on the status of implementation measures, issues and new developments relating to AML/CFT matters.

While there has been encouraging development on compliance with the submission of independent audit reports on AML/CFT, three reporting institutions have been issued with show cause notices due to failure to submit the report.

03

# BOX ARTICLE



RMS FOR IFCS

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DID YOU KNOW...

**2016 –**
Labuan IBFC is home to:

**47**
**Trust Companies**

ARTICLE 01

# NEW NORMS IN INTERNATIONAL FINANCIAL CENTRES

Ever since the financial crisis of 2008/9, international financial centres (IFCs) worldwide have faced increasing demand from country groupings and standards-setting organisations to enhance their transparency and promote prudential requirements for more equitable and fair allocation of economic wealth, greater financial stability as well as to counter money laundering and terrorism financing (AML/CFT).

The aim of most IFCs is to provide a convenient, business-friendly location for international businesses, often innovated to address the failure of domestic laws for international business. However, this appealing feature of IFCs is often misunderstood as providing an avenue for regulatory arbitraging which affects the world's economy and the global financial system.

IFCs have been accused of gaining in prominence primarily as havens for structures that minimise tax exposures. Such criticism stems from a lack of information from the IFCs themselves, aggravated by the aggressive tax planning strategies of some multinational corporations (MNCs). The rise of global MNC giants and their exploits in tax planning have placed these companies on the radar of revenue collecting government agencies, and generated the call for unwinding all 'tax havens'.

IFCs are also criticised for harbouring financial secrecy and confidentiality, and for the purported absence of proper due diligence in accepting new investors. While this could well have been true in the past, recent studies affirm that most IFCs today conform to international standards in dismantling bank secrecy and beneficial ownerships.

To their credit, IFCs have responded to the call for increased credibility by implementing various measures introduced by standards-setting organisations. IFCs recognise the need to instil greater international cooperation and transparency. For example, on the international automatic exchange of information, as at July 2016, 101 countries including at least 30 IFCs have committed to supporting the Exchange of Information Initiatives (Common Reporting Standards [CRS] and Base Erosion of Profits [BEPs]). With the eventual implementation of BEPs, countries will have the tools to ensure profits are taxed wherever economic activities generating these profits, and creating value are performed. These tools reduce disputes over the application of international tax rules by standardising compliance requirements, further strengthening the framework for international cooperation and confidence.

Most of the measures introduced by multilateral standards-setting bodies aim at creating a seamless regulatory environment in all IFCs, with the underlying objectives of ensuring international financial stability and eliminating money laundering and financing of terrorism. Regulations in IFCs would therefore be more harmonised and complemented by stronger home-host supervisory relationships between jurisdictions. In order to facilitate international business and trade, many IFCs, including Labuan IBFC, have embraced these regulatory enhancements over the past decade.

## NEW NORMS FOR IFCS

Against this backdrop, IFCs are expected to have the following characteristics in order to remain relevant:

- a conducive pro-business environment with clear laws on international business and complex financial services
- tailor-made "fit-to-size" regulation that meets international standards
- a competitive tax regime and strong substance requirements
- a pool of highly skilled talent and professionals
- be responsive to international requests and developments
- a well-established infrastructure, conducive of modern lifestyle
- responsible governance standards
- robust risk management and surveillance framework
- competitive operational costs
- good market access and convenience
- a sound enforcement system


INTERNATIONAL FINANCIAL CENTRE
Fit-to-size Regulatory Standards
Skilled Talents
Robust Risk and Surveillance Frameworks
Competitive Operational Cost
Accessibility and Convenient
Laws for Conducive Business Environment and Enforcement
Responsive and Speed to International Requests and Demands
Quality of Life
Responsible and Accountable Governance Practices
Proper Tax Regime
Advance Infrastructure
Displaying Strong Substance

# 01

IFCs should be in strategic and accessible locations that offer a conducive business environment, complete with commercial and facilitative infrastructure to be attractive to investors and businesses. They should also offer vibrant and invigorating quality of life. This is important as the substance requirements considered by tax authorities entail the need for people to operate out of the centre.

# 02

IFCs are expected to comply with international rules such as having updated information and intelligence, which they openly share while maintaining healthy yet competitive operational arrangements. Facilitative institutional arrangements such as having a public registry, or access to important records of companies would be expected. This has to be managed effectively, and the jurisdiction's capability in maintaining a high level of governance standards and practices within well-defined regulatory and legislative scope, robust surveillance and risk management frameworks would increase its visibility as a reasonable, viable and reputable centre to invest in.

# 03

The corporate tax and personal tax systems are likely be important differentiators. Government responsiveness in dealing with practices deemed to be harmful would elevate the stature of the centre. The ability to strike a healthy balance between having appropriate tax regulations and incentivising international businesses is key. However, tax will feature less prominently as a success factor for IFCs as international efforts to address abuse take centre stage.

# 04

Regulation that is well balanced between growth considerations and prudence standards is critical. It is important therefore to right-size the regulatory approach to reflect an agile centre dealing with sufficient market conduct and prudential safeguards. Instead of exercising a rigid compliance regime, regulations and standards should be adaptable so as not to deter investments.

# 05

The centre should be able to attract and retain a pool of highly skilled talent to be competitive and attract investors. Knowledge and skills are priceless assets, and the presence of experts will strengthen investors' confidence to invest in an IFC. Talent themselves would, however, only participate in an IFC if it offered a conducive business setting.

# 06

Service providers at the financial centres should have sufficiently high language competencies as to be able to converse professionally with customers and potential investors, and handle queries proficiently. This may seem inconsequential but impacts an IFC's image and is definitely a factor taken into consideration by investors.

# 07

While advances in digital technology may weaken the relevance of IFCs due to the borderless reach and convenience they offer, IFCs that are enabled by the most currently advanced technologies, and offer professional financial service providers engaged through technology, would enjoy a competitive edge over others.

# 08

The financial service providers within an IFC play an important role in demonstrating more visible substance, including conducting full-fledged operational activities at the centre besides having substantial product knowledge. The presence of a strong management and front office, vast product knowledge, continuous product innovation, exceptional customer service and deal-making activities will definitely serve as plus points for a centre's credibility.

## IMPLICATIONS AND THE FUTURE SPACE FOR IFCS

IFCs around the globe will need to reposition their value propositions in order to stay viable.

Key to securing the future is offering real substance as opposed to brass-plating and shell structures. Substance represents economic activity in the domicile, help for the negotiation of tax treaties, and the creation of spillover activities supporting the local economy.

As such, international financial players need to change the way they used to operate, and optimise their capital allocation and distribution. They are expected to display strong third-party evidence advocacy, embark on continuous market development and innovation by identifying niche and new products and services to facilitate inward and outward investment flows, thus playing an active and substantive role in IFCs.

Asia continues to be a growth area open to the tenets of the international market. In the wake of the greater financial market integration in the Asia Pacific with moves towards crystallising the Asian Economic Community, linking stock exchanges and clearing systems and mutually recognising banks and fund managers, the Asian region is becoming increasingly more interconnected. Continuing trade and services liberalisation, along with financial market sophistication, fosters demand for complex financial services and facilities that enhance cross border flows and investments.

Regional financial centres help to create more transparent market mechanisms, allowing investors to profit from lowered cost of financing and capital with improved allocation of resources. IFCs within the Asia Pacific, such as Labuan IBFC, are critical to this development as they provide the infrastructure for greater growth of regionalisation and capture a larger portion of fund flows. The high savings in Asia Pacific could well be mobilised and invested within the region, instead of flowing outside. As such, centres in Asia could play a more symbiotic role in supporting the region's growth, and that of its players.

## SUMMARY

The will be increasing pressure from nations to prevent tax competition, while multilateral standards-setting bodies focus more intently on financial stability, anti-money laundering and the misuse of corporate vehicles. In order to be aligned with calls for transparency and substance, jurisdictions and international financial players are expected to reposition, rethink and re-assess their value propositions and enablers to stay relevant. The new norm is for centres to have the necessary laws and regulations to be able to oversee, supervise and share information internationally, with evidence of substantive activities.

IFCs would need to showcase their relevancy by identifying long-term niches, having skilled talent to supply higher-end financial services, increasing their visibility and offering a conducive environment for businesses, as well as maintaining a high reputation. They would also have to demonstrate a willingness to cooperate internationally while complementing domestic centres more effectively.

IFCs around the world are expected to embrace this wind of change, albeit each at its own pace. With all these elements in place, it is believed IFCs will contribute more fully towards international financial stability and strengthening future economic resilience. Their own sustainability will hinge on their own differentiated product niche and expertise, and ability to contribute to the greater interest of the global financial industry.

ARTICLE

# 02 VALUE PROPOSITIONS OF INTERNATIONAL FINANCIAL CENTRES

## INTRODUCTION

International Financial Centres (IFCs) play a crucial role in the global financial system, as they provide a conducive, pro-business environment that is not only cost competitive and innovative but which also operates within a facilitative regulatory ecosystem. IFCs contribute towards the financial sector by connecting businesses and investments worldwide, providing business investment funding, ringfencing risks, safeguarding wealth, preserving assets and mobilising capital.

For countries deprived of natural economic resources, the IFC set-up offers a way to address such resource dearth and even combat poverty. The building of infrastructure, migration of talent and knowledge transfer between countries all contribute positively towards greater regional macroeconomic stability where the IFCs are located.

### BUSINESS STRUCTURES IN THE IFCS

IFCs are formed on the bedrock of banking, insurance, offshore companies, trusts and foundations, as well as asset holding and asset registry. Given their unique value propositions, they are expected to remain relevant and continue to contribute constructively towards both domestic and global economies.

| **A Snapshot of IFCs *** (Selected financial centres) | |
|---|---|
| **Bermuda** | Reinsurance, captive, funds and aircraft registration |
| **Bahamas** | Registered vessels |
| **British Virgin Islands** | Offshore companies |
| **Cayman Islands** | Hedge funds, fund management, securitisation market |
| **Channel Islands** | Banking, insurance, trust, private-equity funds |
| **Isle of Man** | Banking, offshore companies, life insurance |
| **Liechtenstein** | Wealth management |
| **Luxembourg** | Securities, Eurobonds |
| **Samoa** | Holding companies |
| **Switzerland** | Private banking |

As one-stop financial centres, IFCs continue to offer a wider spectrum of financial products and services with distinct niche offerings managed by skilled financial professionals. The advantages of forming companies in IFCs include comprehensive laws and regulations, low transaction costs, use of global currencies, facilitative cross-border capital flows, simple company incorporation, incentivised taxation and sophisticated professional infrastructure – all in one location. These facilitate business operations to a much greater extent than is possible onshore.

The special role that IFCs play in the financial sectors of modern economies is crucial to the development and advancement of the global financial market. They serve as a conduit for internationalisation of financial activities by bridging local businesses to a global clientele. In essence, IFCs add value to economic growth globally. They assist multinationals in stimulating international investment in different economies, and particularly in managing their capital effectively. In addition, IFCs are strategically placed to reduce business risks as they are usually free from exchange controls and are in a position to offer insurance and reinsurance facilities as well as liquidity from within their markets. Risk mitigation reduces costs while increasing risk-adjusted returns, thus making projects or investments economically viable. Essentially financial institutions in IFCs add capacity to the domestic financial system to further the growth the local economy.

IFCs have the ability to serve as a platform to raise capital through various international financial and investment schemes and products. They can serve as an investment platform, for example, for the issuance of funds and bonds, simple or sophisticated structures, which are regulated and internationally compliant. The supply of these instruments may come from international fund-raising activities by individuals, corporations or governments. In contrast to domestic financial schemes, IFC structures are often more flexible and embrace the "right fit" approach, granting efficient financial flows and eliminating unjust or multiple taxation scenarios, making them an attractive option for investors. In certain instances, mergers and acquisitions conducted within IFCs are also simpler and less complex than onshore.

IFCs offer a range of sophisticated financial structures and special purpose vehicles, including trusts and foundations for wealth management. These are attractive to investors, as the structures are most effective in many cases to safeguard and cushion assets from possible risks for succession purposes. The potential of operating in an uncomplicated and facilitative environment sets IFCs apart from domestic financial centres, and is further complemented by the abundance of financial expertise and professionals within the IFCs to assist investors in managing their assets. In addition, bankruptcy-remote vehicle is a type of special purpose structure commonly used in a different context within the IFCs, designed to ensure that the entity remains separated and protected throughout the finance and securitisation structure.

Other activities found in IFCs include company redomiciliation, where a company changes its domicile to another jurisdiction while retaining its legal identity from the earlier jurisdiction. Companies redomicile for various reasons that are deemed beneficial to their growth, including favourable business environment, less rigid regulatory provisions, aligning their place of incorporation with their shareholder base and the availability of capital market expertise. Legislation of a jurisdiction normally allows redomiciliation which may not be available onshore.

## MISPERCEPTIONS

Based on the above, there is no doubt that IFCs offer value propositions that will benefit international businesses. Nonetheless, these benefits are overshadowed by negative perceptions and growing criticism that IFCs promote unfair competition compared to other countries/neighbours, with perceived tax leakages seen to cause of financial instability. It is important for IFCs to recognise these fears and take action to dispel such misperceptions.

## ALLAYING FEARS

IFC regulators should ensure that business activities and structures employed in the centres are within the ambit of their laws and regulations, and do not undermine the centres' integrity or financial stability. These include foreign currency borrowings and guarantees, deposit placements, reinsurance, alternative risk solutions such as captives, and succession planning as well as fund management, which are in great demand and increasingly conducted cross border with larger risks and exposures. Meanwhile, professional service providers and intermediaries facilitating business in the IFCs must abide by the market conduct and governance frameworks.

In addition, to enhance the transparency of their business activities, IFCs should engage continuously with their internal and external stakeholders, including industry players, investors, authorities, international bodies, government agencies and the public; and communicate relevant information on developments pertaining to the IFCs as well as changes in international standards and requirements. It is important, further, for IFCs to continuously benchmark themselves among peers on international practices to ensure their business promotion is balanced with right-sized regulations.

IFCs' proactive strategies, with strong collaboration with industry players and other peer jurisdictions, are critical to secure an agile and progressive environment. Cooperative arrangements among IFCs would also strengthen the capacity of these centres in confronting global challenges, staying vigilant against various threats and uplifting their global reputation.

## SUMMARY

IFCs around the world have value propositions critical to support international market developments and assist the growth of multinationals and nations. Nevertheless, due to growing international criticisms, greater efforts are being made to place IFCs on a stronger footing to enable them to move into a new norm. Current efforts to offer competitive and acceptable value propositions to the global market while adhering to regulatory requirements would require reinforcements and collaborations in ensuring its players abide with the international laws and practices.

ARTICLE

# 03 FINDING THE RIGHT EQUILIBRIUM: BUSINESS & REGULATORY PRESSURE ON LABUAN IBFC

## PREAMBLE

International financial centres (IFCs) started by being dependent on generic economic fundamentals which included having good business prospects, a well-equipped ecosystem and infrastructure with connectivity as well as sufficient supply of professional talent. With increasing internationalisation and cross border trade, however, IFCs' prominence is influenced by business relativity – not just relative to each other but also vis-à-vis the larger onshore economies. More implicit factors which build on stability that may have been seen as ancillary in IFCs' inception stages – such as having an orderly business environment and conforming to international standards – have become key to attracting investments and business prospects. The shift towards also having market orderliness and stability instead of blinkered focus on business growth at all costs depict a maturity of IFCs as they integrate their role and purpose within the larger global business canvas.

Indeed, a key challenge facing IFCs today is achieving a balance between promoting business growth and embracing the deluge of international tax and prudential standards as well as regulations. International standards-setting bodies further impose stringent compliance requirements and regulatory restrictions on IFCs. Labuan IBFC, as a growing IFC, is not precluded from this predicament.

The Organisation for Economic Cooperation & Development (OECD)'s Anti-Tax Haven, Anti Money Laundering global initiatives and the US' Foreign Account Tax Compliance Act (FATCA) are some significant cases in point. Though international organisations have no formal authority over any jurisdiction under international law, the stigma of being placed on a blacklist or to have sanctions imposed is sufficient to persuade many jurisdictions to comply with globally agreed standards. There are, however, costs involved related to enhanced monitoring and compliance, as well as a risk of diminishing confidentiality, due to increasing pressure on jurisdictions to exchange information on international activities conducted out of the centre, albeit the stipulation that confidentiality will be preserved.

## RIDING OUT INTERNATIONAL TAX DEVELOPMENTS

***Measures to address harmful tax practices***

Labuan IBFC was included in the White List, attesting to the centre and Malaysia's resolute commitment to observing the evolving international standards on transparency and exchange of information to curb illegal activities.

Subsequently, OECD established the Global Forum on Transparency and Effective Exchange of Information (Global Forum). The Global Forum peer review assessments on IFCs comprise two phases - Phase 1 assesses the quality of a jurisdiction's legal and regulatory framework for the exchange of information; while Phase 2 looks at the practical implementation of the said framework. In 2012 and 2013, Labuan IBFC and Malaysia were rated by the Global Forum as being 'Largely Compliant'.

Following up on the Global Forum, the OECD identified a key aspect of cooperation among tax administrators, namely Automatic Exchange of Information (AEOI) of financial information. Under the AEOI, the competent authority for Common Reporting Standards (CRS) is the tax authority of the respective OECD member and Global Forum member countries. For Malaysia, the competent authority is the Inland Revenue Board of Malaysia. The requirements and type of information to be shared is premised on the Model Competent Authority Agreement that links the CRS to the legal basis for exchange.

## MEASURES ON BASE EROSION AND PROFIT SHIFTING

On 25 August 2016, the Malaysian Government signed the Multilateral Convention on Mutual Administrative Assistance (MCMAA) in Tax Matters endorsing its commitment to implementing the OECD's Base Erosion Profit Shifting (BEPS).

Overall, the BEPS package provides 15 Actions that equip governments with the domestic and international instruments needed to tackle BEPS. Signatories to the MCMAA have agreed to implement four minimum standard of the BEPS package, each minimum standard being subject to peer review in order to ensure timely and accurate implementation, thus safeguard the level playing field. Out of the four minimum standards, the immediate action plan is on Standardised Country-by-Country (CbC) Reporting that will give tax administrations a global picture of where multinational enterprises' profits, tax and economic activities are reported, and the ability to use this information to assess transfer pricing and other BEPS risks, so they can focus audit resources where they will be most effective. IFCs including Labuan IBFC, as hotbeds of foreign investments, would definitely need to take this regulatory development into account as part of their ongoing commitment to the exchange of information.

The BEPS Action Plan is not aimed at limiting the design of corporate tax systems but rather at restoring and strengthening countries' taxation rights by ensuring they can safeguard their tax bases from the economic activities that generate them. With the implementation of BEPS, it is envisaged that the international community's trust of Labuan IBFC's and Malaysia's tax system, will prevail.

## EMBRACING THE PRUDENTIAL REGULATORY WAVE

As IFCs become more expansive and integrated into the global business landscape, the issue of financial stability is no longer confined within geographical boundaries. There is a need for consistent, if not comparable, macro-prudential requirements to be enforced across jurisdictions including IFCs. Such prudential policy uniformity is now seen as a necessity for IFCs as opposed to merely being "good to have", and global measures have been instituted by international monitoring and standards-setting bodies to ensure any cross-border systemic instability is detected in a timely fashion and pre-emptively addressed.

Rapid regulatory developments have also heightened investors' expectations for target markets to offer them stability, equipped with resilient financial systems to ensure that their investment outlay will be protected at all times. For its part, Labuan IBFC has over the last 26 years reinforced its security frameworks to ensure business inflows into the centre are governed by a sufficient set of regulations that foster stability and market orderliness. To strengthen its own governance knowledge, Labuan IBFC is a member of and is actively involved in various international standards-setting bodies. It is regularly assessed by the International Monetary Fund's Financial Stability Assessment Programme (FSAP) and by peer reviews, allowing the centre to evolve the design of its regulatory and supervisory framework so as to conform with international prudential standards.

Based on recommendations of the most recent FSAP exercise, Labuan IBFC has embarked on comprehensive initiatives to up-scale its prudential regulations, with focus on the following three areas:

## LABUAN IBFC'S FOCUS AREAS

### 01 STRENGTHENING CAPITAL & FINANCIAL FOUNDATIONS

It is further enhancing its capital and financial regulations, which includes introducing risk-based capital regulations for insurance and takaful sectors, enhancing the Basel requirements for banks, and harmonising the financial reporting standards acceptable for disclosure. Roll-outs of the Insurance Capital Adequacy Framework (ICAF) and Banking Capital Adequacy Framework (BCAF) reflect Labuan IBFC's endeavour to enhance the market capitalisation of the two largest sectors of the centre to international norms.

### 02 ENHANCING CORPORATE GOVERNANCE

It is strengthening its corporate governance framework, especially the internal controls and key functions of Labuan financial institutions, as well as promoting the adoption of a sound risk management culture. Similar efforts have been made to institute Shariah governance requirements to ensure Islamic financial institutions in Labuan are Shariah-compliant in all aspects of their business operations.

### 03 IMPROVING MARKET CONDUCT

It is cultivating professionalism and sound business practices among Labuan market intermediaries, for example stipulating minimum conduct standards for services rendered.

## ENHANCING VIGILANCE AGAINST MONEY LAUNDERING AND TERRORISM FINANCING

With global advocacy for better transparency complemented by stricter anti-money laundering regulations, some may argue that IFCs have embraced this compliance wave better than their onshore counterparts. Labuan IBFC has always worked hand-in-hand with the Government of Malaysia to ensure compliance with international standards in combating money laundering and terrorism financing. The Asia/Pacific Group on Money Laundering (APG) has rated Labuan IBFC as having a "Higher Standard of Compliance" in so far as money laundering activities are concerned. Given the transnational nature of money laundering and terrorism financing, besides gazetting the new Labuan legislative, Labuan FSA has also enhanced its inter-agency cooperation domestically with the National Coordination Committee, and regionally with the APG. It has further implemented a structured supervisory framework for Labuan financial institutions with adequate quality, well-trained and experienced staff to monitor adherence to it.

***Striving for the Right Balance***

With the onslaught of regulations and pressure on IFCs to conform to international norms espoused by onshore economies, there is a real risk of regulation proliferation at the expense of market growth. The issuance of regulations for their own sake may not bode well for an IFC market, for the following reasons:

Unstructured implementation regulations may result in market disorder. This is especially true when implementation brings about unintended side effects on investment decisions or pessimistic business strategies. If this can bring about unwanted market contraction in onshore jurisdictions, it will be profoundly disastrous for smaller markets like IFCs where market growth is proportionately linked with business expansion.

Often, regulatory impact is assessed on individual events which can result in blind spots to the actual effects on a market. IFCs need to assess the cost of conformity to the entirety of regulations in place, instead of considering individual regulations to be introduced one at a time. Research by the George Mason University of the United States (US) revealed that US economic growth has, on average, slowed by 0.8% per annum since 1980. If regulation had been held constant, it asserts, the US economy would have been 25% larger than it actually was as of 2012.

As not all markets are built equal, adopting another jurisdiction's rules indiscriminately without first assessing their suitability may cause disruption. Inadequate benchmarking or benchmarking undertaken with improper reference jurisdictions can also lead to new rules being incongruent with the local market's needs. This would impede growth and may result in market stagnation, or worse, deterioration.

In the face of increasing pressure to conform with international standards, coupled with growing competitiveness in the international market, it is imperative for IFCs such as Labuan IBFC to be agile and adaptive to remain relevant in the global business context. Incessant regulatory impositions, if left unchecked, can result in excessive compliance costs which can out-price the IFC vis-à-vis its competitors. On the other hand, over market liberalisation laced with flimsy rules designed to attract sheer business numbers into an IFC will only be a ticking bomb before market instability and anarchy set in.

FINDING THE RIGHT EQUILIBRIUM:
BUSINESS & REGULATORY PRESSURE ON LABUAN IBFC

In response, Labuan IBFC has struck a midshore solution premised on the following tenets:

**01 Pitching the right regulatory intensity**

The intensity of policy requirements needs to be commensurate with risk materiality and significance posed by the different types of financial institutions. This necessitates the need for Labuan IBFC to differentiate between primary market players and intermediaries to ensure the requirements are appropriate to the role assumed by the various institutions. Notwithstanding this, can the relative roles of market players change over time due to market advancements? Can the supply chain be disrupted by intermediary institutions via technological enablers notwithstanding their lesser role? The proportionality in regulatory setting can only be effective if the varying regulations remain relevant to the prevailing market circumstances; and to enable this, there is a need for Labuan IBFC to be continuously vigilant in its surveillance and supervision.

**02 Effecting with the right approach and sequencing**

Acknowledging compliance costs arising from major regulations, Labuan IBFC adopts a gradual implementation approach in rolling out its policy as opposed to a "big-bang" imposition to industry. This allows for the new regulations to be sequenced so as to build a strong foundation of basic rules within the market before phasing in more sophisticated requirements as the industry players grow in maturity and capability. This also enables the market to be amply prepared and allows players to internalise the prudential requirements as part of their business set-up as opposed to mere fulfilment of their regulatory obligations. However, as a phased approach can be time consuming, the possibility of regulatory forbearance exists as it prolongs market malpractices which would have been eradicated had the regulations been imposed full-blown.

**03 Benchmarking strategically to relevant references**

It is imperative that regulations to be introduced incorporate principles of international standards as baseline requirements. Being a midshore centre, Labuan IBFC's rules are not just benchmarked against Malaysia's strong regulatory backdrop, but would also need to cater for the international business setting based on the practices of peer IFCs. Often, complex and rigid onshore regulations are suited for home-based entities with substantive market presence. But, as host markets are largely populated by branch entities, Labuan IBFC's rulemaking would be dependent on how well it can complement home market regulations to avoid regulatory redundancy that can cause unnecessary business hardship. Nevertheless, such complementarities can only be brought forth if the home-host supervisory relationship is sufficient to bridge an understanding between Labuan IBFC and its counterparts in the home markets.

## THE WAY FORWARD

In essence, Labuan FSA seeks to preserve its competitiveness while maintaining its reputation through high standards of integrity, transparency, compliance and enforcement. In the long term, Labuan IBFC aims to offer business development incentives, ease of conducting business and support for market innovation. These are key to creating a competitive edge to generate greater volume of economic activity on the Island.
On the other hand, the market and its players must adapt to new capital and liquidity regime structural changes, transparency requirements and institute investor protection provisions. The transparent regulatory framework and conducive business environment has enabled and continue to facilitate market forces to operate effectively where business innovations can flourish. Although one may argue that the number of financial institutions in Labuan IBFC does not do justice to its more than 25-year existence, it should be remembered that only genuine businesses are permitted to operate here, justifying quality over quantity. Labuan FSA continuously stresses on international respectability which enables the financial sector to engage in trade and services in a competitive global market.

Closer regulatory and supervisory cooperation as well as harmonisation of standards, particularly in legitimate cross-border requirements, accounting and enhanced disclosure standards are pertinent for the survival and relevancy of Labuan IBFC. The centre has been vigilant in enforcing prudential safeguards with firmness, where necessary. A lighter regulatory touch does not mean a laxer approach, but rather having the right regulations to maintain high standards of integrity and transparency to foster greater confidence in the market as well as prospects beyond. It is with the midshore banner that Labuan IBFC will continuously strive for the right equilibrium to balance its market stability agenda vis-à-vis business growth. The hope is that, as a midshore centre, Labuan IBFC will scale greater heights to be on par with leading IFC brand names, or even evolve beyond them.

ARTICLE

# 04 TAPPING ASIA FOR INSURANCE CAPTIVES

## INTRODUCTION

In the traditional risk transfer domain, protection is the key motivation for business owners to farm out their risks. This can almost exclusively be obtained through insurance companies though at a considerable financial cost. However, what if there were a better way to the customary purchase of insurance – a way which provides not only protection from risk but also minimises cost and offers numerous other business benefits? This question implies that a gap exists between traditional methods of self-insurance and insurance available in the commercial market. This is where captive insurance comes into play. The concept is not new to the insurance industry but its contribution and operations are still unfamiliar to many.

### WHAT IS A CAPTIVE?

A captive, in its most basic form, can be defined as a wholly-owned subsidiary of a non-insurance company created to insure some or all of the owner's and/or related companies' insurable risks. The International Association of Insurance Supervisors (IAIS), the standard setting body for the insurance world, defines a "captive insurer" as:

> "an insurance or reinsurance entity created and owned, directly or indirectly, by one or more industrial, commercial or financial entities, the purpose of which is to provide insurance or reinsurance cover for risks of the entity or entities to which it belongs, or for entities connected to those entities and only a small part if any of its risk exposure is related to providing insurance or reinsurance to other parties."

The concept has been expanded and translated into various forms and practices as seen by the many captive market norms around the world. In tandem with rapid growth of its adoption, the IAIS has classified captives into four broad categories, ranging from the simplest to the more complex structures:

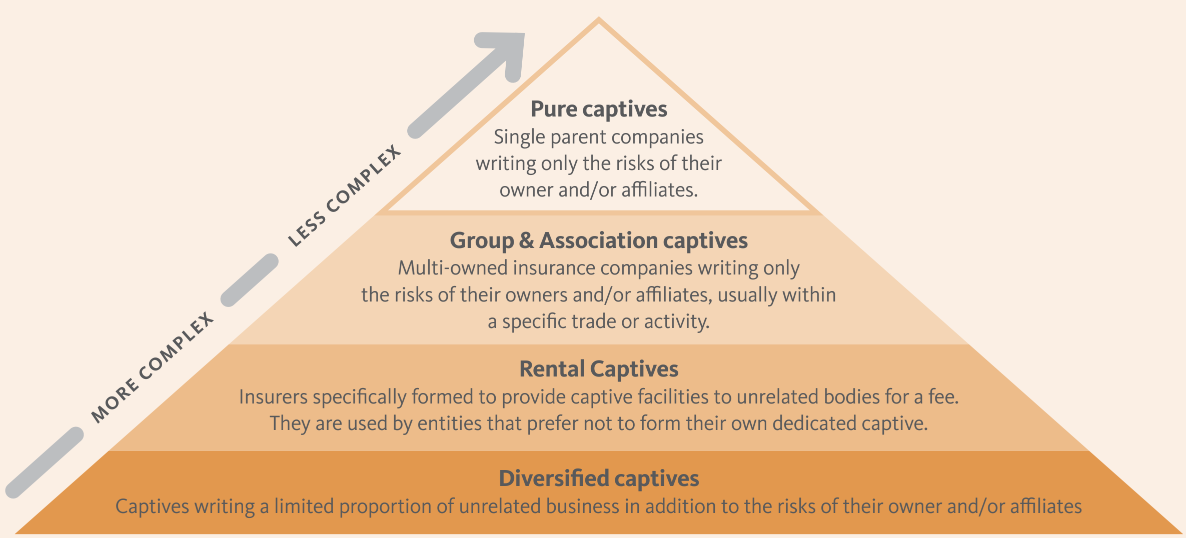


**Figure 1**: Captive Classification by IAIS

The growing use of captives may also be correlated with the concerted effort and sophistication of risk management mechanisms to minimise risk and optimise returns. The effects of a self-insurance programme would be more evident and manageable if contained within a central, separate entity such as a captive, rather than having the benefits dissipated over a number of operating units. Moreover, with greater familiarity with their own risks, captive vehicles are well placed to confer on business owners the means to manage their own "rainy day funds" in a professionally and actuarially sound manner.

The purist definition of a captive is aptly expanded by the Captive Insurance International Association, as follows:

> "A risk-financing method or form of self-insurance involving the establishment of a subsidiary corporation or association organised to write insurance. Captive insurance companies are formed to serve the insurance needs of the parent organisation and to escape uncertainties of commercial insurance availability and cost. The insureds have a direct involvement and influence over the company's major operations, including underwriting, claims, management policy, and investments."

## BENEFITS OF CAPTIVES BEYOND THE FISCAL

In the initial phase of the captive boom, tax planning played a leading role in the emergence of these vehicles by maximising the tax deductibility of premiums collected and reserves underwritten. However, in light of increasing international curbs on harmful tax practices, such tax avoidance objectives may no longer be the driving force. Today's captives are, in fact, established for more explicit economic reasons, which include:

### 01 **Stable and Lower Insurance Prices**

- The establishment of a captive can be seen as a means by which business owners can minimise their own protection costs compared with obtaining such cover through commercial insurance. This is because a captive allows a business owner to benefit from the setting aside of its premiums to its captives should these insured risks not become claimable events. Moreover, a growing familiarity with the owner's loss history enables a captive to impose only the appropriate amount of premium for the risks insured.

- Insuring via owner-captive would also insulate the owner from uncertain premium costs, particularly for large and long tail risks which may be subject to cyclical spikes in commercial insurance pricing. In contrast, underwriting risks through a captive vehicle confers greater stability to the captive owner, since the risk pricing will be determined at the level deemed appropriate based on the owner's own risk appetite. This greatly improves the owners' financial forecasts because they minimise the unwanted variance that may exist through purchasing insurance on the open market.

### 02 **Better Reinsurance Access and Terms**

- A major benefit of captive insurance is its easy access to the wholesale reinsurance market. Such direct access by business owners can only be made possible via captives as the professional underwriters for these risks.

- Reinsurers would also be assured by the fact that the insured owner itself is financially involved through its captive and may consequently offer more competitive terms. This could drive down the cost of insurance protection and provide opportunities for even further premium reductions from the business owner to its captive.

### 03 Cash Flow

- Another critical advantage is the propensity of a captive to generate investment income from the premiums collected. This is possible as captives compared with their commercial insurance counterparts have greater flexibility in cash flow management within the underwriting cycle compared with their commercial insurance counterparts.
- Unlike an insurer to whom premiums are usually paid at the inception of a policy, a captive can achieve improved cash retention and control by structuring premium payments over a financial year, paying its owner for losses appropriately as they arise and retaining premiums within the group until claims become payable. This allows for further generation of investment income from accumulated premiums.

### 04 Placement of Specialised Risks

- The hardship even impossibility of obtaining certain insurance covers from the commercial market can be another motivation for creating captives. This may occur in instances where risks concerned are long tail in nature with uncertain occurrence histories and may not be viable for underwriting by commercial insurers.
- Under such circumstances, the premiums payable would either be too high or the underwriting terms and conditions underscored by various contractual disclaimers and exclusions, which would put the owners at a disadvantage. In view of these market limitations establishing a captive is an obvious solution.

### 05 Communication

- Lack of communication between insurers and the insureds, a common occurrence in the insurance industry, is not a problem for captives. Since captives are owned by or affiliated to the insuring business owners within the same corporate group, a close relationship is in fact inherent in captive arrangements. Again, as the captive usually insures group risks, its perspective would naturally be closer to that of risk manager than third-party commercial insurer.

### 06 Customisation

- Aside from appropriate premium pricing, a captive can provide the business owner with the kind of customised coverage it needs. Such flexibility contrasts with commercial insurance contracts whereby insurers tend to apply standard covers and impose consistent risk pricing based on the prevailing rating standards or market tariffs.
- In the case of tariffed insurance covers, it is also possible that a business owner's favourable loss experience may be dismissed by the insurers since minimum premiums chargeable are unilaterally dictated by the insurers on a blanket basis. As a result, the business owner may be constrained by the fixed premiums imposed and the pre-customised policy coverage.

### 07 Control of Cover and Cost of Multi-national Programmes

- For multinational corporations, a captive enables the group's net insurance retention to be centralised in a more cost effective manner as opposed to having multiple and expensive insurance coverage secured at various subsidiary levels. Simplified global policies can be issued as a result of this centralisation.
- Additionally, there is more control over claims through a single group captive. However small the captive participation, directly or via a fronting company, the business owners can conveniently track all claims. This immediate access to all the necessary information to justify claims would in turn be channelled into the group's risk management policies and practices.

## THE RISE OF ASIAN CAPTIVES

The prospects for Asia's captive market are bright, given that Asian corporations are viewing the self-insurance proposition as a viable alternative to commercial insurance, and the number who appreciate its benefits is growing. While many companies will continue to depend on traditional insurance, those with greater savvy will continue to explore greater business opportunities and risk management options through captives, particularly if commercial premium rates make normal insurance untenable. This market evolution, alongside Asia's robust economic expansion, growing cross border trade activity and proliferating infrastructures over the past decade, certainly present a strong case for captive businesses to grow as the logical cost-effective, risk mitigation solution.

Business Insurance 2016 reported that the total number of captives established worldwide was 6,939 in 2015. Of these only 2.3% were of Asia Pacific origin. According to Aon Plc's Asia Report Review 2017, the Asian captive market continued to grow at a steady pace during 2016, with a total of 132 active captives in Labuan IBFC, Singapore, Micronesia and Hong Kong. The modest number of Asian captives relative to other regions could only mean one thing – there is huge potential for the captive business in Asia!

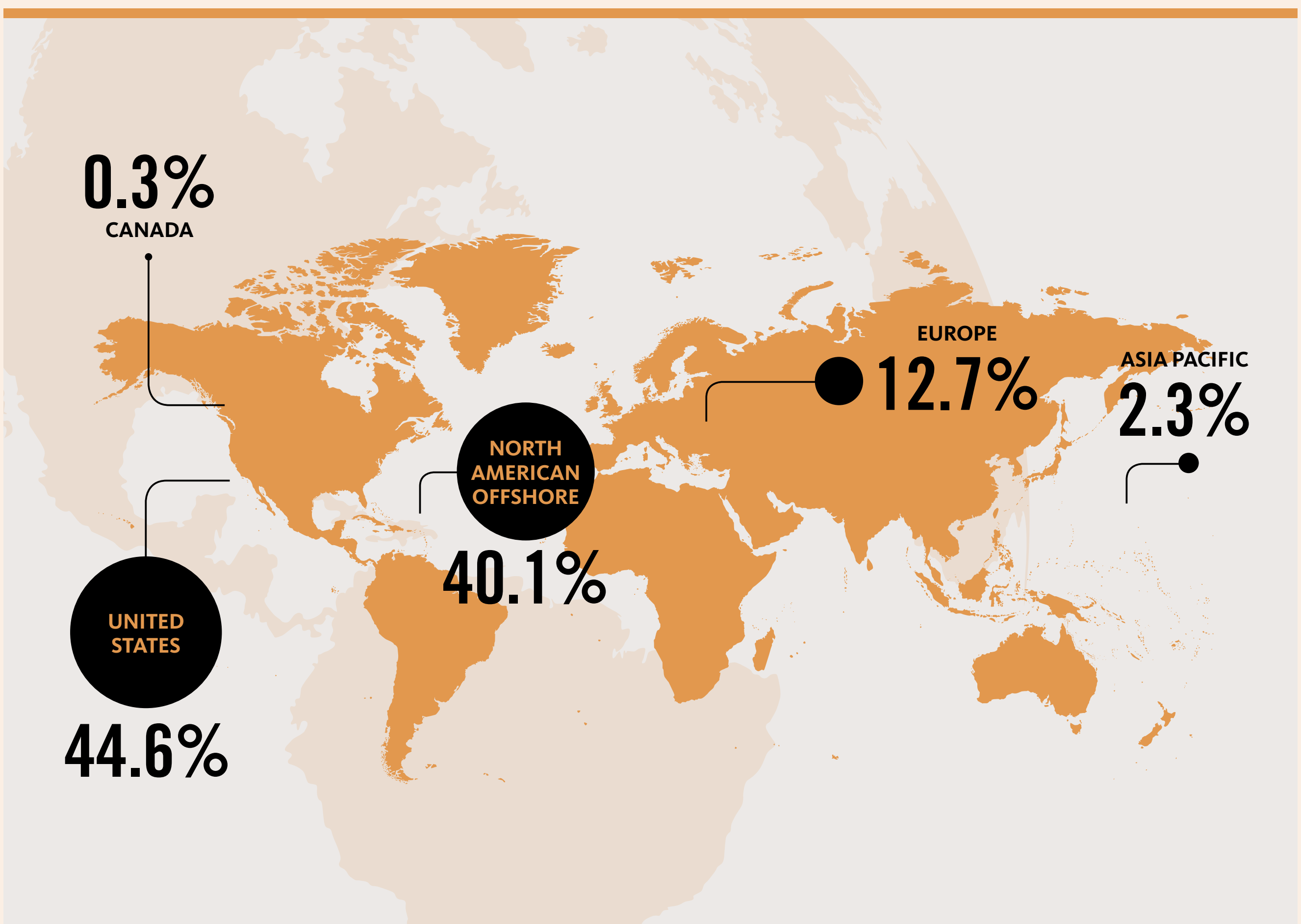


**Figure 2**: Spread of captives across regions (2015)

The challenges faced by many Asian insurance markets in the face of global liberalisation and deregulation provide a window of further opportunity for risk owners to venture beyond traditional business norms. The greater focus on boosting the value of shareholders is compounded by the need to balance an increasingly prudent risk management culture with a sophisticated risk appetite. This balance has resulted in a growing number of corporations moving towards selecting an appropriate suite of insurance covers as a means of mitigating unwanted risks that can damage shareholder and market confidence. Captives, therefore, embody a hybrid concept of self-insurance and professional insurance underwriting that allow corporations to enjoy greater protection with the flexibility of managing them to suit their intrinsic business needs. As the underinsurance phenomenon continues to be a typical feature of many Asian economies, captives would naturally be attractive business solutions for many business enterprises which may be more inclined towards self-managing their own risks.

The concept of captive insurance is still relatively new to Asia and, even for some larger economies like China, their full value is still not appreciated. Unlike the more advanced markets such as the US, the Caribbean and the EU, Asia's understanding of the full capabilities of captives is still at an infant stage. But therein lies its prospects for future growth.

A closer look at one of the region's economic giants, Japan, indicates that the captive insurance industry remains underutilised after so many years compared with the country's traditional insurance market, one of the largest in Asia. According to an A.M. Best report, the low captive utilisation in Japan is partly due to historically strong relationships within the major domestic insurance groups, which have been the largest shareholders of its industrial organisations. This bonding translates into preference for commercial insurance within the Japanese groups instead of special purpose vehicles for underwriting in the form of captives. However, these time-honoured relationships have been changing in recent years as evidenced by the continuous reduction in business-related stock holdings by major Japanese insurance groups. This decline would suggest that there may be new opportunities for Japanese captives to have a beachhead for the future. This growth would be particularly timely as many Japanese corporations are investing in or starting to establish new subsidiaries beyond Japan.

Recent regulatory capital enhancements may also have some influence in the captive trends throughout Asia. Solvency II's implementation in Europe seems to make little or no distinction in the capital requirements of captives vis-à-vis insurers. One can argue that captives, as privately owned risk management vehicles, warrant greater capital flexibility, especially if they are predominantly underwriting their own group or related parties' risks and thus have little or no exposure to the insuring public at large. It is possible that this can be the impetus for risk owners in other parts of the world to seek alternative regional markets such as Asia to establish their captives. This is further spurred on by the vigorous expansion of European multinational corporations into Asia riding on the tide of globalisation.

Even the more established Asian captive markets, whose business is founded predominantly on traditional lines such as property and liability risks, are likely to continue to expand into areas where traditional insurance markets do not provide a complete solution. For instance, complex and long-tail exposures such as cyber or extreme catastrophic risks, which are becoming increasing business threats, may find their way into captive programmes in Asia.

## LABUAN IBFC - SERVING ASIA'S CAPTIVE NEEDS

Labuan IBFC is fast becoming one of the largest captive jurisdictions in Asia. Since the first captive establishment by a property developer company in 1998, the sector has been growing rapidly with about 40 captives to date, contributing to an aggregated written premium value of USD348.6 million in 2016. Asia's risk owners have been the main contributors with almost 75 percent of the total captive market ever since the captive concept was first embraced by Labuan IBFC. The remaining 25% are EU and the US parented captives. This positive trend is expected to continue as Labuan IBFC concentrates on strengthening its grip on Asian captive markets.

Labuan IBFC offers a wide range of captive structures well-tailored to the various needs and strategies of business owners in managing their risks according to their risk appetite. In the array of models offered, business owners have various options, ranging from the pure captive, which requires that the needed infrastructures be provided in-house, to the rental captive such as the protected cell company (PCC), where reliance is placed on the captive sponsor to manage and administer captive operations. The variety of captive structures to select from, coupled with other business enablers designed to provide legal stability with minimal setup and operating costs, make Labuan IBFC the region's choice for captive market.

| Types of captive | Risk Underwritten | Capitalisation | Annual Fee |
|---|---|---|---|
| Pure/single owner | The risks of their owner or affiliates. | RM300,000 equivalent in foreign currency | RM10,000 |
| Group/association/ multi owner | The risks of their owners and/ or affiliates, usually within a specific trade or activity<br><br>The risks of the industry or association members | RM300,000 equivalent in foreign currency | RM10,000 |
| Rent-a-captive | The risks of owner (renter) or affiliates | RM500,000 equivalent in foreign currency | RM13,000 for Master rent-a-captive<br>RM3,000 for Subsidiary rent-a-captive |
| Protected Cell Companies | The risks of cell owner or affiliates | RM500,000 equivalent in foreign currency | RM30,000 for Core<br>RM10,000 for Cell |

**Table 1**: Types of captives in Labuan IBFC

The key benefits and advantages of establishing a captive in Labuan IBFC are as follows:

### 01 Robust and Internationally Recognised Regulatory Framework

Clear, supportive and business friendly legal frameworks and industry guidelines are provided and enforced. The effort to update the legal and prudential requirements on an ongoing basis would ensure that captives will perform well and become one of the key growth sectors for the region.

### 02 Extensive Captive Structures

Labuan IBFC offers a variety of captive structures, ranging from the plain-vanilla pure captive to more complex rental structures, to suit the varying needs of business owners. The current Labuan legislations can even be regarded as the most market adaptive relative to other captive markets globally, particularly with the inclusion of provisions on Protective Cell Companies.

### 03 Provision for Shariah Compliant Alternatives

In 2010 Labuan IBFC introduced requirements for Shariah-compliant captives targeted at risks owners who prefer captives to be governed by Shariah principles. With growing interest in takaful captive structures, Labuan IBFC, became the first jurisdiction in the region to establish such a structure, making it the obvious domicile choice for risk owners wanting to take the Shariah-compliant option.

### 04 Cost Efficiency

Labuan IBFC offers global investors a low operating cost environment. In addition, it has a competitive tax structure and various tax exemptions as well as access to most of Malaysia's extensive network of more than 80 double-taxation treaties.

### 05 Strategic Location

Captives established in Labuan IBFC enjoy seamless connectivity to Malaysia, while also maintaining cross-border linkages with counterpart markets in Asia. Labuan captives are permitted to establish offices in Malaysian cities to leverage on modern infrastructure, human capital, professional services, recreational and residential facilities in vibrant business environments.

Being in the same time zone with major cities in the region, such as Hong Kong, Shanghai and Singapore, Labuan IBFC can conduct its business transactions seamlessly with these centres.

Moving forward, Labuan IBFC will continue to be shaped by shifting financial market dynamics and financial developments globally, underpinned by the ASEAN Economic Community with its emphasis on regional integration. The huge potential for new business opportunities will definitely include the captive business. In responding to the challenge to serve the financial and business needs of the regional economic community, Labuan IBFC endeavours to create greater awareness of the exciting captive plans that the centre has in store for the future. This includes avenues for the Labuan captive market to develop its own set of regulatory measures to complement its setup compared with the standard rules for commercial insurance as well as the possibility of underwriting a limited proportion of unrelated party business, subject to the Authority's approval. However, at present, such initiatives may only be considered until the Authority is assured of the adequacy of the applicants' captive experience and underwriting skill-sets in managing third party risks. To ensure that consistent business prudence is maintained as with the commercial insurance sector, additional safeguards may be imposed for the captive underwriting of third-party risks.

## THE WAY FORWARD

In spite of the pressures posed by economic headwinds, captives have shown they can weather the storm. They are evolving, and have now entered a new phase of growth. Part of this phase will see the maturation of existing captives, as they are refined to better meet the demands of today's competitive world. And, given the capital and fund scarcity in Asia, captives are set to provide workable solutions by filling the gap between traditional methods of self-insurance and commercial insurance. While most economies in ASEAN continue to adopt an in-country premium retention policy, local business owners may find captives an ideal means to contain their risks in-house, though this time in a more structured, cost-efficient and professional manner.

In a nutshell, a truly efficient captive could bring about great fiscal benefits to an organisation through increased overall profitability. Despite its present challenges, the end game for captives is to ensure that stakeholders ultimately benefit from effective management of insurance costs, enhancing profitability through reduced outward costs and, generally, improved risk management within the organisation. Since Asia is currently engaged in establishing its captive market on the right footing, underlining the importance of risk financing and other benefits beyond fiscals, we firmly believe that the region and Labuan IBFC will eventually reap the full potential of captives and may even outperform established captive markets around the world. These are the favourable projections that needed to be appreciated and exploited by risk owners and business entrepreneurs, not only in Asia but also other markets which intend to tap into the region's endless business possibilities.

ARTICLE

# 05 OFFSHORE BANKING

## INTRODUCTION

Offshore banking is as legal as any other onshore banking services. Offshore banks are commonly termed as such when a majority of their depositors originated from a jurisdiction outside their own country. The term offshore generally connotes the transaction with a bank that people conduct outside the place they are living or residing. Traditionally, people use offshore banks for protection and wealth preservation against political or financial insecurity in their country. In the past, offshore banking was popular particularly for its high-yielding performance income and secrecy protection coupled with the low tax jurisdictions they operate in. Today offshore banks are not necessarily located on islands as most countries have banks that deal in just foreign currencies and with non-resident clientele base.

### CHALLENGES

Offshore banking has never seen so much publicity as it has lately. The prominence of offshore banking began to take a hit in 2012 with the financial crisis of Cyprus, a popular international financial centre. The industry thus came under the spotlight when over $31 billion in deposits were almost lost.

In 2015, the leak of documents and information in the Panamanian firm Mossack Fonseca brought international financial services industry including offshore banking business under scrutiny as never before.

It is accepted that the era of offshore bank secrecy is over. Banks, whether offshore or onshore are required to be more transparent, and obligated to conform to requests for information. Transparency and information exchange have become central public policies, and banks are expected to subscribe to the notion of being a responsible global citizen, to cooperate internationally by sharing information and harbouring no illegitimate business. Failure to do so would be damaging, as reputation could be adversely affected through various means including blacklisting and fines.

With growing pressures from international organisations in relation to AML/CFT regulations, Automatic Exchange of Information (AEOI) and Foreign Account Tax Compliance Act (FATCA), the Common Reporting Standard (CRS) as well as the Base Erosion and Profit Shifting (BEPS), profiteering from tax arbitrages would be an offence and no longer be tolerated. Several banks in the United States and Switzerland have been hit with substantial fines due to non-compliances, alarming other major international banks to impose stricter compliance requirements on customer accounts.

Today, offshore banking is highly regulated, and compliance is more emphasised than ever before. As a result, the cost of compliance for both banks and customers has substantially increased, to the extent that some banks decided to de-risk and stop providing such banking services to customers. This phenomenon can be observed over the last few years as some offshore banks started to terminate or restrict business relationships with clients or categories of clients. Inevitably, this would also negatively impact the bottom line of banks.

Another challenge for offshore banking is e-commerce and digital transformation technology. Fintech or financial technology is fundamentally changing the way financial institutions operate and transforming the way people transfer, borrow, protect and manage money via digital highways. The impact to the financial services sector, including offshore banking will become greater in the future. The traditional banking approach is no longer relevant. Banks which are holding on to the 'old ways' to do business will lose their market share to those that adopt fintech and have virtual presence without physical form.

## WILL OFFSHORE BANKING BE STILL RELEVANT?

Despite the business environment changes and the dismantling of competitive advantages, offshore banking will still be relevant for many reasons for both private individuals as well as international businesses. Offshore banking has inherent advantages and niche financial products to offer. Secondly, besides offering political, economic and financial stability, offshore banks normally operate in jurisdictions that have an extensive "ecosystem" of service providers such as trust companies, lawyers, accountants and other experts alongside the bankers. In addition, the playing field for offshore banks has been levelled. They are as highly regulated as any other banks. The misperception that they are bastions of secrecy and non-transparency will erode, and therefore legitimate investors will continue to use them without fear of reputational risks. Banks' customers can continue to take comfort on trust and confidentiality as offshore banks would not divulge client information unless requested by enforcement agency with evidence of wrong doings.

Nevertheless, offshore banks must be prepared to embrace changes induced by structural, regulatory and technological factors by refining their existing business models and evolve to be viable and relevant in the international market. The world of e-commerce has a lot to offer in the way how business could be undertaken. These will be a vast difference between past and future in the way banks operate and the market in which they operate, in response to new technology on fintech disruptions.

Further, the composition of the institutions themselves will also be significantly change. The recent flurry of mergers is indicative of a wider trend that will see the banks and other service providers such as trust companies, both offshore and onshore merging to become much larger institutions. Although trust companies have a different customer base than banks, such linkages offer obvious benefits. This has precipitated due to the growing appetite for smaller, niche banking operations to support emerging wealth management sectors that are looking for more personalised form of banking that provide services to a very limited class of individuals and corporates in the future. In this respect, the relevancy of offshore banks will become stronger to service the needs of clients in the future.

## SUMMARY

Offshore banking has come out of age. Its previous value propositions have been removed under the changes brought about by demands for higher compliance, transparency and disclosure. However, offshore banking will continue to be relevant provided it can adapt to the changes and harness innovation and technology advancement to provide "above average" value-added services for their clients. Above all, the basic tenets of banking such as integrity, transparency, compliance with rules and regulations as well as the ability to adapt to changes in the market remain important.

04

# OUR LEADERSHIP & ADVISORY GROUP

Standing from left to right:
Dato' Zahrah binti Abd Wahab Fenner
Tan Sri Dato' Seri Ranjit Ajit Singh
Datuk Oh Chong Peng
Dato' Mohammed Azlan bin Hashim
Datuk Ali bin Abdul Kadir
Azhar bin Ahmad
Dato' Khodijah binti Abdullah

**Will offshore banking be still re**

Despite the business environmen
competitive advantages, offshore
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## SUMMARY

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DID YOU KNOW...

**2016 –**

Labuan IBFC is home to:

**13,260**
**Labuan Companies**

# MEMBERS OF THE AUTHORITY

Standing from left to right:
Dato' Zahrah binti Abd Wahab Fenner
Tan Sri Dato' Seri Ranjit Ajit Singh
Datuk Oh Chong Peng
Dato' Mohammed Azlan bin Hashim
Datuk Ali bin Abdul Kadir
Azhar bin Ahmad
Dato' Khodijah binti Abdullah

Sitting from left to right:
Muhammad bin Ibrahim
(Chairman)

Ahmad Hizzad bin Baharuddin
(Director General)

Name
**– Muhammad bin Ibrahim**

Position
**– Chairman**

Skills and Experiences
Muhammad bin Ibrahim is the Governor of Bank Negara Malaysia (BNM). Appointed in May 2016, he is also the Chair of the Bank's Monetary Policy Committee and Financial Stability Committee.

In the course of more than three decades at the central bank, Governor Muhammad's experience spans a multitude of areas, including banking regulation and supervision, strategic planning, payment systems, insurance, offshore banking, treasury and financial markets. Prior to his appointment as Governor, he was the Deputy Governor responsible for the development of the financial markets, monetary policy implementation and reserve management. He also oversaw the development of the banking and insurance sectors including Islamic finance. From 1992 to 1994, he was the head of the BNM Labuan Offshore Unit where he was primarily responsible for the licensing for offshore banking and insurance entities. He was involved in the establishment of Labuan Financial Services Authority in 1996 where he was instrumental in the capital raising exercise for the construction of the Financial Park Labuan building.

Governor Muhammad served as the Chairman of the Irving Fisher Committee on Central Bank Statistics of the Bank for International Settlements where he strengthened collaboration with other international statistical institutions. He was closely involved with the United Nations Advisors Group on Inclusive Financial Sectors, in the working group chaired by Her Majesty Queen Máxima. He currently chairs the Global Standards and Policy Committee of the Alliance for Financial Inclusion which advises on the engagement with international standard-setting bodies towards advancing the global agenda of financial inclusion.

Governor Muhammad holds postgraduate qualifications from Harvard University and International Islamic University Malaysia. He is a Fellow of the Asian Institute of Chartered Bankers and a member of the Malaysian Institute of Accountants.

MEMBERS OF THE AUTHORITY

Name
**– Ahmad Hizzad bin Baharuddin**

Position
**– Director General**

Skills and Experiences

Ahmad Hizzad was appointed the Director General of Labuan Financial Services Authority (Labuan FSA) on 3 October 2011. He currently serves as director for Labuan IBFC Inc. Sdn Bhd, Labuanfsa Incorporated Sdn Bhd, Pristine Era Sdn Bhd, Financial Park (L) Sdn Bhd, Labuan Corporation and a member of the Audit Committee of Labuan Corporation. He is also a board member of the International Islamic Financial Market in Bahrain. He was appointed as the Assistant Governor of Bank Negara Malaysia (BNM) in 2014.

Prior to his appointment in Labuan FSA, Ahmad Hizzad was the Director of Islamic Banking and Takaful Department in BNM. He started his career in BNM in 1986 and has served in various departments in the Bank. He holds a Masters Degree in Business Administration from St. Louis University, St Louis, Missouri, United States of America. He is a Fellow of the Asian Institute of Chartered Bankers of Malaysia.

Name

**– Tan Sri Dato' Seri Ranjit Ajit Singh**

Skills and Experiences

Tan Sri Dato' Seri Ranjit is the Executive Chairman of the Securities Commission Malaysia (SC). He was previously the Managing Director of the SC and has over 20 years' experience in the field of finance and securities regulation and has spearheaded many key initiatives in the development and reform of Malaysia's capital market.

Tan Sri Dato' Seri Ranjit was appointed the Vice-Chairman of the Board of the International Organisation of Securities Commissions (IOSCO), the global body of capital market regulators and was elected as the Chairman of IOSCO's Growth and Emerging Markets Committee. Tan Sri Dato' Seri Ranjit is also Chairman of the ASEAN Capital Markets Forum, a body tasked to spearhead market integration efforts within the ASEAN region.

Tan Sri Dato' Seri Ranjit chairs the Securities Industry Development Corporation, the Malaysian Venture Capital Development Council and the Capital Market Development Fund. He is also the Vice-Chairman of the Asian Institute of Finance and a member of the board of Financial Reporting Foundation and the Malaysian Institute of Integrity.

Tan Sri Dato' Seri Ranjit is trained as a financial economist and accountant. He holds a Bachelor of Economics (Honours) degree and a Master of Economics degree in Finance from Monash University, Melbourne. He was conferred the degree of Doctor of Laws honoris causa by Monash University Melbourne. He is a Fellow of CPA Australia and has worked in academia, consulting and accounting in Australia and Malaysia.

MEMBERS OF THE AUTHORITY

Name
**– Datuk Oh Chong Peng**

Skills and Experiences

Datuk Oh is Chairman of the Alliance Financial Group and Non-Executive Director of the various Board of public listed companies such as British American Tobacco (Malaysia) Berhad, Malayan Flour Mills Berhad, Dialog Group Berhad, Kumpulan Europlus Berhad and a trustee of UTAR Education Foundation. He was a partner of Coopers & Lybrand Malaysia and a government-appointed member of the Kuala Lumpur Stock Exchange (now known as Bursa Malaysia) as well as the Malaysian Accounting Standards Board.

Datuk Oh is a Fellow of the Institute of Chartered Accountants, England and Wales. He was a council member of the Malaysian Institute of Certified Public Accountants from 1981-2002 and served as President from 1994-1996.

Name

**– Dato' Mohammed Azlan bin Hashim**

Skills and Experiences

Dato' Azlan is Chairman of D&O Green Technologies Berhad, SILK Holdings Berhad, Scomi Group Berhad, Labuan IBFC Inc. Sdn. Bhd. and Deputy Chairman of IHH Healthcare Berhad. He also serves as a board member of, amongst others, Khazanah Nasional Berhad and Chairman of the Government Retirement Fund Inc. Investment Panel.

He has extensive experience in the corporate sector, including financial services and investment. Positions he has held include Chief Executive of Bumiputra Merchant Bankers Berhad, Group Managing Director of Amanah Capital Malaysia Berhad and Executive Chairman of Bursa Malaysia Berhad Group.

Dato' Azlan holds a Bachelor of Economics (Monash) and qualified as a Chartered Accountant (Australia). He is a Fellow Member of the Institute of Chartered Accountants, Australia, Member of The Malaysian Institute of Accountants, Fellow Member of Malaysian Institute of Directors, Fellow Member of the Institute of Chartered Secretaries and Administrators and Hon. Member of The Institute of Internal Auditors, Malaysia.

MEMBERS OF THE AUTHORITY

Name
**– Datuk Ali bin Abdul Kadir**

Skills and Experiences

Datuk Ali is a Fellow of the Institute of Chartered Accountants in England & Wales ("ICAEW"), member of the Malaysian Institute of Certified Public Accountants (MICPA) and the Malaysian Institute of Accountants. He is also currently Honorary Advisor to ICAEW KL City Chapter, Honorary Fellow of the Institute of Chartered Secretaries & Administrators (UK) and the Malaysian Institute of Directors.

Datuk Ali is currently the Chairman of Jobstreet Corporation Berhad, Privasia Technology Berhad, and Citibank Malaysia. He is a board member of Glomac Berhad and Ekuiti Nasional Berhad (Ekuinas).

Datuk Ali was the Chairman of the Securities Commission Malaysia from 1 March 1999 until 29 February 2004. He initiated the Capital Market Masterplan, chaired the Capital Market Advisory Council and he was a member of the National Economic Consultative Council II, the Foreign Investment Committee, the Oversight Committee of National Asset Management Company (Danaharta) and the Finance Committee on Corporate Governance. On the international front, he was a member of the Exco of IOSCO, Chairman of IOSCO's Asia Pacific Region Committee, Chairman of the Islamic Capital Market Working Group and trustee of AAOIFI and Force of Nature Aid Foundation, and also Advisor to the Sri Lanka Securities & Exchange Commission.

Prior to his appointment to the Securities Commission, he was the Executive Chairman and Partner of Ernst & Young and its related firms. He was also the former President of the MICPA, chairing both its Executive Committee and Insolvency Practices Committee and co-chairing the Company Law Forum. He was appointed an Adjunct Professor in the Accounting and Business Faculty, University of Malaya (2008 till 2011) and was then appointed to the Advisory Board of the same Faculty. Datuk Ali also chaired the Financial Reporting Foundation from July 2009 to June 2015.

In 2012, he was bestowed the Lifetime Achievement Award by The Institute of Charted Accountants in England & Wales – KL City Chapter, and the President's Award by the Malaysian Institute of Certified Public Accountants.

Name
**– Dato' Zahrah binti Abd Wahab Fenner**

Skills and Experiences
Dato' Zahrah is the Chief Executive Officer (CEO) of the Companies Commission of Malaysia (SSM). Prior to her appointment as CEO on 1 January 2015, she was the Deputy Chief Executive Officer (Services) (DCEO Services) a post she held since the establishment of SSM in 2002. While serving as the DCEO (Services), her portfolio comprised of the Corporate Development and Policy Division, the Corporate Resource Division, the Information Communication & Technology, the Compliance Division, the SSM Training Academy (COMTRAC) and the Corporate Communications Section.

Dato' Zahrah who graduated with a Bachelor of Accounting (Hons.) degree from Universiti Kebangsaan Malaysia, is a member of the Malaysian Institute of Accountants (MIA) and is a Chartered Accountant. She is also a member of the Approval and Implementation Committee of the Iskandar Regional Development Authority and a member of the Public Sector Accounting Committee of MIA for the term 2015/2016.

Dato' Zahrah was appointed as a board member for the Certification of Certified Integrity Officers which is an appointment of two years commencing from March 2015 and is also a member of the Financial Reporting Foundation (FRF) by virtue of her position as CEO of SSM. Further, Dato' Zahrah is a member of the Board of Trustees, National Welfare Foundation of Malaysia and the Audit Oversight Board. She was also the chairperson of the SSM Cooperative between 2011 and 2014.

Dato' Zahrah began her career as an Advisor Accountant with the Royal Malaysian Customs and Excise Department and served the department from 1984 to 1992 where she advised on matters relating to the valuation and standard international practices of the open market. Dato' Zahrah was attached to the Ministry of Foreign Affairs as the Principal Accountant from 1992 to 1995 and was responsible for the financial accounts and auditing of the Malaysian Embassies and High Commissions worldwide. Subsequent to that, she joined the Registrar of Companies in 1995 and served as the Chief Accountant until her appointment as DCEO (Services) in 2002.

MEMBERS OF THE AUTHORITY

Name
**– Dato' Khodijah binti Abdullah**

Skills and Experiences

Dato' Khodijah has been working in the public service since 1983. Her first job was as an Assistant Director in the Industries Division, Ministry of International Trade and Industry (MITI). Her job functions in the Industries Division, MITI were processing and evaluating applications submitted by electronic and electrical, iron and steel as well as motor vehicle sector for manufacturing licenses under the Industrial Coordination Act 1975 and application for tax incentives under the Investment Incentives Act 1968 and Promotion of Investment Act 1986.

Since 1989 until the present date, Dato' Khodijah has been working in the Tax Division of the Ministry of Finance. She has been involved in policy formulations for the direct and indirect taxes and also for tax incentives undertaken during the yearly Budget exercise as well as those undertaken outside Budget exercises. She leads the Malaysian delegation to negotiate on an Agreement for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and the Tax Information Exchange Agreement. She is also a member for negotiations on other international agreements at the bilateral, regional and multilateral levels such as the free trade agreements (FTAs), Joint Development and Cooperation Agreements, Investment Guarantee Agreements and the General Agreement on Trade and Tariff (GATT) of the World Trade Organisation.

Dato' Khodijah holds a Degree in Agribusiness Science from the Universiti Putra Malaysia (1981), Diploma in Public Administration from the National Institute of Public Administration of Malaysia (1982) and Master in Public Administration from the Kennedy School of Government, Harvard University, USA and Certificate in International Tax Program, Harvard Law School, Harvard University, USA (1997).

Name
**– Azhar bin Ahmad**

Skills and Experiences
Azhar was appointed as Chief Executive Officer of Labuan Corporation on 9 September 2016. Prior to his appointment in Labuan Corporation, he was Deputy Secretary of Strategic Unit in Planning Office, Ministry of Science, Technology and Innovation. He started his career in the Public Services Department and held various positions, among others, as Senior Assistant Director in Research and Policy Division, Senior Assistant Director in Organisational Development Division and Deputy Director of Economic Sector and Administration Sector, Organisational Development Division.

Azhar holds a Masters degree in Human Resource Development from Universiti Putra Malaysia; a bachelor degree in Computer Science (Honours) from University of Malaya; and a Diploma in Public Administration from Malaysia's National Institute of Public Administration (INTAN).

# SENIOR MANAGEMENT OF LABUAN FSA

1. Ahmad Hizzad bin Baharuddin (Director General)
2. Danial Mah bin Abdullah
3. Iskandar bin Mohd Nuli
4. Yon Zahimah binti Ibrahim
5. Jimmy Chen Siew Hang
6. Azuddin bin Jasin
7. Wan Ahmad Sanusi bin Mahmood
8. Syahrul Imran bin Mahadzir
9. Mohd Rizlan bin Mokhtar

# LABUAN FSA ADVISORY GROUP

## (I) INTERNATIONAL ADVISORY PANEL

The International Advisory Panel (IAP) is a consultative committee set up in 2004 to advise the Authority on the strategic business direction and market developments of Labuan IBFC. The 10-member panel, comprises international and domestic members with wide experience and expertise in various sectors of the economy.

**IAP MEMBERS**

| | | | | | |
|---|---|---|---|---|---|
| 01 | **Dato' Mohammed Azlan bin Hashim** *Chairman* | 05 | **Mark Lea** | 08 | **Datuk Shireen Ann Zaharah binti Muhiudeen** |
| 02 | **Tan Sri Dato' Megat Zaharuddin bin Megat Mohd Nor** | 06 | **Anthony Neoh** | 09 | **Dato' Mohammad Faiz bin Azmi** |
| 03 | **Iqbal Khan** | 07 | **Datuk Wira Jalilah binti Baba** | 10 | **Stephen Catlin** |
| 04 | **Michael Troth** | | | | |

Secretariat: Business Policy Unit

IAP members provide recommendations and identify strategic opportunities for Labuan IBFC, focusing on ways to leverage on the incentives and available resources to position the centre regionally and globally. Members of the panel also provide updates on regional and international developments.

With the breadth and depth of their experience and knowledge, IAP members are able to inject international perspectives into their discussions and assist Labuan FSA to keep abreast with market developments and policy initiatives in other major international business and financial centres. Labuan FSA is also able to capitalise on the IAP members' extensive network to identify and promote business opportunities for the IBFC.

In 2016, the IAP was presented with the following strategic papers:

| | STRATEGIC PAPERS | DESCRIPTION |
|---|---|---|
| 01 | **Labuan Tax Regime Review** | The review sought to ensure a competitive tax regime vis-a-vis other IBFCs in the region by comparing the various tax systems, discussing the impact of Base Erosions and Profit Shifting (BEPS) and business opportunities that are dependent on tax rates and incentives, including Double Taxation Agreement (DTA). |
| 02 | **Labuan IBFC Sectoral Assessment** | The assessment was undertaken on the three core industries in Labuan IBFC, namely banking, insurance and wealth management, covering their historical development and industry performance. Among the IAP's key recommendations were to identify the roles that Labuan financial institutions play in the region, and to take on board some of the more innovative fintech structures emerging for greater efficiencies. |

| | STRATEGIC PAPERS | DESCRIPTION |
|---|---|---|
| 03 | **Labuan Captive Development Plan** | A development plan was presented to the IAP based on Labuan FSA's aspiration to be known as a captive specialist. Members of the panel responded by recommending that the potential captive market be expanded, while measures be identified to mitigate potential risks. |
| 04 | **Labuan Thematic Fee Review Initiative** | Labuan IBFC undertakes a fee review every three years to ensure fees charged by Labuan FSA are competitive regionally. With escalating requirements on financial regulation worldwide, there are now higher expectations on the regulation and supervision of financial institutions and international trading entities. This has led to an increase in regulatory and supervisory costs, which Labuan FSA needs to balance against the risk of non-compliance to global standards. |
| 05 | **Labuan IBFC Marketing Strategy** | The IAP was also briefed on the marketing and promotional initiatives undertaken by Labuan IBFC Inc. Sdn. Bhd., the marketing arm of the centre. The agency was advised to focus more on the Asia Pacific region and promote niche sectors. |
| 06 | **Labuan IBFC Development and Performance** | Panel members were kept updated on the development and performance of all the industries in Labuan IBFC. In return, they shared updates and provided recommendations prevalent in other centres. |

## (II) SHARIAH SUPERVISORY COUNCIL

The Shariah Supervisory Council (SSC) was established in 2002 comprising renowned Malaysian and international Shariah scholars. It reviews the compatibility of proposed financial instruments with Shariah requirements for Islamic financial businesses regulated and supervised by Labuan FSA. SSC also advises Labuan FSA on developments within Islamic jurisprudence and opinions to facilitate the creation of new Islamic financial products and services in Labuan IBFC.

### SSC MEMBERS

01 **Datuk Dr. Mohd Daud Bakar**
*Chairman*

02 **Dr. Mohamed Ali Elgari Bineid**

03 **Dr. Engku Rabiah Adawiah binti Engku Ali**

04 **Sheikh Nizam Yaquby**

05 **Dr. Mohamd Akram Laldin**

06 **Dr. Syed Musa Syed Jaafar Al-Habshi**

Secretariat: Islamic Finance Policy Unit

At SSC's 20th meeting on 12 July 2016, the Council deliberated on whether the words "guarantee" or "guaranteed" can be used to describe on the family retakaful yearly renewable term (YRT) contribution rates, which are supposed to be a fixed contribution rate. It resolved that the word "guarantee" can be used, on the basis that the guarantee is for the fixing of the contribution rates and not to guarantee the payment of claims. Therefore, the guarantee does not affect the substance of tabarru' in the retakaful contract.

LABUAN FSA ADVISORY GROUP

## (III) FINANCIAL STABILITY COMMITTEE

The Financial Stability Committee (FSC) was set up to assist in preserving the financial stability and integrity of the Labuan IBFC. It comprises five members, from Bank Negara Malaysia and the Securities Commission Malaysia, all of whom are appointed by the Chairman of Labuan FSA.

**FSC MEMBERS**

01 **Ahmad Hizzad bin Baharuddin**
***Chairman***

02 **Danial Mah bin Abdullah**

03 **Che Zakiah binti Che Din**

04 **Madelena binti Mohamed**

05 **Salmah Bee binti Mohd Mydin**

Secretariat: Prudential Policy Unit

FSC held five meetings in 2016 at which key matters of deliberation pertained to regulation, market surveillance and supervision of Labuan financial institutions, as follows:

- The foundations for a risk-based capital regime to cater for Shariah-compliant family takaful business on liabilities valuation under requirement;
- Enhancement to banking capital standards which encapsulate appropriate credit, market and operational risk measurements;
- The upscaling of governance and market conduct of Labuan insurance brokers to elevate the level of professionalism within the industry;
- The development of Shariah governance requirements to ensure the effective implementation and enforcement of Shariah compliance within Labuan Islamic financial institutions;
- Macro analysis of markets development and their impact on relevant sectors in Labuan IBFC;
- The supervisory approach on concerned financial institutions identified through on-going monitoring; and
- Efforts undertaken to address the risks identified in Labuan IBFC, under the National Risk Assessment.

05

# HOW WE'RE GOVERNED



CESS

of Labuan FSA, overnance framework is international standards uring **accountability,** nagement.

**on making and rce availability**

he organisation, and is reinforced of our people.

the soundness of our judgements s and the strength of our internal hat help us remain effective, ed objectives of our stakeholders.

decision-making body. It comprises financial, regulatory, private and Authority Act 1996 (Act), the on and day-to-day operations are assisted in fulfilling their ent Committee.

Finance under Section 5 of the Act ber, the Chairman has to obtain ers were reappointed for additional

matters to committees – which pecified through the Delegation gly, a number of committees have ide input, insight and information sible for specific business A monitor the development and

### (III) FINANCIAL STABILITY CO

The Financial Stability Commi
comprises five members, from
of Labuan FSA.

| | |
|---|---|
| 01 | **Ahmad Hizzad Baha** **Chairman** |
| 02 | **Danial Mah Abdulla** |

Secretariat: Prudential Policy Unit

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DID YOU KNOW...

**2016 –**

Labuan IBFC is home to:

# 50 Labuan International Commodity Trading Companies

# HOW WE'RE GOVERNED

## GOVERNANCE FOR LONG-TERM SUSTAINABILITY AND SUCCESS

The principles of corporate governance are embedded in every aspect of Labuan FSA, from our decisions to our operations and interactions with stakeholders. Our governance framework is based on the spirit of the Malaysian Code on Corporate Governance as well as international standards and best practices. As the regulator of Labuan IBFC, we are committed to ensuring **accountability, integrity** and **transparency** in our governance and stakeholder management.

**Governance Framework for Long-term Sustainability**

**The continual improvement of its planning, decision making and implementation process to ensure long-term resource availability and allocative efficiency.**

**ACCOUNTABILITY**

An **accountability** structure that produces effectiveness, clarity, responsiveness, and responsibility with a view of the Authority's impact on the expected performance of Labuan IBFC

**INTEGRITY**

Mechanisms that enhance the **integrity** of the organisation, its operation and the conduct of its staff and agents

**TRANSPARENCY**

**Transparency** of the organisational conduction for the promotion of an efficient business and financial system under Labuan FSA's supervision

Our stand on corporate governance resonates throughout the organisation, and is reinforced by the strong business ethics and uncompromising integrity of our people.

### ACCOUNTABILITY

We accept accountability for our actions and are assured of the soundness of our judgements because of the support of various decision-making structures and the strength of our internal resources. We have in place adequate checks and balances that help us remain effective, responsive and responsible as we work to meet the mandated objectives of our stakeholders.

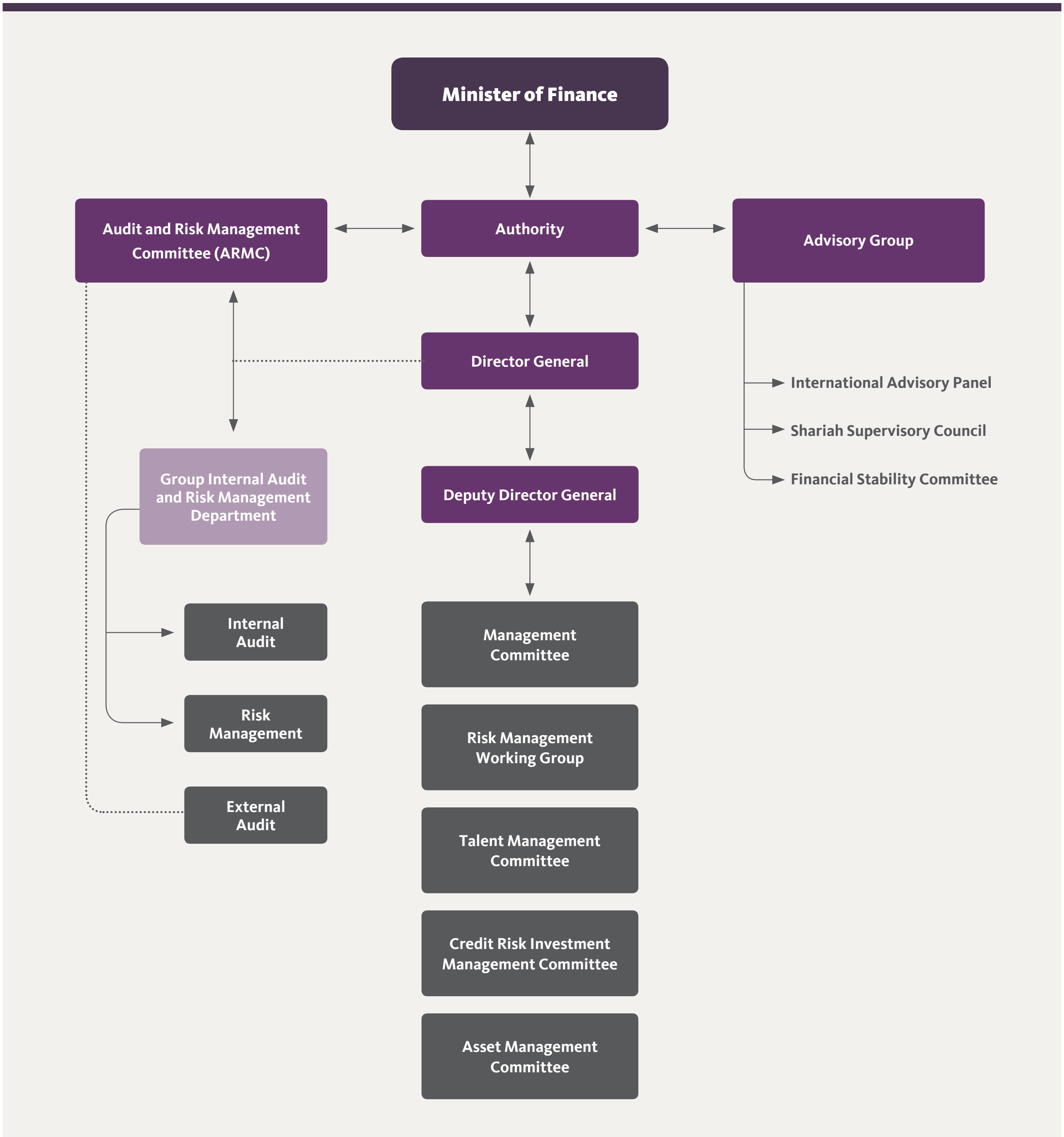
**The Authority**

In the hierarchy of Labuan FSA, the Authority is the highest decision-making body. It comprises nine prominent members with backgrounds in the business, financial, regulatory, private and public services sectors. Under the Labuan Financial Services Authority Act 1996 (Act), the Director General is directly responsible for the administration and day-to-day operations of Labuan FSA. Both the Authority and our Director General are assisted in fulfilling their supervisory responsibilities by the Audit and Risk Management Committee.

Members of the Authority are appointed by the Minister of Finance under Section 5 of the Act for a term not exceeding three years. To reappoint any member, the Chairman has to obtain approval from the Minister of Finance. In 2016, three members were reappointed for additional two-year tenures each.

The Authority is entitled to delegate its powers on specified matters to committees – which can be established under Section 15 of the Act; or persons specified through the Delegation of Powers instrument under Section 14 of the Act. Accordingly, a number of committees have been formed with clearly defined terms of reference to provide input, insight and information on strategic and operational matters to departments responsible for specific business functions, as well as to assist the management of Labuan FSA monitor the development and implementation of various initiatives.

## Governance Framework



The Authority convened six meetings in 2016, with members' attendance as follows:

| Authority Members | Attendance |
|---|---|
| Dr. Zeti Akhtar Aziz (outgoing Chairman) (retired on 30 April 2016) | 2/2 |
| Muhammad bin Ibrahim (incoming Chairman) (appointed on 1 May 2016) | 4/4 |
| Ahmad Hizzad bin Baharuddin | 6/6 |
| Tan Sri Dato' Seri Ranjit Ajit Singh | 3/6 |
| Datuk Oh Chong Peng | 6/6 |
| Dato' Mohammed Azlan bin Hashim | 5/6 |
| Datuk Ali bin Abdul Kadir | 5/6 |
| Dato' Khodijah binti Abdullah | 4/6 |
| Dato' Mohd Nadzri bin Osman (retired on 26 July 2016) | 2/3 |
| Dato' Zahrah binti Abd Wahab Fenner | 2/6 |
| Azhar bin Ahmad (appointed on 9 September 2016) | 1/2 |

In 2016, the Authority continued to oversee Labuan FSA's management through the review and approval of proposals discussed at meetings. These included business policies and guidelines, Corporate Action Plan, budget and appointment of Advisory Committee members. In addition, the Authority authorised the procurement of goods or services valued at more than RM250,000, reviewed appeals for the application of banking licences, and provided guidance to the management on Labuan IBFC's repositioning study and tax regime. The Authority was also continuously updated on matters discussed at the Audit and Risk Management Committee meetings and, through active engagement with management, on progress of Labuan industries, the financial position of Labuan FSA, and performance of our subsidiaries and advisory committees.

**The Audit and Risk Management Committee**

The Audit and Risk Management Committee (ARMC), comprising five independent members, provides advice and recommendations regarding the adequacy and functioning of Labuan FSA's governance, risk management and control practices. A total of six meetings were held in 2016, at which ARMC provided advisory services with respect to Labuan FSA key activities including enterprise risk management, internal audit functions and quarterly and annual financial statements.

| Audit Members | Attendance |
|---|---|
| Datuk Oh Chong Peng (Chairman) | 6/6 |
| Dato' Mohammed Azlan bin Hashim | 5/6 |
| Datuk Ali bin Abdul Kadir | 6/6 |
| Dato' Zahrah binti Abd Wahab Fenner | 3/6 |
| Dato' Mohd Nadzri bin Osman (retired on 26 July 2016) | 2/3 |

Throughout 2016, the ARMC performed the following key activities:

- Reviewed the audit plan for 2016
- Provided oversight on audit work performed by internal audit and deliberated on the actions taken by the management to resolve the highlighted findings
- Tracked the development and progress of Group Internal audit (GIA) against the approved audit plan
- Deliberated and advised on the status and management of strategic, financial, operational, legal and reputational risks
- Reviewed the quarterly and annual financial statements, including key issues raised by the internal and external auditors and Auditor-General's office
- Reviewed and advised the Authority on the 2016 budget proposal
- Reviewed and advised management on the Business Continuity Plan and its implementation

## INTERNAL AUDIT

**Audit for Sustainable Solutions**

**STEP 1**

Recommendations for cost effective and sustainable solutions without compromising quality and compliance are proposed during audit reviews.

**STEP 2**

Best practices and benchmarks are shared with functional units to drive organisation wide efficiencies and productivities.

**STEP 3**

Continuous monitoring of critical organisation's operations as well as evolving risks and potential fraud vulnerabilities impacting the organisation.

**STEP 4**

Encourage and support functional units with often conflicting priorities to work collectively towards accomplishing organisation goals.

During the year under review, GIA continued to improve organisational effectiveness in the areas of strategic alignment, risk assessment, operational efficiencies, financial reporting, responsiveness to stakeholders' needs, compliance and quality assurance.

GIA's risk-based audit approach focuses on vulnerable and strategic risks, which are prioritised according to our strategic directions using the Enterprise Risk Management Framework.

**Audit Plan Methodology**

Based on selected Labuan FSA's strategic initiatives for 2015-2017 to support the following strategic thrusts:

- Strong regulatory and supervisory regime
- Vibrant centre with regional & international financial linkages
- Internal strategies to enhance operational excellence in Labuan FSA


Risk-based on outcome of Enterprise Risk Management Assessment (ERM)

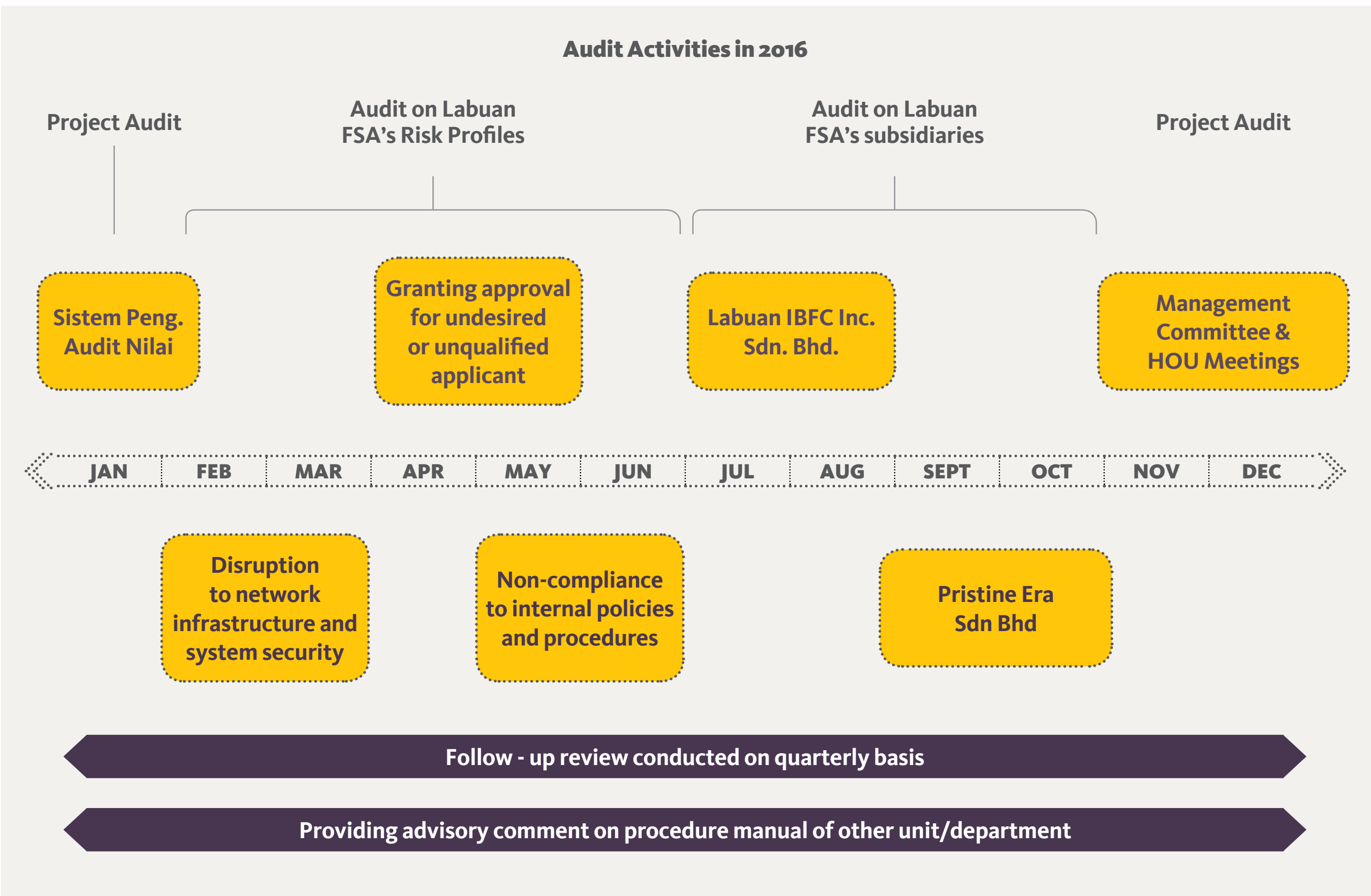
- Risk rated as Very High, High, Moderate, Low are covered in accordance with the recommended audit cycle

- Management's requests
- Investigation, if any

# HOW WE'RE GOVERNED

The Internal Audit Charter (IA Charter) serves as a guide for good audit governance practices within Labuan FSA and provides references in relation to the GIA's role, powers, duties and functions. It outlines processes for GIA to discharge its functions effectively to accomplish its objectives. The IA Charter is reviewed periodically and presented to senior management and the ARMC for approval.

In 2016, GIA undertook seven audit reviews to evaluate our risk management practices, and the effectiveness of our systems of internal control. It also engaged proactively with audited parties to ensure the implementation of appropriate measures to resolve audit issues.




## Internal Controls

Recognising the need to instil clear lines of accountability in each functional unit within the organisation, GIA and our Risk Management Unit (RMU) continuously review and provide advisory comments on the procedure manuals. Their ultimate objective is to enhance the efficiency and effectiveness of key controls, simplify procedures and strengthen internal systems that support our overall governance.

GIA also acts as an observer in the tender opening process related to the procurement of services or assets, ensuring all activities are conducted in a fair, transparent and consistent manner.

## EXTERNAL AUDIT

As a federal statutory body, we submit our annual financial statements to the Auditor General's Office (AGO) for audit, pursuant to the Statutory Bodies (Accounts and Annual Reports) Act 1980 (Act 240). In 2016, the AGO undertook an audit to ascertain whether our financial management is in line with prescribed laws and regulations, as well as to determine the effectiveness of key policies and operational procedures. Key issues raised by the external auditors were addressed promptly by management.

## Management

Labuan FSA is headed by the Director General (DG), who is accountable for setting our strategy and direction, affairs and day-to-day operations. Appropriate checks and balances have been instituted in all reporting relationships, with operational divisions reporting directly to the DG, and GIA having unrestricted access to the Authority via the ARMC. While providing leadership and direction, the DG ensures our organisational structure is adequately segregated by functions, and that there is proper assignment of authority and responsibilities. This is aided by the Delegation of Power instrument.

## Management Committee

The Management Committee (MC) comprises nine senior management members who assist the DG in discharging his responsibilities. It provides direction on Labuan FSA's overall business strategy, facilitates the management and supervision of our operations, and authorises the purchase of goods or services up to RM250,000. In 2016, MC conducted 47 meetings, chaired by the DG, to deliberate and consider a variety of significant matters including Corporate Action Plan, business and prudential policies including legal and tax review and the Labuan repositioning study. It was also involved in budget and expenditure, functional units' policies and procedures, and corporate social responsibility activities, overseeing all projects under management while monitoring concerned institutions and human resources matters.

## Other Management Committees

### i. Risk Management Working Group

Risk Management Working Group (RMWG) oversees and reviews the implementation of a risk management framework in projects and initiatives undertaken by Labuan FSA and our subsidiaries. Comprising eight directors, and led by the DG as Chairman, it oversees the development and implementation of appropriate risk mitigation to ensure key risks are effectively addressed by management. It also looks into the outputs of risk assessments – namely the implementation of action plans, integration of risk management in our business processes, and reinforcement of appropriate behaviours, as well as the continued applicability of risk tolerances and escalation criteria. As a second line of defence, RMWG provides specific oversight on risks rated from "High" to "Low" to ensure the Labuan FSA Group (including subsidiaries) conducts our business within the approved risk appetites, in compliance with all relevant regulations. It convened three meetings in 2016.

### ii. Talent Management Committee

The Talent Management Committee (TMC) manages our employee development programme. It comprises seven members and is chaired by the Deputy DG, with the Group Human Resources Performance Management serving as secretariat. TMC convened 59 meetings in 2016, mostly through the circulation of papers regarding employee development programmes, manpower planning and training related matters.

### iii. Credit Risk & Investment Management Committee

The Credit Risk & Investment Management Committee (CRIMCO) reviews and recommends to the DG for approval or rejection any application referred to the committee. CRIMCO consists of seven members from various relevant units/departments within the organisation, with the Deputy DG as its chair. The committee held 11 meetings in 2016 to deliberate and assess recommendations made by the Business Management Department with regard to applications, exemptions, revocations and registrations pursuant to the relevant laws related to Labuan IBFC.

### iv. Asset Management Committee

The Asset Management Committee (AMC) oversees all aspects of asset management including the procurement and disposal of assets in the best interest of Labuan FSA. It is empowered to authorise the purchase of goods or services up to RM100,000. AMC meetings are chaired by the Deputy DG and decisions are made by consensus. In 2016, a total of 17 meetings were conducted.

### v. Occupational Safety and Health Committee and Staff Welfare Fund Committee

The Occupational Safety and Health Committee and Staff Welfare Fund Committee were formed to assist management execute its responsibilities within the scope defined in their respective terms of reference.

## EMPLOYEES OF LABUAN FSA

We believe in developing a work culture that fully supports our regulatory and supervisory functions. Of utmost important is to have employees who share our values and who, moreover, are aware of the importance of risk management in the financial industry and assume personal responsibility in helping us as well as Labuan IBFC operate within well-defined risk parameters. Towards this end, there is constant emphasis on our corporate values, risk management as well as on working as teams.

HOW WE'RE GOVERNED

We are also nurturing a performance-driven organisation and provide our employees with appropriate training to enhance their capabilities and competencies. To motivate a high level of productivity, we have embarked on an office optimisation project to ensure a more conducive work environment.

Programmes to promote working together, build a sense of belonging and improve staff relationships are organised regularly by Kelab Rekreasi dan Kebajikan Labuan FSA (KRKL). These include staff retreats, sports activities, family day gatherings and annual dinners.

## INTEGRITY

### Organisation Sustainability Through Integrity

We believe that integrity is critical towards creating an environment of trust within Labuan IBFC which, in turn, would help create a dynamic, regionally competitive centre. In order to build such an environment of integrity, Labuan FSA itself has to be a model of integrity in which ethics and honesty both support and are supported by good governance. In our day-to-day operations, we are guided by the following values which are shared with our employees:

- Integrity, commitment and professionalism
- Open and honest communication
- Teamwork
- Business and customer oriented
- Continuous learning

As part of ongoing efforts to maintain high standards of integrity in our business and activities, we have complied with the Government's requirement to appoint an officer certified by the Malaysian Anti-Corruption Commission (MACC). Our integrity officer is responsible for implementing programmes to ensure integrity and ethical practices are entrenched in our corporate culture.

The following initatives further enhance an ethical work environment in Labuan FSA.

## INTEGRITY PROGRAMMES


- The signing of Corporate Integrity Pledge reflects Labuan FSA's commitment to further enhance corporate governance, accountability and transparency as well as adherence to ethical standards in Labuan IBFC.
- Integrity Pact comprises a declaration by bidders not to offer or give any form of bribes as a means to obtain a contract or to facilitate certain processes in procurement. Bidders and Labuan FSA employees are required to sign a pact to refrain from getting involved in corrupt practices.
- Labuan FSA adopts a "No Gift Policy" that requires employees to demonstrate the highest standards of ethics and conduct in relationship to potential vendors, suppliers and customers.
- Whistleblowing Policy is an avenue for all Labuan FSA employees or its subsidiaries and members of the public to disclose any misconduct and wrongdoings in accordance with the procedures as provided under the policy. The whistle-blower will be accorded with protection of confidentiality of identity and will also be protected against adverse and detrimental actions for disclosing any improper conduct committed provided that the disclosure is made in good faith.

## INTEGRITY PROGRAMMES


- Asset Declaration requires all employees to declare their income, asset, liabilities and financial interests in writing. The declaration is confidential and shall be updated when there is additional assets acquired or disposed.
- Letter of Undertaking is signed by all employees upon joining Labuan FSA. The aim is to create awareness among staff on the importance of carrying out their duties professionally and to abide by the terms and conditions agreed on.
- Personal Data Protection Act is established to ensure information/ data collected will be processed in accordance with personal data laws of Malaysia.
- Continuous awareness programmes were held since 2013 to ensure staff practise good values in carrying out everyday task and avoid unethical conduct which will have negative effect to the organisation.

### Sistem Pengurusan Audit Nilai (SPAN)

SPAN is a values management audit. Our last SPAN review was conducted in 2016 to assess the extent to which our stated values are practised in Labuan FSA. The review was in line with the Prime Minister's Directive No.1 1998, Series 7 No. 1 2007: Motion to Strengthen Integrity in Government Administration Management System: Implementation of SPAN in Public Sector.

The evaluation is based on the following five instruments:

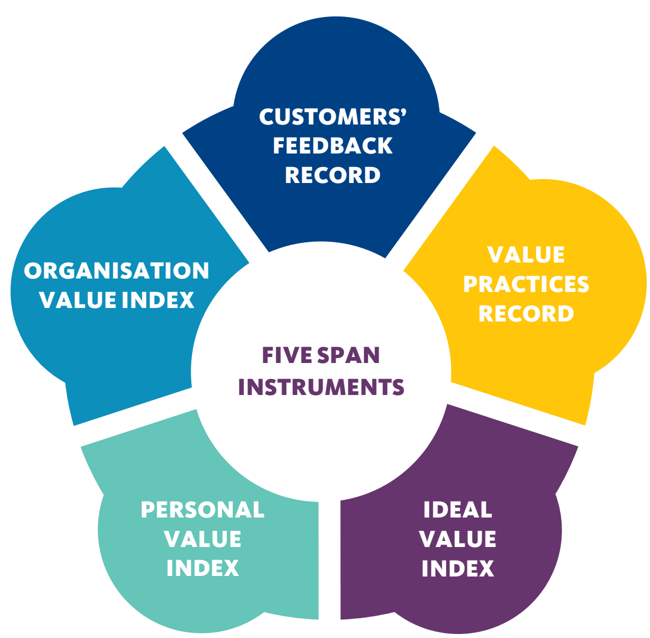
i) **Value Practices Record** – which assesses our asset declarations, disciplinary actions, public complaints and yearly performance appraisals.

ii) **Ideal Value Index** – measures our ideology, principles and ideal behaviors using a formatted questionnaire containing 18 statements to be completed online through the Public Service Department website.

iii) **Personal Value Index** – which assesses the moral values of individuals using a formatted questionnaire containing 18 statements.

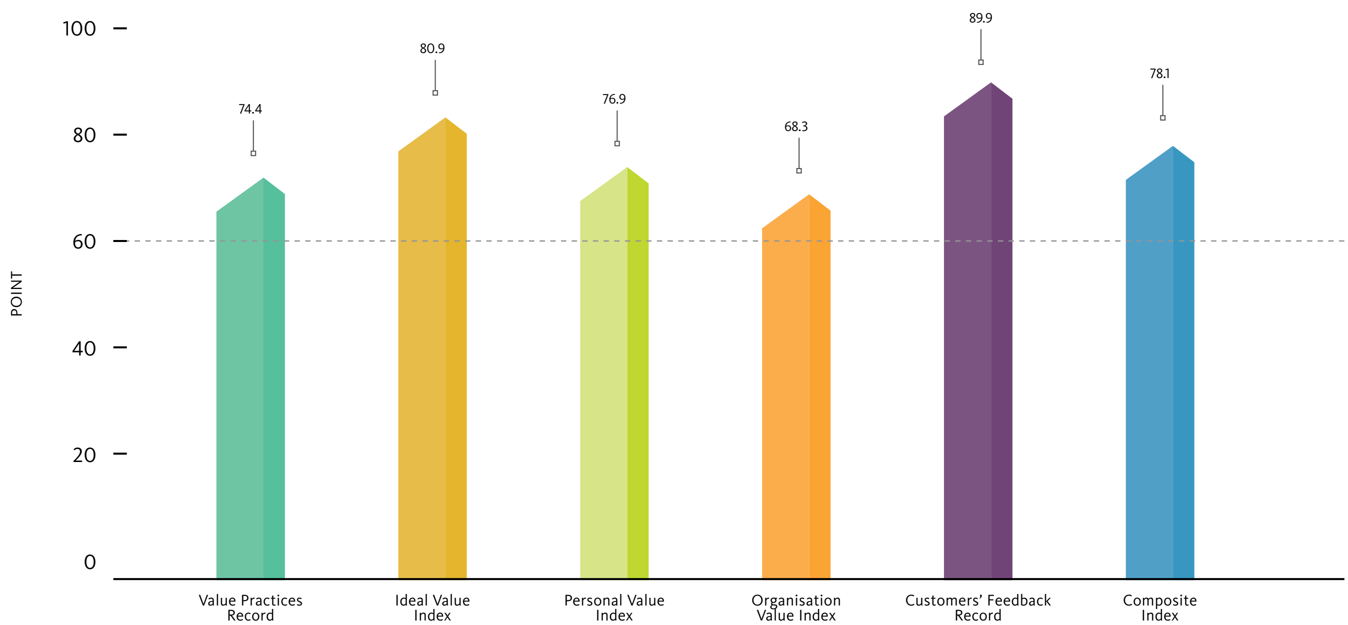
iv) **Organisation Value Index** – evaluates perceptions towards behaviour using a formatted questionnaire containing 18 statements.

v) **Customers' Feedback Record** – which assesses our customers' observations and experience when dealing with Labuan FSA using a questionnaire containing 24 statements.



HOW WE'RE GOVERNED

**SPAN Results**




Our composite SPAN index (overall score) improved by 2.6 points from 75.5 points in 2012 to 78.1 in 2016, achieving the targeted level set by management. We achieved ratings above 60 in all five instruments, and ratings above 80 in two of them, i.e. the Ideal Value Index and Customers' Feedback Record, far exceeding our targets.

**Transparency and Role of Disclosure**

At the industry level, Labuan FSA continued to uphold transparency and maintain a consultative approach with industry players on issues and developments relating to Labuan IBFC businesses. Bilateral meetings were conducted on a half-yearly basis with council members of the three Labuan IBFC industry associations, namely the Association of Labuan Banks, Association of Labuan Trust Companies and the Labuan Investment Banks Group while for Labuan International Insurance Association, three meetings were held yearly. Besides these, we also engaged formally and informally with industry players to better understand their business requirements, and to resolve operational issues as well as serve to engender greater collaboration and rapport.

Details of bilateral meetings held with Labuan IBFC industry associations in 2016 are as depicted in the following table:

| Industry Association | Meeting Dates | Total Number of Meetings |
|---|---|---|
| Association of Labuan Banks (ALB) | 24 March<br>28 October | 2 |
| Association of Labuan Trust Companies (ALTC) | 28 April<br>16 December | 2 |
| Labuan International Insurance Association (LIIA) | 19 February<br>27 May<br>27 October | 3 |
| Labuan Investment Banks Group (LIBG) | 24 March<br>23 November | 2 |

In 2016, we formed a working group with various industry players to review the tax regime and formulate a roadmap for the tax structure in Labuan IBFC. We also conducted a briefing session with ALB and LIBG members on the Banking Capital Adequacy Framework. Another briefing was conducted by the International Islamic Liquidity Management Corporation (IILM) on the issuance of short-term Shariah-compliant financial instruments to facilitate effective cross-border Islamic liquidity management. By creating more liquid Shariah-compliant financial markets for institutions offering Islamic financial services, IILM aims to enhance cross-border investment, international linkages and financial stability. We also continued to engage with industry players via regular dialogue on COR@L related issues.

In the area of regulatory and supervisory cooperation, we demonstrated efforts to uphold principles of transparency in the exchange of information with international home-host authorities to strengthen cross-border supervision of financial institutions. Through various bilateral and multilateral Memoranda of Understanding, we facilitated requests for the sharing of information from international authorities and domestic agencies throughout the year under review. At the same time, Labuan FSA put forward similar requests to our international and domestic counterparts.

In line with international standards and best practices, several guidelines were introduced to ensure financial institutions in Labuan adhere to high standards of professionalism and prudent business practices. We continued to be transparent in issuing these guidelines, engaging with industry players for their feedback beforehand, thus also reinforcing our collaborative relationships with stakeholders.

Our membership of international regulatory bodies such as the International Association of Insurance Supervisors, Group of International Financial Centre Supervisors, Group of International Insurance Centre Supervisors and Asia/Pacific Group on Money Laundering help us to shape appropriate and relevant policies to support the development of Labuan IBFC.

Going forward, we intend to contribute more meaningfully to the advancement of the Malaysian financial system and economy against the backdrop of a more challenging global environment. Towards this end, we will uphold strong and effective principles of corporate governance which in turn will be reflected in a more robust and vibrant business environment in Labuan IBFC.

## ENTERPRISE RISK MANAGEMENT

Labuan FSA recognises that sound risk management and internal controls are key to the Group's continued success and sustainable growth. We have embraced Enterprise Risk Management (ERM) as an integral component of our business, operations and decision-making process, to help us achieve optimum returns while operating within a sound business environment. ERM provides senior management with a tool to manage existing and potential risks, taking into consideration changing risk profiles as a result of changes in business strategies, the operating and regulatory environment and functional activities.

The ERM framework, based on the ISO 31000, Risk Management Principles and Guidelines, standardises our risk management approach across the Group. The framework involves an ongoing process of identifying, assessing, controlling, monitoring and reporting material risks affecting the achievement of our strategic goals.

HOW WE'RE GOVERNED

Key components of the ERM Framework are represented in Diagram 1 below:

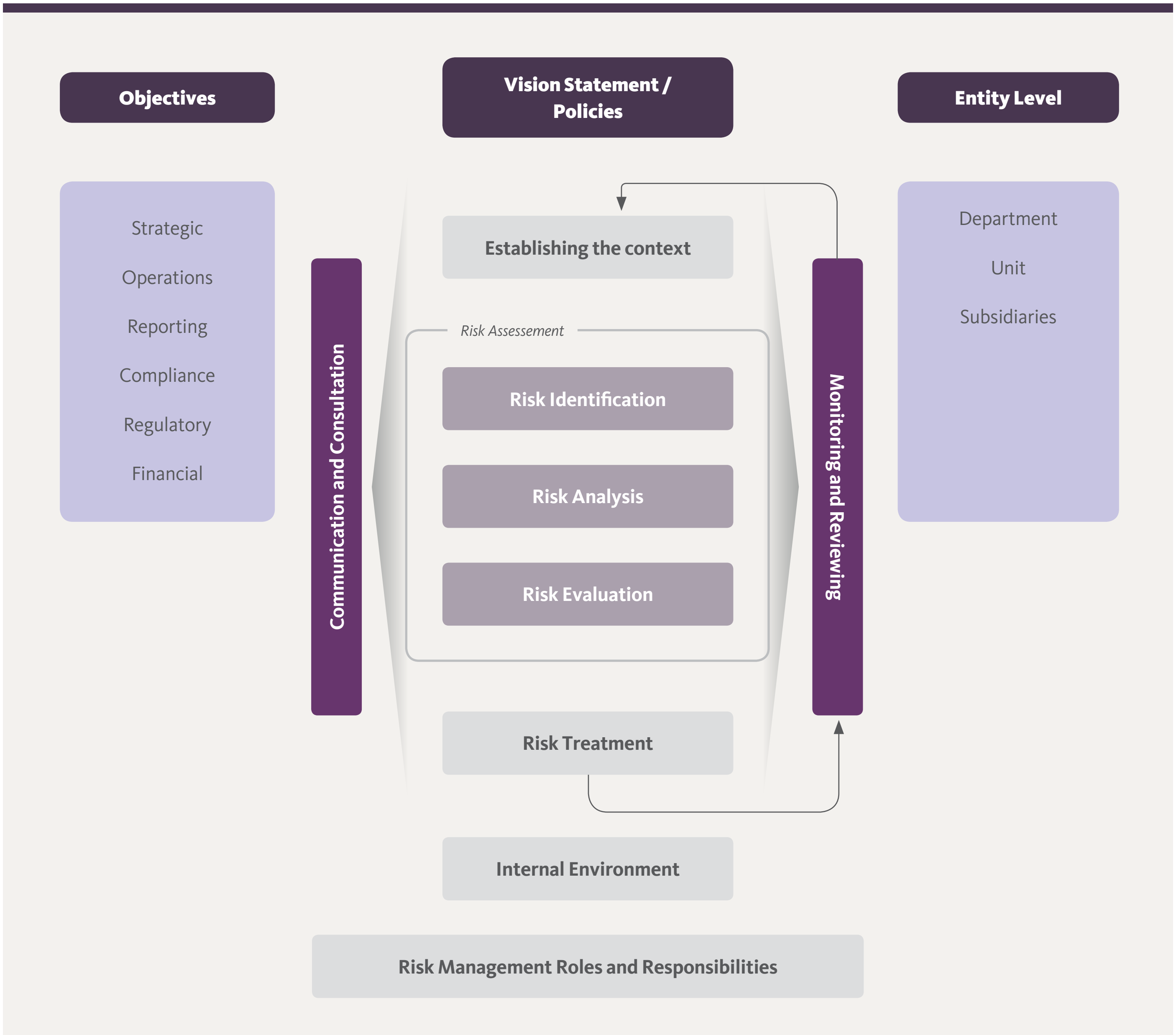



*Diagram 1: Enterprise Risk Management Framework*

The risk assessment process is conducted throughout the year, its frequency determined by the inherent level of risk to enable management to maintain any escalating risks within the context of our risk appetite. The risk assessment process involves three key activities, namely risk identification, risk analysis and risk evaluation, as shown in Diagram 2.

- Determine the effectiveness of the risk controls.
- Measure the impact and likelihood of the risk occuring or having occurred based on progress of the risk mitigants.


- Determine the level of risk tolerance that the risk owners are able and willing to manage using the 5x5 risk matrix.

- Engagement sessions with the risk owners.
- Questionnaires to prompt the risk owners.
- Audit reports from internal and external auditors as referral.
- Performance report on the organisation.
- Feedback from key stakeholders on current issues.

*Diagram 2: Risk Assessment Processes*

In 2016, Labuan FSA completed another full cycle of the ERM process, involving the participation of the Risk Management Unit (RMU), Heads of Units/Departments, RMWG, ARMC and the Authority. RMU provides independent assessment and advice on our risk management initiatives, and provides assurance that our risk management adheres to the ERM framework. It supports RMWG's risk management activities while also developing and maintaining the Group's risk management policy and procedures.

Key actions under the ERM Process are as illustrated in Diagram 3.

| | |
|---|---|
| **UNIT DEPARTMENT** | • Review of risk profiles from risk owners.<br>• Engagements with the risk owners on the risk controls and actions plans to mitigate risk.<br>• Prepare risk assessment report.<br>• Present the ERM risk assessment report to RMWG for endorsement. |
| **RISK MANAGEMENT WORKING GROUP** | • Consolidate and analyse the ERM risk assessment report.<br>• Identity key areas of risk concerned and endorse the remedial action taken or to be taken. |
| **AUDIT AND RISK MANAGEMENT COMMITTEE** | • Present the organisation ERM risk assessment report to ARMC members for endorsement.<br>• Identity further steps to manage and monitor risks. |
| **AUTHORITY MEMBERS** | • Present the assessment reports to the Authority members for understanding and further guidance.<br>• Present the status of significant risks of Labuan FSA and its subsidiaries within the given risk appetite for information. |

*Diagram 3: Key Actions under the ERM Process*

HOW WE'RE GOVERNED

To ensure the Group's diverse risks are rationalised and managed effectively, our risk management encompasses our subsidiaries Labuan IBFC Inc. Sdn. Bhd. (LIBFC Inc.) and Pristine Era Sdn Bhd (PESB). This enables us to:

- Align the risk appetite and strategy within the Group – by converging our strategic options, related objectives, and developing mechanisms to manage related risks
- Prioritise risk management activities – by ensuring resources and capital are focussed on higher priority risks within the Group
- Identify and manage multiple and cross-enterprise risks – by integrating responses to the multiple risks affecting different entities of the Group
- Deploy capital more effectively – by enhancing the assessment of Group capital needs and facilitating capital allocation

A total of 12 engagement sessions were conducted involving RMU, LIBFC Inc. and PESB in 2016, while several measures were implemented to manage operational risks in both subsidiaries. These included:

- Board and senior management oversight
- Enhanced internal processes
- Well defined responsibilities for all employees
- Systematic record management

The ERM processes of our subsidiaries are similar to that of the Group, as depicted in Diagram 3. However, results of their risk assessments are discussed at their respective board meetings prior to being tabled at the ARMC meeting for endorsement.

We incorporate ERM in our strategic planning with the ultimate objective of increasing the likelihood that strategic initiatives are realised and the values of the organisation are preserved and enhanced. Using ERM as a framework, we were able to review risks to initiatives as outlined in our 10-year Strategic Direction and CAP. These fall under four main categories, namely strategic, operational, financial and system, followed by nine sub-risks, as shown in Diagram 4 below.

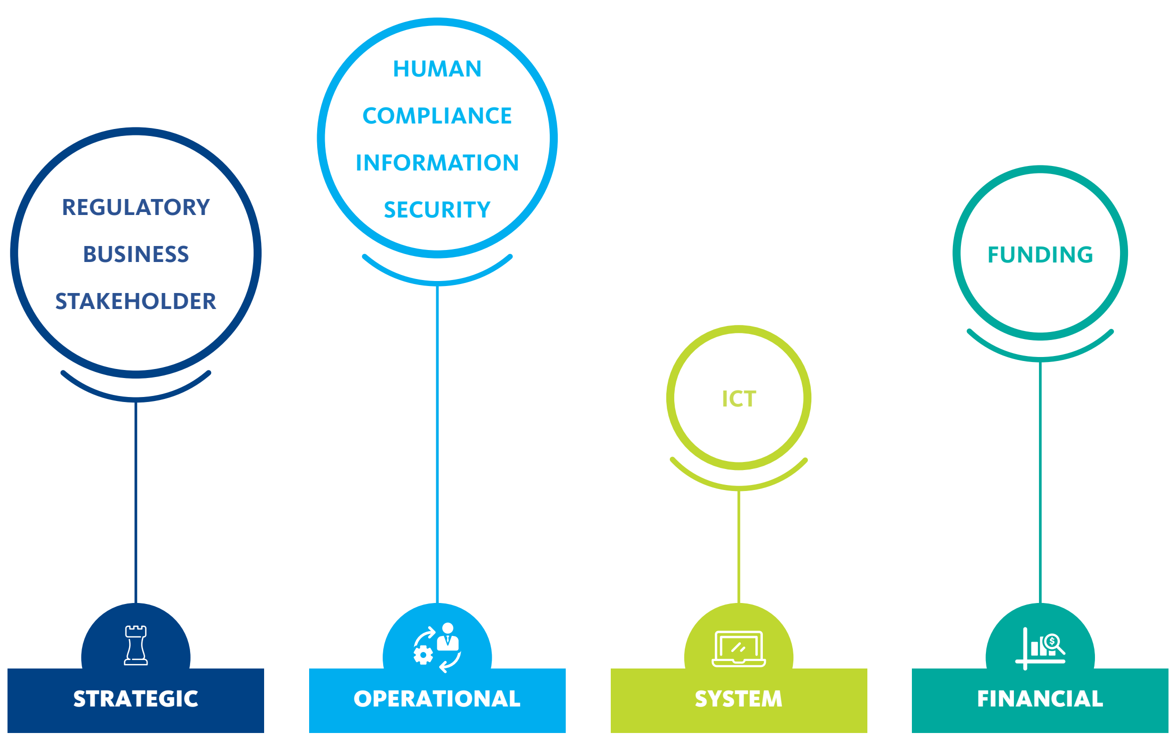



*Diagram 4: Labuan FSA Risk Grouping*

**Top and Emerging Risks**

The identification of emerging risks is undertaken vigorously, adopting a vertical and horizontal approach involving heads of units/departments, senior management, RMWG and ARMC. In 2016, Labuan FSA Group focused specifically on the following top emerging risks identified and implemented various strategies to mitigate them.


*Diagram 5: Top and Emerging Risks*

**REGULATORY**

Labuan FSA maintains a vigilant watch on regulatory developments and ensures proper planning in formulating viable and effective measures to meet new regulatory requirements.

In 2016, we continued to ensure the business environment of Labuan IBFC remained robust through prudential and business guidelines which were regularly appraised and aligned with international standards.

| Risk | Risk Response |
|---|---|
| **Regulatory** | Proactive engagement with standard setting bodies, government agencies and industry players to facilitate early understanding and efficient implementation of regulatory requirements. |
| | Regular benchmarking and periodic monitoring of international standards, latest laws and regulation as well as enhancing the existing framework to be on par with international requirements. |
| | Formulation of an action plan to ensure Labuan IBFC's environment complies with international recommendations such as the Asia/Pacific Group on Money Laundering. |

## BUSINESS

We continue to monitor the risk of current developments on the activities of Labuan IBFC arising from changes in the environment which could have an adverse impact on strategic directions, improper implementation of decisions and lack of responsiveness to industry, economic or technological change.

| Risk | Risk Response |
|---|---|
| **Business** | Positional analysis and benchmarking studies to further refine and diversify Labuan IBFC's key products and services offerings such as foundation, insurance, LITC, etc. |
| | Periodic dialogue with the IAP and industry players to obtain feedback on strategic initiatives and the latest developments in financial markets. |
| | Establish stronger working relationship with Labuan IBFC Inc. as well as with industry players through jointly organised marketing and promotional events. |

## SYSTEM

In 2016, our ICT Unit assessed the vulnerability of our IT systems to cyber-attack and other information security threats, following which mitigating measures have been put in place to enhance the IT infrastructure security.

| Risk | Risk Response |
|---|---|
| **System** | Upgraded the necessary network equipment such as switches, routers and firewall. |
| | Implemented network monitoring tool to prevent misuse of internet bandwidth. |
| | Established an effective Disaster Recovery Centre (DRC) with latest backup technology. Data is regularly backed up and stored off-site. |
| | Organised awareness programmes on compliance with ICT Policy. |

### Key Activities by Risk Management Unit

The following were among key activities undertaken by the Risk Management Unit in 2016:

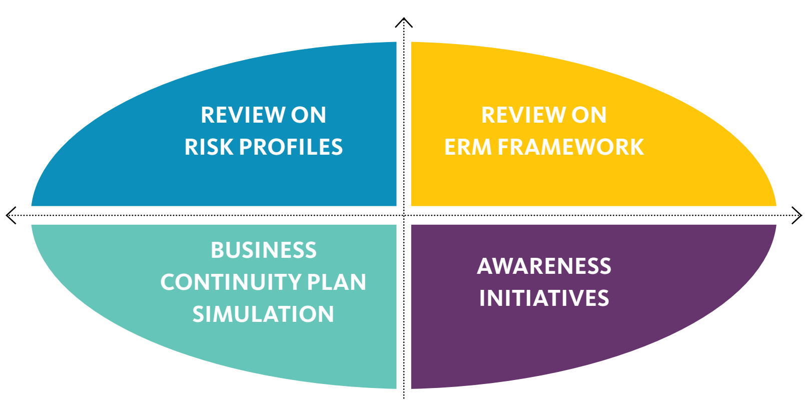



*Diagram 6: Key Activities by Risk Management Unit in 2016*

**Review of Risk Profiles**

Risk profile reviews form an essential component of our risk management. A comprehensive review was conducted in 2016 to identify the risk implications of any changes in strategy. The review involved engagement with the Heads of Units/Departments of Labuan FSA and our subsidiaries. Results of the review were reported to the RMWG and ARMC for approval.

**Review of ERM Framework**

The ERM framework was reviewed during the year to enhance internal controls and processes. Among the enhancements were:

- Additional category under risk grouping to avoid duplication in classifying risk types.
- Standardised and simplified format of risk reporting to the RMWG and ARMC to provide clarity and better understanding of the risk mitigants and their causes and implications.

**Business Continuity Plan (BCP) Simulation**

In April 2016, we conducted a BCP simulation exercise, involving 20 employees, to gauge the plan's robustness and feasibility while ensuring the BCP team is familiar with the processes. The exercise demonstrated our readiness to cope with any eventualities within a specified time. As a result of the exercise, we are further strengthening our BCP focusing on five areas, as shown in Diagram 7.

The BCP standard operating procedure was amended based on outcomes of the BCP simulation, which were presented at the RMWG and ARMC meetings.

**Awareness Initiatives**

Having a risk-aware culture is key to an effective ERM framework. Several awareness initiatives were carried out in 2016. These included:

- Enhancing the quality of decision making by stating the element of risk involved in all papers presented and approved by the Management Committee
- In-house training on ERM
- Production of bilingual risk newsletters on a quarterly basis

**01 COMMUNICATION**

- Strengthen business continuity by ensuring greater communication among the EMT, BCP members, staff and stakeholders.
- Work closely with staff to develop emergency communication plans and ensure proper coordination on external and internal communication.

**02 INFORMATION MANAGEMENT**

- Focus emergency content on relevant information by providing the available facts proactively, follow up regularly, resolve incorrect information and keep relevant parties informed.

**03 DECISION MAKING**

- Decisions to be made based on type of disaster and level of disruption.
- The flow of decision making was undertaken accordingly.

**04 LOGISTICS**

- Facilities provided at the cold site are conducive enough for business continuity.
- Establish contacts with suppliers and vendors for recovery processes.

**05 ICT**

- Critical business and ICT services are robustly designed, implemented and maintained to minimise incidents of disruption to business services and operations.
- Ensure the timely resumption of critical services in the event of disruption.

*Diagram 7: Outcomes of BCP Simulation*

06

# PROVIDING SUSTAINABLE VALUE

**Review of Risk Profiles**

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DID YOU KNOW...

**2016 –**

Labuan IBFC is home to:

**188**
**Foundations**

# PROVIDING SUSTAINABLE VALUE

Labuan IBFC was established more than 25 years ago, with a primary focus on spurring the economy of Labuan island and surrounding areas. The financial sector, being one of the key economic drivers of Labuan island, has contributed to the sustainable development of the economy, infrastructure development, creation of job opportunities as well as the development of the social environment of the Labuan island. Over the two-and-a-half decade journey since its establishment, Labuan IBFC has grown and connected many people and businesses across different countries and continents. It is envisaged that the financial and international business sector will continue to play an important role in contributing towards the island's future prosperity.

As the regulatory authority of Labuan IBFC, Labuan FSA's commitment to our stakeholders extends beyond its regulatory and supervisory roles to also include operating sustainably and making a positive contribution to the local community. In fulfilling our corporate responsibility, we engage with our stakeholders through a range of programmes supporting community wellness, promoting education and protecting the environment.

## LABUAN FSA'S APPROACH TO BUSINESS AND CSR SUSTAINABILITY

### CORPORATE VALUES

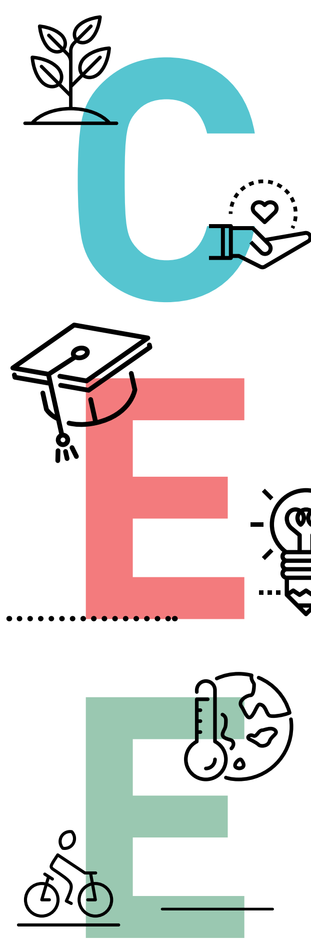
**Integrity, Commitment & Professionalism**

**Open & Honest Communication**

**Teamwork**

**Business & Stakeholder Oriented**

**Continuous Learning**



### CSR FOCUS AREAS

#### COMMUNITY WELLNESS

To improve the economic wellness, health, livelihood, social & physical well-being of under-privileged groups

#### EDUCATION

To enhance knowledge, sharing of information, support learning & education excellence

#### ENVIRONMENT

To promote green living, healthy lifestyle & reduce our carbon footprint

PROVIDING SUSTAINABLE VALUE

## COMMUNITY WELLNESS

During the year, Labuan FSA organised various community events such as fund-raisers for charity and underprivileged groups, public awareness talks and efforts to create job opportunities for the unemployed. The diagram below depicts the activities organised or participated by Labuan FSA in 2016.

| ACTIVITIES/PROGRAMMES | OBJECTIVES | BENEFITS AND OUTCOMES |
|---|---|---|
| **Donation**<br>Donation of equipment and machinery i.e. sewing machine, baking equipment and printing machine to identified single mothers and those families living under the poverty line in Labuan. (Programme in collaboration with Department of Women's Development, Labuan FT) | To assist the families and community in acquiring new skills through the "up skilling training programme" conducted by the Department of Women's Development in order to enable them to be financially self-reliant. | The new skill acquired enabled them to generate income to support their families and be financially independent. This has enhanced the livelihood of the single mothers and those living under the poverty line in the community. |
| **Create Job Opportunity**<br>Skim Latihan 1 Malaysia (SL1M) programme organised in collaboration with Economic Planning Unit, Prime Minister's Department. | To provide opportunity for interview and placement for unemployed graduates to undergo on-the-job-training in companies. | More than 2,000 trainings and permanent posts were offered by 20 government agencies, private and government-linked companies which participated in the SL1M programme. The programme enhanced the employability among the graduates and created employment opportunities for the unemployed in Labuan and its vicinity. |
| **Public Awareness Talks**<br>Organised a post budget talk on "2017 Budget" in collaboration with the Ministry of Finance.<br><br>Organised a talk on "Prudent Financial Management "[in collaboration with The Credit Counselling and Debit Management Agency (AKPK)]. | To educate the public on the national budget 2017.<br><br>To create public awareness on prudent spending measures. | Shared the insights and perspectives on the national budget with the Labuan community. Concerns on new policy measures and impact to the community were explained and clarified.<br><br>To cultivate smart financial planning for the community to be able to better manage their household debt to a manageable level and improve their financial standing. |
| **Platform for Creativity – Children & Underprivileged Groups**<br>Organised a "Colour Splash" event, first of its kind held in Labuan in conjunction with Labuan FSA Day 2016 — Labuan FSA's CSR flagship programme. | To spark interest and stimulate children's creativity and originality towards arts, designs and colours. | Served as a platform for the young minds to be creative. Also invited children from Persatuan Autisme Labuan, Pusat Pemulihan Dalam Komuniti (Labuan) and Special Olympics Labuan to participate in the activity which gave the underprivileged children the opportunity to interact and blend into the community. |

## EDUCATION

Labuan FSA places significant emphasis on education as we believe it is fundamental to the development and growth of Labuan IBFC and the community. During the year, we encouraged academic excellence via a number of education-related activities that enabled the young children to discover hidden talents while making donations to schools to enhance the learning environment.

The diagram below depicts the activities we either organised or participated in during the reporting year for the benefit of children in Labuan.

| ACTIVITIES/PROGRAMMES | OBJECTIVES | BENEFITS AND OUTCOMES |
|---|---|---|
| **Donations-Schools Facilities**<br>Labuan FSA participated in a donation drive in donating A4 papers to Labuan schools. | To ensure schools have sufficient supply of papers to meet daily academic requirements including for the printing of examination question papers and office administration use. | Enabled schools to run smoothly and allowed academic activities to carry on without interruption. |
| Donation of desks and chairs to St. Anthony Secondary School, Labuan. | To replace old, worn-out, unsafe and non-retainable furniture in the classrooms. | Created a better, safer and comfortable learning environment for the students. |
| **Students Excellent Awards**<br>Provided students excellent awards of RM7,000 to UPSR, PT3 and SPM students. | As an incentive to recognise and reward the performing Labuan students who excelled in their examinations. | Supported the educational initiatives of the Labuan Education Department to entice more students to strive in their studies towards achieving educational excellence. |
| **Develop Drawing Talent**<br>Organised a "Drawing and Colouring" competition for the primary schools children in collaboration with Labuan International School. | To provide a platform for the young ones to showcase their creativity in drawing and colouring. | Cultivated interest in drawing and arts by opening new creative paths to explore the aesthetic and drawing talent of the young generation. |

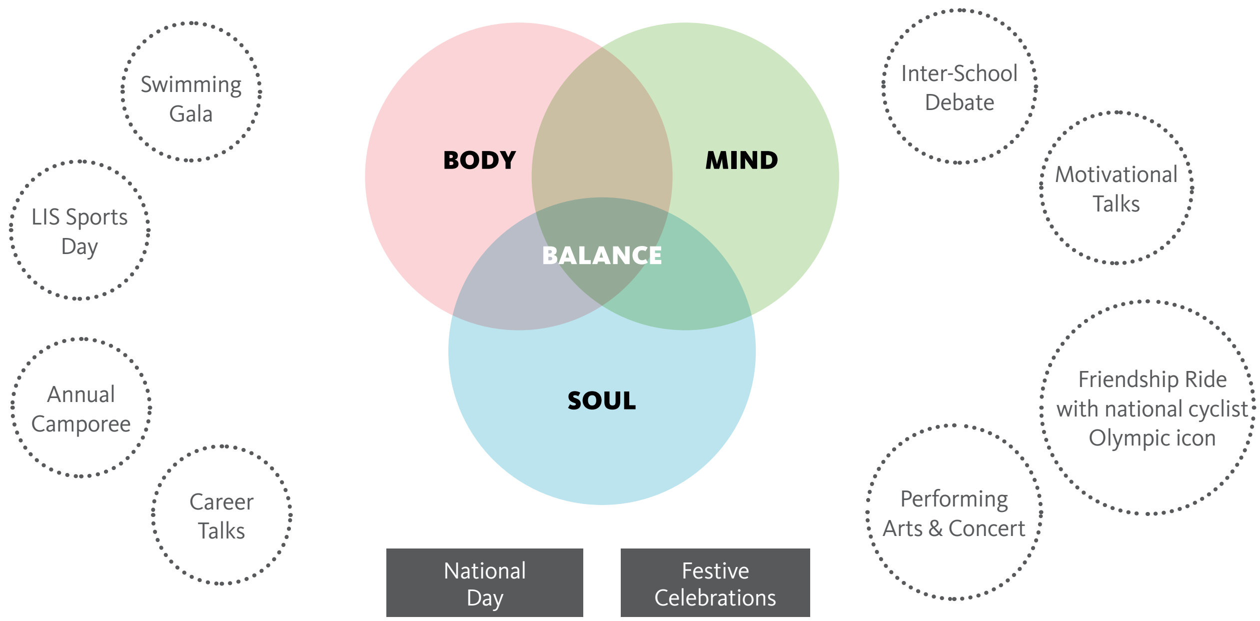
### Labuan International School

Our commitment to education encompasses the progressive development of Labuan International School (LIS). Labuan FSA's continuous funding and managing of LIS ensures the school maintains its sustainability for the benefit of the local community. The Authority's support for the LIS is also in line with the Federal Government's initiatives to maximise the potential of the Labuan IBFC with the establishment of other education centres and vocational institutions on the island.

LIS is the only private school in Labuan, and offers the choice of primary and secondary level education based on either national curriculum or the International General Certificate of Secondary Education (IGCSE). Including the pre-school, it currently has approximately 326 local and foreign students.

In tandem with its concept of "MIND, BODY & SOUL", LIS continues to provide an all-round education that strives to nurture A Scholar, A Sportsman and A Gentleman. Various events are organised in line with this concept.

PROVIDING SUSTAINABLE VALUE




An inaugural LIS Open Day was held on 19 November 2016, attracting parents who wished to know more about the school environment as well as curriculum. Activities held in conjunction with the Open Day included:

- Motivational and career talks for parents and students by speakers from Taylor's College and Curtin University.
- The first Labuan International Swimming Competition, which drew the participation of more than 300 swimmers from international schools as well as swimming clubs from the region.
- Motivational talk by national cyclist and Olympic bronze medallist, Azizul Hasni Awang, and a friendship ride with him around Labuan Island, which attracted more than 200 participants.

To enable deserving students to benefit from its quality education, the school offers scholarships to students who excel academically as well as in sports and performing arts. So far, it has given full scholarships to three students. The scholarship programme is supported by sponsorships from individuals, corporate bodies and charitable foundations. So far, LIS has obtained the commitment of three sponsors to support its scholarship and other programmes.

**LIS Scholarship Programme**

Offered to underprivileged students from lower income families in remote areas in Borneo, covering major expenses such as school fees, textbooks, school uniforms, accommodation fees with meal and pocket allowance.

**LIS Sponsorship Programme**

Allows identified parties to sponsor the LIS scholarship programme or any of the learning centres such as the auditorium, labs, music rooms, art gallery and classrooms.

Funds from the sponsorships shall be utilised to fund the LIS scholarship programme and some of the students' activities.

As part of ongoing efforts to continuously elevate the quality of education and international stature of LIS, the school aims to be accredited by the Council of International School. This involves a rigorous and structured assessment of the school by the Council through visits and consultation. The accreditation would indicate achievement of international standards, not only in LIS' academic curriculum and facilities, but also in its administration. LIS has targeted to be accredited by the year 2018.

For the long-term sustainability of the school, LIS will establish a foundation to enhance its fundraising capabilities and promote proper governance of funds raised from the public. Funds will be channelled towards supporting and promoting causes in education, health, sports, performing arts, leadership, community development as well as environmental well-being.

## ENVIRONMENT

Labuan FSA is committed to making a difference in healthier and greener living. In 2016, we organised events to promote healthy lifestyles and create awareness among the local community of the importance of a green environment. The diagram below depicts environmental activities undertaken during the year.

| ACTIVITIES/PROGRAMME | OBJECTIVES | BENEFITS AND OUTCOMES |
|---|---|---|
| **Cycling & Run Event**<br>Fellowship Ride 2016, a cycling event organised for the public. This event received overwhelming response with more than 500 participating cyclists from Labuan, Sabah, Sarawak, West Malaysia and Brunei. | To entice interest from the public to adopt cycling as a sport to boost health and fitness. It also encourages the use of bicycles to scale-down on carbon footprint. | To preserve the green environment, promote outdoor activities for a healthy lifestyle and reduce air pollution. |
| Labuan IBFC Corporate Executive Run, organised exclusively for the industry players. | To encourage Labuan IBFC industry players to participate in community programme and foster a closer relationship between Labuan IBFC and the community. | To encourage a balance of healthy lifestyle and wellness amongst the professionals who are mostly office bound. |

At the workplace, Labuan FSA is reducing environmental impact via energy savings, office optimisation, and minimising air travel with greater use of ICT for communication purposes. We continue to recycle, reduce and reuse and are moving towards a paperless office environment by reducing the volume of printed documents and recycling our stationery. We are also conserving electricity through upgrade of office equipment to energy efficient models. As a result, there has been an average yearly 5% reduction in energy costs and 30% drop in printing and stationery costs since 2014.

## SUSTAINING ORGANISATION AND INDUSTRY CAPACITY DEVELOPMENT

### Labuan FSA's Staff Resource Development

Our workforce in 2016, totalled 119 employees comprising permanent, seconded and contract staff.

**Workforce by Gender**

Female 56%

Male 44%

**Workforce by Work Status**

Permanent 95%

Contract 3%

Secondment 2%

**Organisational Level**

Executive Level 55%

Managerial Level 28%

Non-Executive 9%

Senior Management 8%

**Classification of Employee**

Regulatory 60%

Non-Regulatory 40%

PROVIDING SUSTAINABLE VALUES

Our employees are critical to Labuan FSA fulfilling our role to develop, regulate and supervise Labuan IBFC. To leverage fully on our human capital, we continued to:

i. provide a conducive work environment by redesigning and optimising the office space
ii. upgrade our employees' capabilities via a talent management programme, and through effective recruitment, retention, training and development
iii. conduct formal and informal engagement sessions to gain insights and recommendations from employees on relevant issues, ensure our employment policies, practices and programmes are in line with their expectations, and to maintain a high level of motivation.

***Operational Efficiency***

Organisation-wide, Labuan FSA has moved towards optimisation of human resources via expansion of staff roles and scope of work. This includes centralisation of services for the Group and our subsidiaries in the areas of human resources, finance, ICT and legal services.

***Capability and Capacity Building***

In line with rapid change in regulatory and supervisory requirements to keep track with the evolution of the global business and financial environment, we invest continuously in training and development to equip our employees with the required skills and competencies to develop, regulate and supervise the centre.

The training and development provided also serves as a retention tool, instilling loyalty and commitment from staff looking for challenges to learn and grow within the organisation. It further promotes greater job satisfaction, a key ingredient in driving employee performance.

In 2016, our employees participated in the following:

i. Domestic and international external training on technical skills relevant to their field of work which also provided the opportunity to network with other authorities, international associations, agencies and learning organisations

ii. Structured in-house training on insurance/reinsurance, anti-money laundering/counter terrorism of financing, communication and presentation skills, negotiation skills, integrity awareness and enterprise risk management

iii. Leadership programmes to help our managers coach and guide their team members as well as nurture a healthy work environment

iv. In-house training and knowledge sharing sessions conducted by staff on the latest industry developments and regulatory policy updates

v. Webinars, tele-conferencing on topics of interest and e-learning for regulatory and supervisory training organised by international associations in the areas of banking and insurance

vi. Education assistance for those undergoing certification or qualification programmes relevant to their field of work

vii. Group excursions to enhance relationship building and team engagement

viii. Management retreat to review and formulate new strategic initiatives for the Corporate Action Plan to take Labuan IBFC to its next stage of development

Apart from the official structured programmes, our Sports and Recreational Club (KRKL) provides another platform to promote team-building. Regular KRKL events include a staff retreat, family day and dinner, birthday celebrations, weekly sports and games. During the year, the club also hosted the Sukan Tiga Penjuru, a sports competition among staff of Bank Negara Malaysia, Labuan FSA and Financial Park (Labuan) Sdn Bhd. The three agencies take turns to host the annual event which aims to enhance greater collaboration and cooperation. In 2016, Labuan FSA team was the champion of the Sukan Tiga Penjuru.

***Labuan IBFC Industry Talent Development Programmes***

Labuan FSA collaborates with professional training providers and subject matter experts to conduct technical and soft skills programmes for industry players thus strengthening the capabilities and quality of service providers in Labuan IBFC. Programmes and masterclasses were conducted focusing on high-growth and niche areas including captive insurance, combating financial fraud, wealth management and commodity trading. In addition, public speaking and communication programmes were organised to enhance various important soft skills.

During the year, we also organised the Labuan International Finance Lecture Series. Two prominent speakers, namely Tan Sri Abdul Wahid Omar, Group Chairman of Permodalan Nasional Berhad and Mr. David Chong, Founder and President of Portcullis Group, were invited to deliver lectures entitled *"Economic Partnership: Towards an Integrated Asia" and "Freedom of the Press v. Right to Privacy"* respectively. The lecture series is an annual event for intellectual discourse to nurture knowledge among industry players in Labuan IBFC. The speakers shared their experiences and provided updates on topical matters relating to the IBFC industry.

07

# FINANCIAL STATEMENTS

REPORT OF THE AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF
LABUAN FINANCIAL SERVICES AUTHORITY
FOR THE YEAR ENDED 31 DECEMBER 2016

**Report on the Financial Statements**

The financial statements of Labuan Financial Services Authority and the Group have been audited by my representative, which comprise the Statements of Financial Position as at 31 December 2016, Statements of Profit Or Loss And Other Comprehensive Income, Statements of Changes in Reserves and Statements of Cash Flows for the year then ended and a summary of significant accounting policies and other explanatory information.

*Board's Responsibility for the Financial Statements*

The Board is responsible for the preparation and fair presentation of these financial statements in accordance with approved financial reporting standards in Malaysia and Labuan Financial Services Authority Act 1996, (Act 545). The Board is also responsible for such internal control as the management determine is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

*Auditor's Responsibility*

My responsibility is to express an opinion on these financial statements based on the audit. The audit has been carried out in accordance with the Audit Act 1957 and in conformity with approved standards on auditing in Malaysia. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence that I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

*Opinion*

In my opinion, the financial statements give a true and fair view of the financial position of Labuan Financial Services Authority and the Group as at 31 December 2016 and of their financial performance and cash flows for the year then ended in accordance with the approved financial reporting standards in Malaysia.

I have considered the financial statements and the auditors' reports of the subsidiary companies of which I have not acted as auditor as indicated in the notes to the financial statements. I am satisfied that the financial statements of the subsidiary companies that have been consolidated with Labuan Financial Services Authority's financial statements are in appropriate form and content for the purpose in the preparation of the financial statements. I have received satisfactory information and explanations required for those purposes. The auditors' reports on the financial statements of the subsidiary companies were not subjected to any observations that could affect the financial statements.

**(PATIMAH BINTI RAMUJI)**
For AUDITOR GENERAL
MALAYSIA

KOTA KINABALU, SABAH
5 APRIL 2017

# STATEMENT BY THE MEMBERS OF THE LABUAN FINANCIAL SERVICES AUTHORITY

We, **MUHAMMAD BIN IBRAHIM** and **AHMAD HIZZAD BIN BAHARUDDIN**, being two of the Members of **LABUAN FINANCIAL SERVICES AUTHORITY**, state that, in the opinion of the Members of the Authority, the accompanying financial statements are drawn up in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards so as to give a true and fair view of the financial position of **LABUAN FINANCIAL SERVICES AUTHORITY** as at 31 December 2016 and their financial performance and cash flows for the year then ended on that date.

On behalf of the Members of the Authority.

**MUHAMMAD BIN IBRAHIM**
Chairman

**AHMAD HIZZAD BIN BAHARUDDIN**
Director General

22 March 2017

# STATUTORY DECLARATION BY THE OFFICER PRIMARILY RESPONSIBLE FOR THE FINANCIAL MANAGEMENT OF LABUAN FINANCIAL SERVICES AUTHORITY

I, **WAN AHMAD SANUSI MAHMOOD** (681203-03-5307), being the officer primarily responsible for the financial management of **LABUAN FINANCIAL SERVICES AUTHORITY**, do solemnly and sincerely declare that the accompanying financial statements are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act 1960.

**WAN AHMAD SANUSI MAHMOOD**

Subscribed and solemnly
declared by the abovenamed
**WAN AHMAD SANUSI MAHMOOD**
in the Federal Territory of Labuan
on this 22 March 2017

Before me,

PESURUHJAYA SUMPAH
L 006
Normala Mat Jali
MALAYSIA

LOT U0031 TING 1 JLN OKK AWG BESAR
P. O. BOX 81862, 87028 W. P. LABUAN, MALAYSIA
TEL: (087) 415057, 416057, 416057, 418057
FAX NO: 087-413057

# STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

| | | The Group | | The Authority | |
|---|---|---|---|---|---|
| | | 2016 | 2015 | 2016 | 2015 |
| | Note | RM | RM | RM | RM |
| **REVENUE** | 4 | **59,880,645** | 56,075,606 | **57,116,248** | 53,888,268 |
| **Other operating income** | | | | | |
| Government grant | 15 | **2,021,489** | 10,836,815 | **2,226,084** | 9,924,756 |
| Income from investments | 5 | **2,784,796** | 2,440,666 | **4,784,796** | 2,440,666 |
| Other income | 6 | **462,567** | 1,556,776 | **294,265** | 1,319,604 |
| **Other operating expense** | | | | | |
| Staff costs | 7 | **(33,705,132)** | (31,906,721) | **(25,487,099)** | (24,387,463) |
| Depreciation of property, plant and equipment | 9 | **(4,200,898)** | (2,361,667) | **(3,950,957)** | (2,009,202) |
| Other expenses | 6 | **(24,103,952)** | (24,835,184) | **(31,782,023)** | (34,069,699) |
| Surplus before tax | | **3,139,515** | 11,806,291 | **3,201,314** | 7,106,930 |
| Income tax credit | 8 | **9,181** | - | **-** | - |
| **Net surplus for the year** | | **3,148,696** | 11,806,291 | **3,201,314** | 7,106,930 |
| Other comprehensive income, net of income tax | | **-** | - | **-** | - |
| **Total comprehensive surplus for the year** | | **3,148,696** | 11,806,291 | **3,201,314** | 7,106,930 |
| **Total comprehensive surplus attributable to the Authority** | | **3,148,696** | 11,806,291 | **3,201,314** | 7,106,930 |

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

# STATEMENTS OF FINANCIAL POSITION

AS OF 31 DECEMBER 2016

| | | The Group | | The Authority | |
|---|---|---|---|---|---|
| | Note | 2016 RM | 2015 RM | 2016 RM | 2015 RM |
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 9 | **87,076,291** | 86,974,648 | **86,338,276** | 86,394,657 |
| Investment in subsidiary | 10 | **-** | - | **900,000** | 900,000 |
| Deferred tax asset | 11 | **9,181** | - | **-** | - |
| Other receivables | 12 | **2,098,419** | 3,310,850 | **2,098,419** | 3,310,850 |
| | | **89,183,891** | 90,285,498 | **89,336,695** | 90,605,507 |
| **Current assets** | | | | | |
| Fees and receivables | 12 | **15,662,082** | 15,446,220 | **19,713,108** | 18,936,313 |
| Inventories | 13 | **104,295** | 142,109 | **-** | - |
| Cash and bank balances | 14 | **66,417,599** | 65,761,029 | **62,500,406** | 60,387,690 |
| | | **82,143,976** | 81,349,358 | **82,213,514** | 79,324,003 |
| **Total assets** | | **171,327,867** | 171,634,856 | **171,550,209** | 169,929,510 |
| **RESERVES AND LIABILITIES** | | | | | |
| **Reserves** | | | | | |
| Accumulated surplus | | **67,477,611** | 64,328,915 | **62,768,070** | 59,566,756 |
| **Non-current liabilities** | | | | | |
| Deferred income | 15 | **75,365,014** | 77,138,659 | **75,365,014** | 77,138,659 |
| Government loans | 16 | **5,500,000** | 7,000,000 | **5,500,000** | 7,000,000 |
| | | **80,865,014** | 84,138,659 | **80,865,014** | 84,138,659 |
| **Current liabilities** | | | | | |
| Deferred income | 15 | **4,032,939** | 4,280,783 | **2,867,057** | 3,319,496 |
| Other payables | 17 | **17,452,303** | 17,386,499 | **23,550,068** | 21,404,599 |
| Government loans | 16 | **1,500,000** | 1,500,000 | **1,500,000** | 1,500,000 |
| | | **22,985,242** | 23,167,282 | **27,917,125** | 26,224,095 |
| **Total liabilities** | | **103,850,256** | 107,305,941 | **108,782,139** | 110,362,754 |
| **Total reserves and liabilities** | | **171,327,867** | 171,634,856 | **171,550,209** | 169,929,510 |

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

# STATEMENTS OF CHANGES IN RESERVES

FOR THE YEAR ENDED 31 DECEMBER 2016

| | Accumulated surplus RM |
|---|---|
| **The Group** | |
| **Opening balance at 1 January 2015** | 52,522,624 |
| Net surplus for the year | 11,806,291 |
| **Closing balance at 31 December 2015** | 64,328,915 |
| | |
| **Opening balance at 1 January 2016** | **64,328,915** |
| Net surplus for the year | **3,148,696** |
| **Closing balance at 31 December 2016** | **67,477,611** |
| | |
| **The Authority** | |
| **Opening balance at 1 January 2015** | 52,459,826 |
| Net surplus for the year | 7,106,930 |
| **Closing balance at 31 December 2015** | 59,566,756 |
| | |
| **Opening balance at 1 January 2016** | **59,566,756** |
| Net surplus for the year | **3,201,314** |
| **Closing balance at 31 December 2016** | **62,768,070** |

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

# STATEMENTS OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

| | The Group | | The Authority | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **RM** | RM | **RM** | RM |
| **OPERATING ACTIVITIES** | | | | |
| Net surplus for the year | **3,148,696** | 11,806,291 | **3,201,314** | 7,106,930 |
| Adjustments for: | | | | |
| Income tax credit recognised in statements of profit or loss | **(9,181)** | - | **-** | - |
| Unrealised loss/(gain) on foreign exchange | **11,425** | (237,305) | **11,425** | (209,757) |
| Depreciation of property, plant and equipment | **4,200,898** | 2,361,667 | **3,950,957** | 2,009,202 |
| Dividend income | **-** | - | **(2,000,000)** | - |
| Utilisation of government grant | **(2,021,489)** | (10,836,815) | **(2,226,084)** | (9,924,756) |
| Loss/(Gain) on disposal of property, plant and equipment | **1,581** | (194) | **(10,081)** | (9,930) |
| Property, plant and equipment written off | **-** | 49,274 | **-** | 49,274 |
| Interest income from investments and staff loans | **(2,855,080)** | (2,571,012) | **(2,855,080)** | (2,571,012) |
| Net fair value (gain)/loss on other receivables | **(260,896)** | 615,252 | **(260,896)** | 615,252 |
| Allowance for impairment losses on fees and trade receivables recognised | **3,534,050** | 3,627,669 | **3,485,589** | 3,617,135 |
| Allowance for impairment losses on fees and trade receivables reversed | **(3,542,184)** | (2,984,877) | **(3,531,650)** | (2,856,532) |
| Amount owing by subsidiaries written off | **-** | - | **10,457** | 9,731 |
| Fees and trade receivables written off | **2,509,626** | 2,092,961 | **2,501,050** | 1,943,583 |
| Inventories written off | **-** | 134,163 | **-** | - |
| Operating Surplus/(Deficit) Before Working Capital Changes | **4,717,446** | 4,057,074 | **2,277,001** | (220,880) |
| Changes in working capital: | | | | |
| (Increase)/Decrease in: | | | | |
| Fees and trade receivables | **(2,238,502)** | (2,069,535) | **(2,190,199)** | (2,158,600) |
| Other receivables | **1,839,838** | 2,474,581 | **1,742,644** | 2,490,519 |
| Inventories | **37,814** | 50,711 | **-** | - |
| Amounts due from subsidiaries | **-** | - | **(515,996)** | 396,910 |
| Increase/(Decrease) in: | | | | |
| Fees received in advance | **784,639** | 1,254,451 | **784,639** | 1,417,095 |
| Refundable deposits | **(138,159)** | (87,415) | **(97,800)** | - |
| Other payables and accruals | **(580,676)** | 1,557,704 | **(373,891)** | 4,390,687 |
| Amount due to subsidiary | **-** | - | **1,832,521** | 3,050,000 |
| Cash Generated From Operating Activities | **4,422,400** | 7,237,571 | **3,458,919** | 9,365,731 |
| Income taxes paid | **-** | (24) | **-** | - |
| Interest received | **91,899** | 130,346 | **91,899** | 130,346 |
| Net Cash From Operating Activities | **4,514,299** | 7,367,893 | **3,550,818** | 9,496,077 |

# STATEMENTS OF CASH FLOWS
## FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

| | The Group | | The Authority | |
|---|---|---|---|---|
| | **2016 RM** | 2015 RM | **2016 RM** | 2015 RM |
| **INVESTING ACTIVITIES** | | | | |
| Net increase in fixed deposits with maturity period of more than 3 months | **(1,500,000)** | (5,624,006) | **(1,500,000)** | (5,624,006) |
| Proceeds from disposal of plant and equipment | **21,425** | 12,882 | **17,630** | 9,945 |
| Additions of property, plant and equipment | **(4,325,547)** | (13,154,676) | **(3,902,125)** | (12,909,810) |
| Dividend income | **-** | - | **2,000,000** | - |
| Interest received | **1,957,818** | 1,611,565 | **1,957,818** | 1,611,565 |
| Net Cash Used In Investing Activities | **(3,846,304)** | (17,154,235) | **(1,426,677)** | (16,912,306) |
| **FINANCING ACTIVITIES** | | | | |
| Government grant received | **-** | 10,720,298 | **-** | 10,720,298 |
| Repayment of government loans | **(1,500,000)** | (1,500,000) | **(1,500,000)** | (1,500,000) |
| Net Cash (Used In)/From Financing Activities | **(1,500,000)** | 9,220,298 | **(1,500,000)** | 9,220,298 |
| **Net (decrease)/increase in cash and cash equivalents** | **(832,005)** | (566,044) | **624,141** | 1,804,069 |
| **Cash and cash equivalents at 1 January** | **12,261,029** | 12,589,768 | **6,887,690** | 4,873,864 |
| Effect of exchange difference | **(11,425)** | 237,305 | **(11,425)** | 209,757 |
| **Cash and cash equivalents at 31 December (Note 22)** | **11,417,599** | 12,261,029 | **7,500,406** | 6,887,690 |

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 1. CORPORATE INFORMATION

The Labuan Financial Services Authority was established on 15 February 1996. The registered office and principal place of operations of the Authority are located at Level 17, Main Office Tower, Financial Park Complex, Jalan Merdeka, 87000 Federal Territory of Labuan, Malaysia.

The main activities of the Authority are to promote and develop Labuan, Malaysia as an international business and financial centre and to develop national objectives, policies and priorities for the orderly development and administration of financial services in Labuan.

The principal activities of the subsidiary companies are disclosed in Note 10.

There have been no significant changes in the nature of the principal activities of the Authority and its subsidiary companies during the financial year.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

The financial statements of the Group and the Authority have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS") and International Financial Reporting Standards ("IFRS").

The financial statements of the Group and the Authority have been prepared on a historical basis.

### 2.2 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

On 1 January 2016, the Group and the Authority adopted the following new standards and amendments to MFRS for annual financial periods beginning on or after 1 January 2016.

| | |
|---|---|
| MFRS 14 | Regulatory Deferral Accounts |
| Amendments to MFRS 11 | Accounting for Acquisition of Interest in Joint Operations |
| Amendments to MFRS 101 | Disclosure Initiative |
| Amendments to MFRS 116 and MFRS 138 | Clarification of Acceptable Methods of Depreciation and Amortisation |
| Amendments to MFRS 116 and MFRS 141 | Agriculture: Bearer Plants |
| Amendments to MFRS 10, MFRS 12 and MFRS 128 | Investment Entities: Applying the Consolidation Exception |
| Amendments to MFRS 127 | Equity Method in Separate Financial Statements |
| Annual Improvements to MFRSs | Annual Improvements to MFRSs 2012 - 2014 Cycle |

The management is of the opinion that the adoption of the above amendments did not have any effect on the financial performance or position of the Group and the Authority.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.3 Standards issued but not yet effective

The Group and the Authority have not applied the following new and revised MFRSs and Interpretation that have been issued but are not yet effective:

| | |
|---|---|
| MFRS 9 | Financial Instruments[2] |
| MFRS 15 | Revenue from Contracts with Customers (and the related Clarifications)[2] |
| MFRS 16 | Leases[3] |
| Amendments to MFRS 2 | Classification and Measurement of Share-based Payment Transactions[2] |
| Amendments to MFRS 10 and MFRS 128 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4] |
| Amendments to MFRS 107 | Disclosure Initiative[1] |
| Amendments to MFRS 112 | Recognition for Deferred Tax Assets for Unrealised Losses[1] |
| Amendments to MFRS 4 | Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts[2] |
| Amendments to MFRS 140 | Transfers of Investment Property[2] |
| IC Interpretation 22 | Foreign Currency Transactions and Advance Consideration[2] |
| Amendments to MFRSs | Annual Improvements to MFRSs 2014 -2016 Cycle[1 or 2] |

1 Effective for annual periods beginning on or after January 1, 2017, with earlier application permitted.
2 Effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.
3 Effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.
4 Effective for annual periods beginning on or after a date to be determined.

The management anticipates that the abovementioned Standards and amendments to Standards will be adopted in the financial statements of the Group and of the Authority when they become mandatorily effective for adoption. The management is currently assessing the impact of the abovementioned Standards, amendments to Standards and Interpretation. As of the date of authorisation of issue of the financial statements, this assessment process is still on-going. Thus, the impact of adopting the abovementioned Standards, amendments to Standards and Interpretation cannot be determined and estimated reliably now until the process is complete.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.4 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Authority and its subsidiaries as at the reporting date. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Authority. Consistent accounting policies are applied for like transactions and events in similar circumstances.

The Authority controls an investee if and only if the Authority has all the following:

i. Power over the investee (i.e existing rights that give it the current ability to direct the relevant activities of the investee);

ii. Exposure, or rights, to variable returns from its investment with the investee; and

iii. The ability to use its power over the investee to affect its returns.

When the Authority has less than a majority of the voting rights of an investee, the Authority considers the following in assessing whether or not the Authority's voting rights in an investee are sufficient to give it power over the investee:

i. The size of the Authority's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;

ii. Potential voting rights held by the Authority, other vote holders or other parties;

iii. Rights arising from other contractual arrangements; and

iv. Any additional facts and circumstances that indicate that the Authority has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Subsidiaries are consolidated when the Authority obtains control over the subsidiary and ceases when the Authority loses control of the subsidiary. All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Authority and to the non-controlling interest. Total comprehensive income of subsidiaries is attributed to the owners of the Authority and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. The resulting difference is recognised directly in equity and attributed to owners of the Authority.

When the Group loses control of a subsidiary, a gain or loss calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets and liabilities of the subsidiary and any non-controlling interest, is recognised in profit or loss. The subsidiary's cumulative gain or loss which has been recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss or where applicable, transferred directly to retained earnings. The fair value of any investment retained in the former subsidiary at the date control is lost is regarded as the cost on initial recognition of the investment.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.4 Basis of consolidation (Continued)

***Business combinations***

Acquisitions of subsidiaries are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. The Group elects on a transaction-by-transaction basis whether to measure the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Transaction costs incurred are expensed and included in administrative expenses.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes in the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with MFRS 139 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of MFRS 139, it is measured in accordance with the appropriate MFRS.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

### 2.5 Subsidiaries

A subsidiary is an entity over which the Group has all the following:

i) Power over the investee (i.e existing rights that give it the current ability to direct the relevant activities of the investee);

ii) Exposure, or rights, to variable returns from its investment with the investee; and

iii) The ability to use its power over the investee to affect its returns.

In the Authority's separate financial statements, investments in subsidiaries are accounted for at cost less impairment losses. On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.6 Foreign currencies

The individual financial statements of each group entity are presented in Ringgit Malaysia, which is the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group entity are expressed in Ringgit Malaysia ("RM"), which is the functional currency of the Authority and the presentation currency for the consolidated statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the year in which they arise except for exchange differences arising on the retranslation of non-monetary items carried at fair value in respect of which gains and losses are recognised in other comprehensive income. For such non-monetary items, the exchange component of that gain or loss is also recognised in other comprehensive income.The Group and the Authority's financial statements are presented in Ringgit Malaysia, which is also the Authority's functional currency. For each entity the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and has elected to recycle the gain or loss that arises from this method.

### 2.7 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the Authority and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group and the Authority, assess their revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group and the Authority have concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

**a) Fee income from business**

Fees comprise incorporation and registration fees and annual fees of Labuan companies, annual licence fees for Labuan banks and insurance companies and other related fees received and receivable. Revenue is recognised when services are provided or upon date of incorporation or date of registration of Labuan companies and on subsequent anniversary thereof. When fees receivable are overdue by more than certain periods, recognition of fees is suspended until they are realised on a cash basis.

**b) Other fees**

Other fees which represent school fees, entrance fees and examination fees are recognised upon performance of services and to the extent that they are probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

**c) Interest income**

Interest income is recognised in the profit or loss as it accrues, taking into account the effective yield on the asset.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.7 Revenue recognition (Continued)

#### d) Dividend income

Dividend income from investment is recognised when the shareholders' rights to receive payment has been established.

#### e) Rental income

Rental income is accrued on a time proportion basis, by reference to the agreements entered into.

### 2.8 Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. Where the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset. The remaining balance are accounted as deferred income.

When the Group receives non-monetary grants, the asset and the grant are recorded gross at nominal amounts and released to profit or loss over the expected useful life in a pattern of consumption of the benefit of the underlying asset by equal annual instalments. When loans or similar assistance are provided by governments or related institutions with an interest rate below the current applicable market rate, the effect of this favorable interest is regarded as a government grant.

### 2.9 Taxes

#### a) Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group and the Authority operate and generate taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.9 Taxes (Continued)

#### b) Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax liabilities arising from investment properties at fair value are measured based on the tax consequence of the presumption that the carrying amount of the investment properties measured at fair value will be recovered entirely through sale. This presumption is consistent with the management's business model for the Group's investment properties.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognised subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it is incurred during the measurement period or recognised in profit or loss.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.10 Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing parts of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group and the Authority recognise such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the profit or loss as incurred. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Capital work-in-progress is not depreciated. Capital work-in-progress comprises contractors' payments and directly attributable costs incurred in preparing these assets for their intended use. Depreciation on assets under construction commences when the assets are ready for their intended use.

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

| | |
|---|---|
| Leasehold land | Over the lease period |
| Buildings | 50 years |
| Motor vehicles | 4 years |
| Computers | 3 years |
| Furniture, fittings, office equipment, and renovation | 3 to 7 years |

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

### 2.11 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Operating lease payments are recognised as an operating expense in the profit or loss on a straight-line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.12 Financial instruments

#### a) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial instrument and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Income and expense is recognised on an effective interest basis for debt instruments other than those financial assets and financial liabilities classified as at FVTPL.

#### b) Financial assets

##### i) Initial recognition and measurement

Financial assets within the scope of MFRS 139 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial assets are recognised initially at fair value plus transaction costs, in the case of assets not at fair value through profit or loss.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Group and the Authority commit to purchase or sell the asset.

Financial assets of the Group and of the Authority are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

##### ii) Subsequent measurement

The subsequent measurement of financial assets of the Group and of the Authority described below:

<u>Loans and receivables</u>

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the profit or loss. The losses arising from impairment are recognised in the profit or loss in finance costs.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.12 Financial instruments (Continued)

#### b) Financial assets (Continued)

##### iii) Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; and

- The Group and the Authority have transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group and the Authority have transferred substantially all the risks and rewards of the asset, or (b) the Group and the Authority have neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group and the Authority have transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of it, the asset is recognised to the extent of the Group and the Authority's continuing involvement in it.

In such case, the Group and the Authority also recognise an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group and the Authority could be required to repay.

#### c) Impairment of financial assets

The Group and the Authority assess at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.12 Financial instruments (Continued)

#### c) Impairment of financial assets (Continued)

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group and the Authority first assess whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group and the Authority determine that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the profit or loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group and the Authority. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the profit or loss.

#### d) Financial liabilities

##### i) Initial recognition and measurement

Financial liabilities within the scope of MFRS 139 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group and the Authority determine the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, carried at amortised cost. This includes directly attributable transaction costs.

The Group and the Authority's financial liabilities include trade and other payables and loans and borrowings which are carried at amortised cost.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.12 Financial instruments (Continued)

#### d) Financial liabilities (Continued)

##### ii) Subsequent measurement

The measurement of financial liabilities of the Group and of the Authority is as follows:

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the profit or loss when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the profit or loss.

##### iii) Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the profit or loss.

#### e) Offsetting of financial instruments

Financial assets and financial liabilities are offset with the net amount reported in the statement of financial position only if there is a current enforceable legal right to offset the recognised amounts and an intent to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

### 2.13 Fair value measurement

The Group and the Authority measure financial instruments, such as, derivatives, and non-financial assets such as investment properties, at fair value at each reporting date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 21.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group and the Authority.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.13 Fair value measurement (Continued)

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group and the Authority use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group and the Authority determine whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group and the Authority have determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

### 2.14 Impairment of non-financial assets

The Group and the Authority assess at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group and the Authority estimate the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The Group and the Authority base their impairment calculation on detailed budgets and forecasts which are prepared separately for each of the Group and the Authority's CGU to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the profit or loss in those expense categories consistent with the function of the impaired asset, except for a property previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.14 Impairment of non-financial assets (Continued)

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group and the Authority estimate the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the profit or loss unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

### 2.15 Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition is accounted for first in, first out basis.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

### 2.16 Provisions

Provisions are recognised when the Group and the Authority have a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group and the Authority expect some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the profit or loss net of any reimbursement.

### 2.17 Employee benefits

*Defined contribution plans*

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations. The Group makes contributions to the Employee Provident Fund in Malaysia, a defined contribution pension scheme. Contributions to defined contribution pension schemes are recognised as an expense in the period in which the related service is performed.

### 2.18 Cash and cash equivalents

The Group and the Authority adopt the indirect method in the preparation of the statements of cash flows. Cash equivalents are short-term, highly liquid investments with maturities of three months or less from the date of acquisition and are readily convertible to cash with insignificant risks of changes in value.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

In the process of applying accounting policies of the Group, the management is of the opinion that there are no instances of application of judgement which are expected to have a significant effect on the amounts recognised in the financial statements.

### 3.1 Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

#### a) Impairment of fees and receivables

The Group and the Authority assesses at each reporting date whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Group and the Authority considers factors such as the probability of insolvency or significant financial difficulties of the receivables and default or significant delay in payments.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics.

#### b) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses and unabsorbed capital allowances to the extent that it is probable that taxable profit will be available against which the losses and capital allowances can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

#### c) Estimated useful lives of property, plant and equipment

The Group and the Authority regularly review the estimated useful lives of property, plant and equipment based on factors such as business plan and strategies and expected level of usage. Future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned above. A reduction in the estimated useful lives of property, plant and equipment would increase the recorded depreciation and decrease the value of property, plant and equipment.

## 4. REVENUE

| | The Group | | The Authority | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **RM** | RM | **RM** | RM |
| Fee income | **57,116,248** | 53,888,268 | **57,116,248** | 53,888,268 |
| Other fees | **2,764,397** | 2,187,338 | **-** | - |
| | **59,880,645** | 56,075,606 | **57,116,248** | 53,888,268 |

## 5. INCOME FROM INVESTMENTS

| | The Group | | The Authority | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **RM** | RM | **RM** | RM |
| Interest received from: | | | | |
| Fixed deposits | **2,763,181** | 2,430,656 | **2,763,181** | 2,430,656 |
| Money at call | **21,615** | 10,010 | **21,615** | 10,010 |
| Dividend income | **-** | - | **2,000,000** | - |
| | **2,784,796** | 2,440,666 | **4,784,796** | 2,440,666 |

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

## 6. OTHER INCOME/(EXPENSES)

Included in other operating income/(expenses) are the following:

| | The Group | | The Authority | |
|---|---|---|---|---|
| | 2016 RM | 2015 RM | 2016 RM | 2015 RM |
| Interest income from staff loans: | | | | |
| Key management personnel | 7,528 | 12,887 | 7,528 | 12,887 |
| Others | 62,756 | 117,459 | 62,756 | 117,459 |
| Rental income | 133,222 | 152,798 | 142,882 | 183,600 |
| Miscellaneous income | 297,933 | 778,426 | 88,384 | 510,451 |
| (Loss)/Gain on disposal of property, plant and equipment | (1,581) | 194 | 10,081 | 9,930 |
| (Loss)/Gain on foreign exchange: | | | | |
| Realised | (38,755) | 225,162 | (5,941) | 275,520 |
| Unrealised | (11,425) | 237,305 | (11,425) | 209,757 |
| Allowance for impairment losses on fees and trade receivables reversed | 3,542,184 | 2,984,877 | 3,531,650 | 2,856,532 |
| Operational and marketing expenditure incurred under the government grant* | (345,129) | (9,670,815) | (549,724) | (8,758,756) |
| Audit fees: | | | | |
| Current year | (73,836) | (66,590) | (24,836) | (24,836) |
| Underprovision in prior year | - | (2,000) | - | - |
| Rental of premises | (2,050,659) | (2,087,445) | (1,739,978) | (1,745,925) |
| Fees and trade receivable written off | (2,509,626) | (2,092,961) | (2,501,050) | (1,943,583) |
| Amount owing by subsidiary companies written off | - | - | (10,457) | (9,731) |
| Members' remuneration | (570,120) | (329,500) | (293,120) | (141,000) |
| Property, plant and equipment written off | - | (49,274) | - | (49,274) |
| Grant to a subsidiary | - | - | (6,500,000) | - |
| Contributions to Labuan FSA Staff Welfare Fund | (350,000) | (450,000) | (350,000) | (450,000) |
| Lease of machinery and equipment | (157,989) | (58,802) | (157,989) | (58,802) |
| Tuition fees paid to a subsidiary | - | - | (395,839) | (410,986) |
| Allowance for impairment losses on fees and trade receivables recognised | (3,534,050) | (3,627,669) | (3,485,589) | (3,617,135) |
| Net fair value gain/(loss) on other receivables | 260,896 | (615,252) | 260,896 | (615,252) |
| Inventories written off | - | (134,163) | - | - |

## 6. OTHER INCOME/(EXPENSES) (CONTINUED)

* These included the following expenditures:

| | The Group | | The Authority | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **RM** | RM | **RM** | RM |
| Infrastructure for school building | **(345,129)** | (298,421) | **(549,724)** | (298,421) |
| Management fees | **-** | (458,766) | **-** | - |
| Operational expenses | **-** | (8,753,293) | **-** | - |
| Government grant expenses paid to subsidiaries | **-** | - | **-** | (8,300,000) |
| Global Takaful Group | **-** | (160,335) | **-** | (160,335) |

## 7. STAFF COSTS

| | The Group | | The Authority | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **RM** | RM | **RM** | RM |
| Staff costs* | **33,705,132** | 31,906,721 | **25,487,099** | 24,387,463 |

* These included the following staff costs:

| | The Group | | The Authority | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **RM** | RM | **RM** | RM |
| Key management personnel: | | | | |
| Salaries | **7,868,055** | 8,387,033 | **5,225,842** | 4,868,460 |
| Allowances | **638,946** | 547,639 | **522,144** | 494,059 |
| Employees Provident Fund | **4,230,937** | 4,132,985 | **3,171,461** | 2,996,699 |

## 8. INCOME TAX CREDIT

| | The Group | | The Authority | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **RM** | RM | **RM** | RM |
| **Statement of comprehensive income:** | | | | |
| Deferred tax (Note 11): | | | | |
| Relating to origination of temporary differences | **(11,703)** | - | **-** | - |
| Overprovision in prior year | **20,884** | - | **-** | - |
| | **9,181** | - | **-** | - |

The Authority has been exempted from tax on all its income, other than dividend income, under the Income Tax (Exemption) (No.33) Order 1997 [PU(A) 221/97], Income Tax (Exemption) (Amendment) (No.2) Order 2003 [PU(A) 198/2003] and pursuant to Section 127(3A) of the Income Tax Act 1967 until the year of assessment 2011. On 18 February 2010, Ministry of Finance granted a further extension of ten years on the exemption period until the year of assessment 2020.

One of its subsidiaries, Labuan IBFC Incorporated Sdn. Bhd. has been granted tax exemption on all its income except for dividend income under Section 127(3A) of the Income Tax Act 1967 for an additional period of 5 years commencing year of assessment 2013 to 2017.

Income tax for other subsidiaries is calculated at the statutory tax rate of 24% (2015: 25%) of the estimated assessable profit for the year.

Reconciliation between tax expense and accounting surplus

The reconciliation between tax expense and the product of accounting surplus multiplied by the applicable corporate tax rate for the years ended 31 December 2016 and 2015 are as follows:

| | The Group | | The Authority | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **RM** | RM | **RM** | RM |
| Surplus before tax | **3,148,696** | 11,806,291 | **3,201,314** | 7,106,930 |
| Taxation at Malaysian statutory tax rate of 24% (2015: 25%) | **(755,687)** | (2,951,572) | **(768,315)** | (1,776,733) |
| Effect of changes in tax rate | **835** | - | **-** | - |
| Effect of income not subject to tax | **721,467** | 4,267,782 | **768,315** | 1,776,733 |
| Effect of expenses not deductible for tax purposes | **(37,020)** | (1,486,976) | **-** | - |
| Reversal of temporary differences previously not recognised | **58,702** | 272,167 | **-** | - |
| Overprovision of deferred tax in prior year | **20,884** | - | **-** | - |
| Deferred tax assets not recognised | **-** | (101,401) | **-** | - |
| Tax credit for the year | **9,181** | - | **-** | - |

## 9. PROPERTY, PLANT AND EQUIPMENT

| The Group | Leasehold land RM | Buildings RM | Motor vehicles RM | Computers RM | Furniture, fittings, office equipment and renovation RM | Work In Progress RM | Total RM |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| At 1 January 2015 | 442,000 | 58,988,000 | 1,272,711 | 3,127,388 | 9,049,830 | 17,714,340 | 90,594,269 |
| Additions | - | - | - | 779,399 | 425,575 | 11,949,702 | 13,154,676 |
| Disposals | - | - | - | (198,110) | (8,066) | - | (206,176) |
| Write off | - | - | - | (572,910) | (374,651) | - | (947,561) |
| Reclassification | - | 25,518,001 | - | 4,058,077 | 86,400 | (29,662,478) | - |
| At 31 December 2015/ 1 January 2016 | 442,000 | 84,506,001 | 1,272,711 | 7,193,844 | 9,179,088 | 1,564 | 102,595,208 |
| Additions | - | - | - | - | 4,308,582 | 16,965 | 4,325,547 |
| Disposals | - | - | - | (119,040) | (421,434) | - | (540,474) |
| Write off | - | - | - | - | (2,235,900) | - | (2,235,900) |
| At 31 December 2016 | 442,000 | 84,506,001 | 1,272,711 | 7,074,804 | 10,830,336 | 18,529 | 104,144,381 |
| ***Accumulated depreciation*** | | | | | | | |
| At 1 January 2015 | 8,290 | 3,101,145 | 643,863 | 2,484,779 | 8,112,591 | - | 14,350,668 |
| Charge for the year | 518 | 1,217,371 | 208,600 | 534,850 | 400,328 | - | 2,361,667 |
| Disposals | - | - | - | (191,631) | (1,857) | - | (193,488) |
| Write off | - | - | - | (527,873) | (370,414) | - | (898,287) |
| At 31 December 2015/ 1 January 2016 | 8,808 | 4,318,516 | 852,463 | 2,300,125 | 8,140,648 | - | 15,620,560 |
| Charge for the year | 700 | 1,690,120 | 192,188 | 1,756,619 | 561,271 | - | 4,200,898 |
| Disposals | - | - | - | (112,578) | (404,890) | - | (517,468) |
| Write off | - | - | - | - | (2,235,900) | - | (2,235,900) |
| At 31 December 2016 | 9,508 | 6,008,636 | 1,044,651 | 3,944,166 | 6,061,129 | - | 17,068,090 |
| ***Carrying amounts*** | | | | | | | |
| At 31 December 2015 | 433,192 | 80,187,485 | 420,248 | 4,893,719 | 1,038,440 | 1,564 | 86,974,648 |
| At 31 December 2016 | 432,492 | 78,497,365 | 228,060 | 3,130,638 | 4,769,207 | 18,529 | 87,076,291 |

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

## 9. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| The Authority | Leasehold land RM | Buildings RM | Motor vehicles RM | Computers RM | Furniture, fittings, office equipment and renovation RM | Work In Progress RM | Total RM |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| At 1 January 2015 | 442,000 | 58,988,000 | 761,925 | 2,552,268 | 4,632,931 | 17,714,340 | 85,091,464 |
| Additions | - | - | - | 738,188 | 221,920 | 11,949,702 | 12,909,810 |
| Disposals | - | - | - | (91,520) | - | - | (91,520) |
| Write off | - | - | - | (572,910) | (374,651) | - | (947,561) |
| Reclassification | - | 25,518,001 | - | 4,058,077 | 86,400 | (29,662,478) | - |
| At 31 December 2015/ 1 January 2016 | 442,000 | 84,506,001 | 761,925 | 6,684,103 | 4,566,600 | 1,564 | 96,962,193 |
| Additions | - | - | - | - | 3,885,160 | 16,965 | 3,902,125 |
| Disposals | - | - | - | (73,331) | (197,467) | - | (270,798) |
| Write off | - | - | - | - | (2,235,900) | - | (2,235,900) |
| At 31 December 2016 | 442,000 | 84,506,001 | 761,925 | 6,610,772 | 6,018,393 | 18,529 | 98,357,620 |
| ***Accumulated depreciation*** | | | | | | | |
| At 1 January 2015 | 8,290 | 3,101,145 | 324,091 | 2,001,081 | 4,113,519 | - | 9,548,126 |
| Charge for the year | 518 | 1,217,371 | 137,311 | 474,561 | 179,441 | - | 2,009,202 |
| Disposals | - | - | - | (91,505) | - | - | (91,505) |
| Write off | - | - | - | (527,873) | (370,414) | - | (898,287) |
| At 31 December 2015/ 1 January 2016 | 8,808 | 4,318,516 | 461,402 | 1,856,264 | 3,922,546 | - | 10,567,536 |
| Charge for the year | 700 | 1,690,120 | 147,338 | 1,716,364 | 396,435 | - | 3,950,957 |
| Disposals | - | - | - | (72,775) | (190,474) | - | (263,249) |
| Write off | - | - | - | - | (2,235,900) | - | (2,235,900) |
| At 31 December 2016 | 9,508 | 6,008,636 | 608,740 | 3,499,853 | 1,892,607 | - | 12,019,344 |
| ***Carrying amounts*** | | | | | | | |
| At 31 December 2015 | 433,192 | 80,187,485 | 300,523 | 4,827,839 | 644,054 | 1,564 | 86,394,657 |
| At 31 December 2016 | 432,492 | 78,497,365 | 153,185 | 3,110,919 | 4,125,786 | 18,529 | 86,338,276 |

## 10. INVESTMENTS IN SUBSIDIARY

| | The Authority | |
|---|---|---|
| | **2016** | **2015** |
| | **RM** | **RM** |
| Unquoted shares, at cost | **900,000** | 900,000 |

| Name | Country of incorporation | Principal activities | Proportion (%) of ownership interest 2016 | 2015 |
|---|---|---|---|---|
| **Held by the Authority:** | | | | |
| Labuanfsa Incorporated Sdn. Bhd.* | Malaysia | Investment holding | **100** | 100 |
| **Held through Labuanfsa Incorporated Sdn. Bhd.:** | | | | |
| Pristine Era Sdn. Bhd.* | Malaysia | Provision of educational services | **100** | 100 |
| Labuan IBFC Incorporated Sdn. Bhd.* | Malaysia | Provision of marketing and promoting services for Labuan International Business and Financial Centre | **100** | 100 |

* The financial statements of the subsidiaries are not audited by the Auditor-General.

## 11. DEFERRED TAX ASSETS

| | The Group | | The Authority | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| | **RM** | **RM** | **RM** | **RM** |
| At beginning of year | **-** | - | **-** | - |
| Recognised in the statements of profit or loss | **9,181** | - | **-** | - |
| | **9,181** | - | **-** | - |

The deferred tax assets are in respect of plant and equipment.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

## 11. DEFERRED TAX ASSETS (CONTINUED)

Deferred tax assets have not been recognised in respect of the following:

| | The Group | | The Authority | |
|---|---|---|---|---|
| | **2016 RM** | 2015 RM | **2016 RM** | 2015 RM |
| Unutilised tax losses | **2,390,668** | 2,532,589 | **-** | - |
| Accelerated capital allowance | **-** | 69,076 | **-** | - |
| | **2,390,668** | 2,601,665 | **-** | - |

The unutilised tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of this item because it is not probable that future taxable profits will be available against which the Group can utilise the benefits there from.

## 12. FEES AND RECEIVABLES

| | The Group | | The Authority | |
|---|---|---|---|---|
| | **2016 RM** | 2015 RM | **2016 RM** | 2015 RM |
| **Current** | | | | |
| Fees and trade receivables | **14,760,032** | 15,031,156 | **14,690,599** | 15,001,450 |
| Less: Allowance for impairment | **(2,809,811)** | (2,817,945) | **(2,761,350)** | (2,807,411) |
| Fees and trade receivables, net | **11,950,221** | 12,213,211 | **11,929,249** | 12,194,039 |
| Other receivables: | | | | |
| Amount due from subsidiary | **-** | - | **4,554,607** | 4,049,068 |
| Staff housing loans | **140,187** | 286,199 | **140,187** | 286,199 |
| Staff vehicle loans | **106,892** | 115,350 | **106,892** | 115,350 |
| Staff advances/ sundry debtors | **551,594** | 921,204 | **390,551** | 706,262 |
| Refundable deposits | **625,871** | 687,773 | **405,155** | 393,140 |
| Interest receivable | **2,210,405** | 1,405,042 | **2,210,405** | 1,405,042 |
| Prepayments | **149,499** | 30,028 | **88,849** | - |
| Others | **200** | 200 | **-** | - |
| | **3,784,648** | 3,445,796 | **7,896,646** | 6,955,061 |
| Less: Allowance for impairment | **(112,787)** | (212,787) | **(112,787)** | (212,787) |
| | **3,671,861** | 3,233,009 | **7,783,859** | 6,742,274 |
| | **15,622,082** | 15,446,220 | **19,713,108** | 18,936,313 |

## 12. FEES AND RECEIVABLES (CONTINUED)

| | The Group | | The Authority | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **RM** | RM | **RM** | RM |
| **Non-current** | | | | |
| Other receivables: | | | | |
| Staff housing loans | **1,728,214** | 2,813,377 | **1,728,214** | 2,813,377 |
| Staff vehicle loans | **370,205** | 497,473 | **370,205** | 497,473 |
| | **2,098,419** | 3,310,850 | **2,098,419** | 3,310,850 |
| Total fees and other receivables (current and non-current) | **17,720,501** | 18,757,070 | **21,811,527** | 22,247,163 |

### a) Fees and Trade Receivables

Aging analysis of fees and trade receivables

The ageing analysis of the Group and the Authority fees and trade receivables are as follows:

| | The Group | | The Authority | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **RM** | RM | **RM** | RM |
| Neither past due nor impaired | **11,929,249** | 12,194,039 | **11,929,249** | 12,194,039 |
| More than 31 days past due but not impaired | **20,972** | 19,172 | **-** | - |
| Impaired | **2,809,811** | 2,817,945 | **2,761,350** | 2,807,411 |
| | **14,760,032** | 15,031,156 | **14,690,599** | 15,001,450 |

Receivables that are neither past due nor impaired

Fees and trade receivables that are neither past due nor impaired are creditworthy debtors with good payment records with the Group and the Authority. The entire Group's and the Authority's fees and trade receivables arise from customers with more than four years of experience with the Authority and losses have occurred infrequently.

None of the Group's and the Authority's fees and trade receivables that are neither past due nor impaired has been renegotiated during the financial year.

Receivables that are past due but not impaired

The Group has fees and trade receivables amounting to RM20,972 (2015: RM19,172) that are past due at the reporting date but not impaired.

## 12. FEES AND RECEIVABLES (CONTINUED)

### a) Fees and Trade Receivables (Continued)

Receivables that are impaired

The Group's and the Authority's fees and trade receivables that are impaired at the reporting date and the movement of allowance accounts used to record the impairment are as follows:

| | Collectively impaired | | Individually impaired | | Total | |
|---|---|---|---|---|---|---|
| **The Group** | **2016 RM** | 2015 RM | **2016 RM** | 2015 RM | **2016 RM** | 2015 RM |
| Fees and trade receivables - nominal amounts | **1,247,176** | 803,561 | **1,562,635** | 2,014,384 | **2,809,811** | 2,817,945 |
| Less: Allowance for impairment | **(1,247,176)** | (803,561) | **(1,562,635)** | (2,014,384) | **(2,809,811)** | (2,817,945) |
| | **-** | - | **-** | - | **-** | - |
| **The Authority** | | | | | | |
| Fees and trade receivables - nominal amounts | **1,200,550** | 803,561 | **1,560,800** | 2,003,850 | **2,761,350** | 2,807,411 |
| Less: Allowance for impairment | **(1,200,550)** | (803,561) | **(1,560,800)** | (2,003,850) | **(2,761,350)** | (2,807,411) |
| | **-** | - | **-** | - | **-** | - |

Movement in allowance account

| | The Group | | The Authority | |
|---|---|---|---|---|
| | **2016 RM** | 2015 RM | **2016 RM** | 2015 RM |
| At 1 January | **2,817,945** | 2,175,153 | **2,807,411** | 2,046,808 |
| Impairment losses recognised | **3,534,050** | 3,627,669 | **3,485,589** | 3,617,135 |
| Impairment losses reversed | **(3,542,184)** | (2,984,877) | **(3,531,650)** | (2,856,532) |
| At 31 December | **2,809,811** | 2,817,945 | **2,761,350** | 2,807,411 |

Fees and trade receivables that are individually determined to be impaired at the reporting date relate to debtors that have defaulted on payments.

### b) Staff housing and vehicle loans

Staff housing and vehicle loans are repayable over a maximum period of 30 years and 9 years respectively (2015: 30 years and 9 year respectively). The interest charged on these loans ranges from 2% to 3% (2015: 2% to 3%) per annum.

### c) Amount due from subsidiary

The amount due from subsidiary is non-trade in nature, interest free and repayable on demand.

## 13. INVENTORIES

| | The Group | | The Authority | |
|---|---|---|---|---|
| | 2016<br>RM | 2015<br>RM | 2016<br>RM | 2015<br>RM |
| At cost: | | | | |
| Books and stationeries | **85,020** | 149,453 | **-** | - |
| Uniforms, fabrics and t-shirts | **19,275** | 126,819 | **-** | |
| | **104,295** | 276,272 | **-** | - |
| Inventories written off | **-** | (134,163) | **-** | - |
| | **104,295** | 142,109 | **-** | - |

During the year, the amount of inventories recognised as an expense in the statements of profit or loss of the Group was RM37,814 (2015: RM183,153).

## 14. CASH AND BANK BALANCES

| | The Group | | The Authority | |
|---|---|---|---|---|
| | 2016<br>RM | 2015<br>RM | 2016<br>RM | 2015<br>RM |
| Cash on hand and at banks | **7,417,599** | 7,617,529 | **3,500,406** | 2,244,190 |
| Fixed deposits with licensed banks | **59,000,000** | 58,143,500 | **59,000,000** | 58,143,500 |
| Cash and bank balances | **66,417,599** | 65,761,029 | **62,500,406** | 60,387,690 |

Cash at banks earns interest at floating rates based on daily bank deposit rates. Money at call with licensed banks is made for varying period of one day depending on the immediate cash requirement of the Group and of the Authority. The weighted average effective interest rates as at 31 December 2016 for the Group and the Authority were 4.39% (2015: 3.60%) per annum with maturity period of 30 to 365 days (2015: 30 to 365 days).

Foreign currency exposure profile for cash and bank balances is as follows:

| | The Group | | The Authority | |
|---|---|---|---|---|
| | 2016<br>RM | 2015<br>RM | 2016<br>RM | 2015<br>RM |
| Cash at banks: | | | | |
| United States Dollar | **1,271,159** | 199,330 | **1,271,159** | 199,330 |
| Hong Kong Dollar | **136,425** | 213,511 | **-** | - |
| Singapore Dollar | **2,669** | 2,669 | **-** | - |
| Fixed deposits with licensed banks: | | | | |
| United States Dollar | **-** | 643,500 | **-** | 643,500 |

## 15. DEFERRED INCOME

Deferred income comprises the followings:

| | | The Group | | The Authority | |
|---|---|---|---|---|---|
| | | **2016** | 2015 | **2016** | 2015 |
| | | **RM** | RM | **RM** | RM |
| Grant related to income | (a) | **2,356,579** | 2,701,708 | **1,190,697** | 1,740,421 |
| Grant related to assets | (b) | **77,041,374** | 78,717,734 | **77,041,374** | 78,717,734 |
| | | **79,397,953** | 81,419,442 | **78,232,071** | 80,458,155 |

During the year, the amount of government grant recognised as an income in the statements of profit or loss of the Group and of the Authority is RM2,021,489 and RM2,226,084 (2015: RM10,836,815 and RM9,924,756) respectively.

The expected utilisation of the grants as at 31 December 2016 are as follows:

| | The Group | | The Authority | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **RM** | RM | **RM** | RM |
| Within 12 months | **4,032,939** | 4,280,783 | **2,867,057** | 3,319,496 |
| After 12 months | **75,365,014** | 77,138,659 | **75,365,014** | 77,138,659 |
| | **79,397,953** | 81,419,442 | **78,232,071** | 80,458,155 |

### a) Grant related to income

The grant related to income is recognised in the profit or loss on the basis of the expenses incurred relating to projects undertaken by the Group and the Authority under the Tenth Malaysia Plan.

| | The Group | | The Authority | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **RM** | RM | **RM** | RM |
| At 1 January | **2,701,708** | 12,372,523 | **1,740,421** | 10,499,177 |
| Received during the financial year | **-** | - | **-** | - |
| Less: Recognised in profit or loss | **(345,129)** | (9,670,815) | **(549,724)** | (8,758,756) |
| At 31 December | **2,356,579** | 2,701,708 | **1,190,697** | 1,740,421 |

## 15. DEFERRED INCOME (CONTINUED)

### b) Grant related to assets

| | The Group | | The Authority | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **RM** | RM | **RM** | RM |
| **Grant related to assets:** | | | | |
| At 1 January | **82,753,798** | 72,033,500 | **82,753,798** | 72,033,500 |
| Received during the financial year | **-** | 10,720,298 | **-** | 10,720,298 |
| At 31 December | **82,753,798** | 82,753,798 | **82,753,798** | 82,753,798 |
| **Cumulative credits:** | | | | |
| At 1 January | **(4,036,064)** | (2,870,064) | **(4,036,064)** | (2,870,064) |
| Credited to statements of profit or loss during the year | **(1,676,360)** | (1,166,000) | **(1,676,360)** | (1,166,000) |
| At 31 December | **(5,712,424)** | (4,036,064) | **(5,712,424)** | (4,036,064) |
| **Net carrying amount:** | | | | |
| Current | **1,676,360** | 1,579,075 | **1,676,360** | 1,579,075 |
| Non-current | **75,365,014** | 77,138,659 | **75,365,014** | 77,138,659 |
| | **77,041,374** | 78,717,734 | **77,041,374** | 78,717,734 |

## 16. GOVERNMENT LOANS

Government loans represent the balance of RM3 million out of a RM6 million loan and a RM10 million loan obtained in 1996 and 2000 respectively from Bank Negara Malaysia. The loans represent government assistances and are unsecured and interest-free. The balance of the first loan and the second loan are repayable until year 2020 with staggered repayment term.

The maturities of the Government loans as at reporting date are as follows:

| | The Group and The Authority | |
|---|---|---|
| | **2016** | 2015 |
| | **RM** | RM |
| Within 12 months | **1,500,000** | 1,500,000 |
| After 12 months | **5,500,000** | 7,000,000 |

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

## 17. OTHER PAYABLES

| | The Group | | The Authority | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **RM** | RM | **RM** | RM |
| Amount due to a subsidiary | **-** | - | **7,875,000** | 6,042,479 |
| Fees received in advance | **9,423,507** | 8,638,868 | **9,423,507** | 8,638,868 |
| Refundable deposits | **1,275,563** | 1,413,722 | **802,200** | 900,000 |
| Retention payables | **1,061,813** | 1,064,203 | **1,061,813** | 1,064,203 |
| Accruals | **2,416,971** | 2,256,330 | **2,133,944** | 1,272,721 |
| Others | **3,274,449** | 4,013,376 | **2,253,604** | 3,486,328 |
| Total other payables | **17,452,303** | 17,386,499 | **23,550,068** | 21,404,599 |

**a) Amount due to a subsidiary**

The amount due to a subsidiary is non-trade in nature, interest-free and payable on demand.

**b) Fees received in advance**

These comprise annual and license fees paid in advance by Labuan banks, Labuan insurance companies and other Labuan licensed entities.

**c) Refundable deposits**

These represent security deposits paid by trust companies in accordance with the provisions of the Labuan Trust Companies Act 1990 and other security deposits.

**d) Others**

These comprise amounts outstanding for ongoing costs.

## 18. CAPITAL COMMITMENTS

| | The Group and The Authority | |
|---|---|---|
| | **2016** | 2015 |
| | **RM** | RM |
| Approved and not contracted for: | | |
| Office renovation | **-** | 2,539,027 |
| Application system | **177,878** | - |
| | **177,878** | 2,539,027 |

## 19. LEASE COMMITMENTS

As of the end of the financial period, lease commitment in respect of rental of premise is as follows:

| | The Group and The Authority | |
|---|---|---|
| | **2016** | 2015 |
| | **RM** | RM |
| Financial year ended 31 December: | | |
| 2016 | **-** | 1,339,763 |
| 2017 | **1,718,661** | 1,102,847 |
| | **1,718,661** | 2,442,610 |

## 20. RELATED PARTIES DISCLOSURES

### a) Services rendered

In addition to the related party information disclosed elsewhere in the financial statements, the following significant transactions between the Group and the Authority and related parties took place at terms agreed between the parties during the financial year:

| | The Group | | The Authority | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **RM** | RM | **RM** | RM |
| Rental income received from a subsidiary | **-** | - | **120,000** | 120,000 |
| Tuition fees paid to a subsidiary | **-** | - | **(395,839)** | (410,986) |
| Contribution to Labuan Financial Services Authority Staff Welfare Fund | **(350,000)** | (450,000) | **(350,000)** | (450,000) |
| Project expenses under RMK 10 | **-** | - | **-** | (8,300,000) |
| Marketing fees paid to a subsidiary | **-** | - | **(10,500,000)** | (9,800,000) |
| Grant to a subsidiary | **-** | - | **(6,500,000)** | - |

For the purposes of these financial statements, parties are considered to be related to the Group and the Authority if the Group and the Authority has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Authority and the party are subject to common control or common significant influence.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

## 20. RELATED PARTIES DISCLOSURES (CONTINUED)

### b) Transactions with key management personnel

| | The Group | | The Authority | |
|---|---|---|---|---|
| | **2016 RM** | 2015 RM | **2016 RM** | 2015 RM |
| Salaries | **7,868,055** | 8,387,033 | **5,225,842** | 4,868,460 |
| Allowances | **68,946** | 547,639 | **525,144** | 494,059 |
| Employee Provident Fund | **1,347,086** | 1,338,834 | **1,058,202** | 950,029 |
| | **9,851,087** | 10,273,506 | **6,809,188** | 6,312,548 |

Outstanding staff loans owing by key management personnel:

| | The Group | | The Authority | |
|---|---|---|---|---|
| | **2016 RM** | 2015 RM | **2016 RM** | 2015 RM |
| Staff housing loans | **311,756** | 370,774 | **311,756** | 370,774 |
| Staff vehicle loans | **13,755** | 28,335 | **13,755** | 28,335 |
| | **325,511** | 399,109 | **325,511** | 399,109 |

## 21. FINANCIAL INSTRUMENTS

The operations of the Group and the Authority are subject to a variety of financial risks, including credit risk and liquidity risk. The Group and the Authority has agreed to formulate a financial risk management framework with the principal objective to minimise the Group and the Authority's exposure to risks and/or costs associated with the financing, investing and operating activities of the Group and the Authority.

Various risk management policies are made and approved by the Group and the Authority for observation in the day-to-day operations for the controlling and management of the risks associated with financial instruments.

### a) Credit risk

The financial instruments which potentially subject the Group and the Authority to credit risk are fee receivables. Concentration of credit risk with respect to fee receivables is limited due to a large number of Labuan companies in various industries. The Authority is of the opinion that the risk of incurring material losses in excess of the allowance for impairment loss made at year end related to this credit risk is remote.

### b) Interest risk

Interest rate risk is the risk that the fair value or future cash flows of the Authority's financial instruments will fluctuate because of changes in market interest rates. The management is of the opinion that the Authority's exposure to interest rate risk as of 31 December 2016 is minimal.

## 21. FINANCIAL INSTRUMENTS (CONTINUED)

### c) Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Group and the Authority's exposure to foreign currency risk arises primarily from its cash and bank balances denominated in foreign currencies. The Group and Authority incurs currency risk on transactions that are denominated in a currency other than the Ringgit Malaysia. Management believes that there is minimal risk of significant losses due to exchange rate fluctuations and consequently the Authority does not hedge its foreign currency exposure.

Foreign currency sensitivity analysis

The following table details the Group and Authority's sensitivity to a 10% increase and decrease in Ringgit Malaysia (RM) against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number below indicates an increase in profit where the RM strengthens 10% against the relevant currency. For a 10% weakening of the RM against the relevant currency, there would be a comparable impact on the profit, and the balances below would be negative.

**Impact on profit or loss**

| | The Group | | The Authority | |
|---|---|---|---|---|
| | **2016 RM** | 2015 RM | **2016 RM** | 2015 RM |
| United States Dollar | **127,116** | 84,283 | **127,116** | 84,283 |
| Hong Kong Dollar | **13,643** | 21,351 | **-** | - |
| Singapore Dollar | **267** | 267 | **-** | - |

The above sensitivity analysis is unrepresentative of the inherent foreign exchange risk because the period end exposure does not reflect the exposure during the period.

### d) Liquidity risk

The Group and Authority practice liquidity risk management to minimise the mismatch of financial assets and liabilities and to maintain sufficient credit facilities for contingent funding requirement of working capital.

**Analysis of financial instruments by remaining contractual maturities**

The table below summarises the maturity profile of the Group's and the Authority's financial assets and financial liabilities at the reporting date based on contractual undiscounted amount.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

## 21. FINANCIAL INSTRUMENTS (CONTINUED)

### d) Liquidity risk (Continued)

**Analysis of financial instruments by remaining contractual maturities (Continued)**

| | The Group | | | |
|---|---|---|---|---|
| | On demand or within one year RM | One year to five years RM | Over five years RM | Total RM |
| **2016** | | | | |
| Non-derivative financial assets: | | | | |
| Fees and other receivables | **15,504,246** | **1,333,952** | **1,511,278** | **18,349,476** |
| Cash and bank balances | **68,846,732** | **-** | **-** | **68,846,732** |
| Total undiscounted non-derivative financial assets | **84,350,978** | **1,333,952** | **1,511,278** | **87,196,208** |
| Non-derivative financial liabilities: | | | | |
| Government loans | **1,500,000** | **5,500,000** | **-** | **7,000,000** |
| Other payables | **8,028,796** | **-** | **-** | **8,028,796** |
| Total undiscounted non-derivative financial liabilities | **9,528,796** | **5,500,000** | **-** | **15,028,796** |
| Total net undiscounted non-derivative financial assets/(liabilities) | **74,822,182** | **(4,166,048)** | **1,511,278** | **72,167,412** |
| **2015** | | | | |
| Non-derivative financial assets: | | | | |
| Fees and other receivables | 15,416,192 | 1,434,595 | 2,491,507 | 19,342,294 |
| Cash and bank balances | 67,700,960 | - | - | 67,700,960 |
| Total undiscounted non-derivative financial assets | 83,117,152 | 1,434,595 | 2,491,507 | 87,043,254 |
| Non-derivative financial liabilities: | | | | |
| Government loans | 1,500,000 | 6,500,000 | 500,000 | 8,500,000 |
| Other payables | 8,747,631 | - | - | 8,747,631 |
| Total undiscounted non-derivative financial liabilities | 10,247,631 | 6,500,000 | 500,000 | 17,247,631 |
| Total net undiscounted non-derivative financial assets/(liabilities) | 72,869,521 | (5,065,405) | 1,991,507 | 69,795,623 |

## 21. FINANCIAL INSTRUMENTS (CONTINUED)

| | The Authority | | | |
|---|---|---|---|---|
| **2016** | **On demand one year RM** | **One year to five years RM** | **Over five years RM** | **Total RM** |
| Non-derivative financial assets: | | | | |
| Fees and other receivables | **19,624,259** | **1,333,952** | **1,511,278** | **22,469,489** |
| Cash and bank balances | **64,929,539** | **-** | **-** | **64,929,539** |
| Total undiscounted non-derivative financial assets | **84,553,798** | **1,333,952** | **1,511,278** | **87,399,028** |
| Non-derivative financial liabilities: | | | | |
| Government loans | **1,500,000** | **5,500,000** | **-** | **7,000,000** |
| Other payables | **14,126,561** | **-** | **-** | **14,126,561** |
| Total undiscounted non-derivative financial liabilities | **15,626,561** | **5,500,000** | **-** | **21,126,561** |
| Total net undiscounted non-derivative financial assets/(liabilities) | **68,927,237** | **(4,166,048)** | **1,511,278** | **66,272,467** |
| | | | | |
| **2015** | | | | |
| Non-derivative financial assets: | | | | |
| Fees and other receivables | 18,936,313 | 1,434,595 | 2,491,507 | 22,862,415 |
| Cash and bank balances | 62,327,621 | - | - | 62,327,621 |
| Total undiscounted non-derivative financial assets | 81,263,934 | 1,434,595 | 2,491,507 | 85,190,036 |
| Non-derivative financial liabilities: | | | | |
| Government loans | 1,500,000 | 6,500,000 | 500,000 | 8,500,000 |
| Other payables | 12,765,731 | - | - | 12,765,731 |
| Total undiscounted non-derivative financial liabilities | 14,265,731 | 6,500,000 | 500,000 | 21,265,731 |
| Total net undiscounted non-derivative financial assets/(liabilities) | 66,998,203 | (5,065,405) | 1,991,507 | 63,924,305 |

## 21. FINANCIAL INSTRUMENTS (CONTINUED)

**Fair Values of Financial Assets and Financial Liabilities**

The carrying amounts of short-term financial assets and financial liabilities recognised at amortised cost in the financial statements approximate their respective fair values due to the relatively short-term maturity of these financial instruments.

Loans and receivables is measured subsequent to initial recognition at amortised cost using the effective interest rate method (EIR), less impairment.

The fair value and significant assumptions used in determining the fair value of fees and receivables classified as loans and receivables as follows:

| | The Group and The Authority | |
|---|---|---|
| | **2016 RM** | **2015 RM** |
| Loans and receivables carried at fair value staff housing and vehicle loans | **2,345,498** | 3,712,399 |

*Fair value measurements recognised in the statement of financial position*

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| | The Group and The Authority | | | |
|---|---|---|---|---|
| | **Level 1 RM** | **Level 2 RM** | **Level 3 RM** | **Total RM** |
| **2016** | | | | |
| Staff housing and vehicle loans | **-** | **2,345,498** | **-** | **2,345,498** |
| **2015** | | | | |
| Staff housing and vehicle loans | - | 3,712,399 | - | 3,712,399 |

There were no movements in the Level 1 and Level 3 fair value measurements during the financial year.

## 22. CASH AND CASH EQUIVALENTS

| | The Group | | The Authority | |
|---|---|---|---|---|
| | **2016**<br>**RM** | 2015<br>RM | **2016**<br>**RM** | 2015<br>RM |
| Cash on hand and at bank | **7,417,599** | 7,617,529 | **3,500,406** | 2,244,190 |
| Fixed deposits placed with licensed banks | **59,000,000** | 58,143,500 | **59,000,000** | 58,143,500 |
| | **66,417,599** | 65,761,029 | **62,500,406** | 60,387,690 |
| Less: Fixed deposits with maturity period of more than 3 months | **(55,000,000)** | (53,500,000) | **(55,000,000)** | (53,500,000) |
| Cash and cash equivalents for statements of cash flows purposes | **11,417,599** | 12,261,029 | **7,500,406** | 6,887,690 |

## 23. AUTHORISATION OF FINANCIAL STATEMENTS FOR ISSUE

The financial statements were authorised for issue by the Members of the Authority on 22 March 2017.

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# APPENDICES

# STATUTORY FEES IN LABUAN IBFC

| Labuan Companies (General Fees) | | RM | USD |
|---|---|---|---|
| **Reservation of Name of a Labuan Company (One time)** | | 50 | 15 |
| **Supporting Documents Required to set-up a Labuan Company** | | | |
| a) | Memorandum and Articles (Labuan Company) | Nil | Nil |
| b) | Memorandum and Articles (Foreign Labuan Company) | Nil | Nil |
| c) | Statutory declaration of compliance | Nil | Nil |
| d) | Consent to act as director | Nil | Nil |

| Type of Companies/Type of Fees | | | Processing/Lodgment/ Registration Fees | | Annual Fees/ Licences Fees | |
|---|---|---|---|---|---|---|
| | | | RM | USD | RM | USD |
| **A)** | **Labuan Company** | | | | | |
| **i)** | **Labuan Company** | | | | | |
| | a) | Paid-up Capital of RM0 – RM50,000 | 1,000 | 300 | 2,600 | 800 |
| | b) | Paid-up Capital of RM50,001 to RM999,999 | 2,000 | 600 | 2,600 | 800 |
| | c) | Paid-up Capital of RM1 million and above | 5,000 | 1,500 | 2,600 | 800 |
| **ii)** | **Labuan Foreign Company** | | 6,000 | 2,000 | 5,300 | 1,500 |
| **iii)** | **Labuan Partnership** | | | | | |
| | a) | Labuan Limited Partnership, Labuan Limited Liability Partnership and Recognised Limited Liability Partnership | 1,000 | 300 | | |
| | b) | Labuan Limited Partnership/Labuan Limited Liability Partnership | | | 1,000 | 300 |
| **iv)** | **Labuan Protected Cell Company (PCC)** | | | | | |
| | a) | PCC registered under Part VIIIB of Labuan Companies Act 1990: to carry on insurance business or Labuan captive insurance business | | | | |
| | | – On the general assets of the Labuan PCC | | | 30,000 | 9,500 |
| | | – On each of its registered cell | | | 10,000 | 3,000 |
| | b) | PCC registered under Part VIIIB of Labuan Companies Act 1990: to carry on mutual fund business | | | | |
| | | – On the general assets of the Labuan PCC | | | 5,000 | 1,500 |
| | | – On each of its registered cell | | | 2,000 | 600 |

## STATUTORY FEES IN LABUAN IBFC

| Type of Companies/Type of Fees | | | Processing/Lodgment/ Registration Fees | | Annual Fees/ Licences Fees | |
|---|---|---|---|---|---|---|
| | | | RM | USD | RM | USD |
| **B)** | **Service Providers** | | | | | |
| | a) | Approved auditor | 3,150 | 45 | 3,000 | 1,000 |
| | b) | Approved liquidator | 1,050 | 315 | *1,000 | 300 |
| **C)** | **Labuan Products** | | | | | |
| | a) | Labuan Trust/Special Trust | 750 | 200 | Nil | Nil |
| | b) | Labuan Foundation | 750 | 200 | 750 | 200 |
| **D)** | **Labuan Bank** | | | | | |
| | Labuan Bank/Labuan Investment | | 1,000 | 350 | 100,000 | 30,000 |
| **E)** | **Labuan Insurance and Insurance-Related** | | | | | |
| | **i)** | **Labuan Insurance Activities** | | | | |
| | | a) General Insurance/reinsurance | 1,000 | 350 | 50,000 | 15,000 |
| | | b) Life Insurance/reinsurance | 1,000 | 350 | 50,000 | 15,000 |
| | | c) Captive Insurance | 1,000 | 350 | 10,000 | 3,000 |
| | | d) Master rent-a-captive | 1,000 | 350 | 13,000 | 4,000 |
| | | e) Subsidiary rent-a-captive | 1,000 | 350 | 3,000 | 1,000 |
| | **ii)** | **Labuan Insurance-Related Activities** | | | | |
| | | a) Underwriting Manager | 1,000 | 350 | 20,000 | 6,500 |
| | | b) Insurance Manager | 1,000 | 350 | 20,000 | 6,500 |
| | | c) Insurance Broker | 1,000 | 350 | 20,000 | 6,500 |
| **F)** | **Labuan Trust Company** | | | | | |
| | a) | Labuan Trust Company | 1,000 | 350 | 15,000 | 5,000 |
| | b) | Labuan Managed Trust Company | 1,000 | 350 | 15,000 | 5,000 |
| | c) | Labuan Private Trust Company | 1,000 | 350 | 5,000 | 1,500 |
| **G)** | **Securities/Capital Markets** | | | | | |
| | i) | Private fund | 2,000 | 600 | Nil | Nil |
| | ii) | Public fund | 1,000 | 350 | 2,000 | 600 |
| | iii) | Fund Manager | 1,000 | 350 | 5,000 | 1,500 |
| | iv) | Fund Administrator | 1,000 | 350 | 2,000 | 600 |
| | v) | Securities Licensees | 1,000 | 350 | 5,000 | 1,500 |

| Type of Companies/Type of Fees | | | | Processing/Lodgment/ Registration Fees | | Annual Fees/ Licences Fees | |
|---|---|---|---|---|---|---|---|
| | | | | RM | USD | RM | USD |
| **H)** | **Labuan Financial Business** | | | | | | |
| | **i)** | **Leasing** | | | | | |
| | | a) | Single transaction with a Malaysian resident | 1,000 | 350 | 60,000 | 20,00 |
| | | b) | Subsequent transaction with a Malaysian resident | 1,000 | 350 | 20,000 | 6,000 |
| | | c) | Leasing business/subsequent transaction transacted with non-Malaysian resident | 1,000 | 350 | Nil | Nil |
| | **ii)** | **Factoring Business** | | 1,000 | 350 | 40,000 | 13,000 |
| | **iii)** | **Building Credit Business** | | 1,000 | 350 | 40,000 | 13,000 |
| | **iv)** | **Credit Token Business** | | 1,000 | 350 | 40,000 | 13,000 |
| | **v)** | **Development Finance Business** | | 1,000 | 350 | 40,000 | 13,000 |
| | **vi)** | **Money Broking** | | 1,000 | 350 | 5,000 | 1,500 |
| | **vii)** | **Labuan International Commodity Trading Company** | | 1,000 | 350 | 40,000 | 13,000 |
| **I)** | **Labuan Company Management** | | | 1,000 | 350 | 5,000 | 1,500 |
| **J)** | **Payment System** | | | 1,000 | 350 | 40,000 | 13,000 |
| **K)** | **Others** | | | | | | |
| | a) | Establishment of Kuala Lumpur/Johor Bahru Marketing Office | | **300/1,000 | 100/350 | 7,500 | 2,500 |
| | b) | Establishment of Co-Located office within Malaysia apart from Labuan | | **300/1,000 | 100/350 | 10,000 | 3,500 |

Notes:

* *To be paid upon renewal of registration.*

** *RM300 applicable for Labuan company/RM1,000 applicable for licensed entity.*

# LISTING OF LABUAN IBFC ASSOCIATIONS

**ASSOCIATION OF LABUAN BANKS**
Level 8(D), Main Office Tower, Financial Park Complex
Jalan Merdeka, 87000 FT Labuan, Malaysia

Chairman : Mr. Khairudin Ab. Rahman
Secretary : Mrs. Norlela Omar

Tel : +6087 452 778
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E-mail : admin@alb-labuan.com

**ASSOCIATION OF LABUAN TRUST COMPANIES**
c/o Noblehouse International Trust Ltd
Level 1, Lot 7, Block F
Saguking Commercial Building, Jalan Patau-Patau
87000 FT Labuan, Malaysia

Chairman : Datuk Chin Chee Kee
Secretary : Mrs. Rita Mohd. Sharif

Tel : +6087 410 745
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E-mail : cck@noblehouse-labuan.com

**LABUAN INTERNATIONAL INSURANCE ASSOCIATION**
Brumby Centre, Lot 42, Jalan Muhibbah
87000 FT Labuan, Malaysia

Chairman : Mr. Raymond Wong Shu Yoon
Secretary : Ms. Annie Undikai

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