



A N N U A L R E P O R T  
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[www.labuanibfc.com](http://www.labuanibfc.com)

## 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.



## CORPORATE VALUES

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



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# BUSINESS OF THE LABUAN IBFC



## LABUAN COMPANY

**LABUAN COMPANIES CAN BE INCORPORATED OR REGISTERED TO CARRY OUT EITHER TRADING OR NON-TRADING ACTIVITIES IN LABUAN.**

The incorporation of Labuan companies is through the "COR@L" system, which is an online core registration system that promotes convenience and security to its users with real-time access. Upon lodgement of complete documentation and payment of fees as well as clearance from the due diligence process conducted by Labuan FSA, a Labuan company can be approved for incorporation or registration within 24 hours. The Labuan Companies Act 1990 provides the incorporation, registration and administration of Labuan companies.



## BANKING

**A LABUAN BANK CAN BE SET UP AS BRANCH OR SUBSIDIARY OF A LICENSED BANK OR AN ESTABLISHED FINANCIAL INSTITUTION OR FINANCIAL SERVICES PROVIDER SUPERVISED BY A COMPETENT REGULATORY AUTHORITY IN THE COUNTRY OF ORIGIN.**

Labuan banks provide a host of services in both conventional and Islamic to cater to the growing demand from investors both domestic and international. The services provided by Labuan banks include credit facilities, receiving deposits, investment banking services, Islamic banking business, or such other approved activities. All Labuan banks are governed and regulated under the Labuan Financial Services and Securities Act 2010.



## INSURANCE

**LABUAN INSURANCE BUSINESS INCLUDE GENERAL, LIFE, REINSURANCE AND CAPTIVE INSURANCE.**

Aside from the conventional (re)insurance services, Labuan IBFC also offers Islamic (re) insurance, better known as (re)takaful to cater for those seeking Shariah-compliant protection. The insurance brokers, underwriting managers as well as insurance managers complete the supply chain by offering the needed intermediary services within the insurance industry. The Labuan (re)insurance activities are governed by the Labuan Financial Services and Securities Act 2010.



## WEALTH MANAGEMENT

**LABUAN IBFC OFFERS A COMPREHENSIVE ARRAY OF WEALTH MANAGEMENT PRODUCTS, EITHER CONVENTIONAL OR ISLAMIC, THAT ARE 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.



## LEASING AND COMMODITY TRADING

**LABUAN IBFC OFFERS NICHE FINANCIAL PRODUCTS SUCH AS LEASING AND COMMODITY TRADING TO CATER FOR THE NEEDS OF INVESTORS.**

Leasing is the business of letting or subletting property on hire for the use of such property by the hirer, regardless whether the letting is with or without an option to purchase the property. Labuan IBFC has been a jurisdiction for the lease of aircrafts, ships and other heavy machinery for use in the aviation and oil and gas industries. Labuan leasing business could be transacted via conventional means or in accordance with Shariah principles.

Commodity trading is for the trading of physical products and related derivatives in petroleum and petroleum-related products including liquefied natural gas. Under the Global Incentives for Trading (GIFT) programme, a set of incentives are offered through the establishment of the Labuan international commodity trading companies for traders and trading houses to use Malaysia as their international commodity trading base. Labuan leasing business and commodity trading business are governed under the Labuan Financial Services and Securities Act 2010.



## FINTECH-RELATED BUSINESS

**LABUAN IBFC'S RAPID EMBRACE OF FINANCIAL INNOVATIONS AUGURS WELL FOR THE INCREASING ADOPTION OF FINANCIAL TECHNOLOGY (FINTECH) RELATED BUSINESS IN THE CENTRE VIA ITS READY SUITE OF STRUCTURES AND SOLUTIONS.**

A circular on Innovative Financial Services (IFS) was issued by Labuan FSA to facilitate the setting-up of innovative financial services businesses. Investors can leverage on the Labuan money broking licence to provide platform for trading of digital assets. Additionally, the relevant laws and guidelines can also facilitate credit token business and payment system operators to set up IFS-related activities such as distributed ledger technology and digital currencies in Labuan IBFC.



# CHAIRMAN'S STATEMENT

**CHANGE WAS THE PREVAILING THEME IN 2018 FOR THE LABUAN INTERNATIONAL BUSINESS AND FINANCIAL CENTRE (IBFC). THIS WAS A MILESTONE AFTER 28 YEARS BECAUSE THE CENTRE HAD EMBARKED ON A TRANSFORMATIONAL PLAN TO EXPAND ITS ROLE IN ORDER TO BETTER SERVE THE BUSINESS, INVESTMENT AND INTERMEDIATION NEEDS OF THE REGION ESPECIALLY ASEAN.**

WITH BUSINESS PRIORITISATION AND FISCAL MODERNISATION GIVEN PROMINENCE, THE PLAN ALSO ENTAILED LABUAN IBFC ENHANCING FURTHER ITS ECONOMIC CONTRIBUTION TO BOTH THE ISLAND AS WELL AS THE NATION. WHILE THE FORMER WAS A CONSOLIDATION OF ITS PAST BUSINESS FOCUSES, THE LATTER WAS INDEED A TURNING POINT WITH THE CENTRE MODERNISING ITS TAX INCENTIVE STRUCTURE FOR BETTER FISCAL EFFICACY. THIS HAS BEEN A TIMELY REFORM TO EVOLVE LABUAN TO KEEP PACE WITH THE ECONOMIC NEEDS OF THE ISLAND AND MALAYSIA.



**DATUK OH CHONG PENG**  
Chairman



## CHAIRMAN'S STATEMENT

EVALUATIONS WERE ALSO ANOTHER RECURRENT FEATURE IN 2018 FOR THE CENTRE. SIMILAR TO OTHER JURISDICTIONS INCLUDING INTERNATIONAL FINANCIAL CENTRES, LABUAN IBFC WAS ASSESSED BY THE ORGANISATION OF ECONOMIC CO-OPERATION AND DEVELOPMENT (OECD), ON ITS COMPLIANCE TO INTERNATIONAL TAX STANDARDS AND CONFORMITY TO FISCAL ACCEPTABLE PRACTICES. SIGNIFICANT EFFORTS WERE MADE BY THE AUTHORITY TO COLLABORATE CLOSELY WITH THE MINISTRY OF FINANCE, RELEVANT AGENCIES AND THE INDUSTRY TO ENSURE THE CENTRE'S RESPONSES AND FEEDBACK MEET THE ASSESSORS' EXPECTATIONS.

I am pleased to share that Labuan IBFC had performed well for the two major assessments by the OECD:

- For the Peer Review Assessment on tax transparencies and the effectiveness of exchange of information, Malaysia, including Labuan was rated 'Largely Compliant'.
- As regards the Forum on Harmful Tax Practices, after dialogues with the OECD since 2017 and rolling out the policy changes, Labuan's rating was raised to 'Not Harmful'.

These bear testaments to Labuan IBFC's continual commitment to ensure regulatory framework and practices are reflective of the international standards' requirements and best practices.

The Authority has continued with its prudential upscaling to ensure the market's ongoing stability and soundness. Of note were the harmonisation and enhancements made to the corporate governance requirements for the banking and insurance institutions. This has been followed by capital regulations proposed for the insurance industry to be in tandem with international norms; a risk-based capital for (re) insurance business and a more refined capital measurement for captives.

Strong supervision is key to ensure that new regulations achieve their intended results. For a host market such as Labuan IBFC, the Authority believes in being practical in its enforcement. Leveraging on close ties with key regulatory authorities as part of its home-host supervisory arrangement, the Authority entered into a Memorandum of Understanding (MoU) with Seychelles Financial Services Authority in October 2018, and another with China Banking and Insurance Regulatory Commission in March 2019. Both MoUs are expected to foster greater cooperation especially for cross-border supervisory monitoring.

Aside from prudential supervision, emphasis on effective anti-money laundering and combating the financing of terrorism (AML/CFT) regulations and monitoring remains as the Centre upholds its commitment, together with Malaysia, as a member of the Financial Action Task Force. The Authority will continue to be vigilant so that pre-emptive measures can be undertaken to mitigate any emerging money laundering or terrorism financing risks.

To ensure the Centre progresses to become the market of choice for the region, business and developmental initiatives continue to be implemented to attract new business and to opportunise demands of the emerging market. These include the Authority's announcement on Innovative Financial Services (IFS) to welcome FinTech waves onto the Centre's shores. Instead of a sandbox approach as preferred by other jurisdictions, IFS startups are openly permitted subject to meeting the minimum regulatory requirements. In addition to new products and services, business guides were also issued on insurance offerings, such as Labuan captive business and insurance/underwriting managers, as well as on sukuk issuances. I believe that this promotes market awareness on existing offerings, boosts demand and spurs business growth.

Despite the volatile global dynamics, I am pleased to highlight that the Centre remained resilient with expanding business. The 2018 results showed that the Centre recorded another year of strong performance with growth across key sectors. The double-digit growth in new company incorporation continue to reflect the Centre's strategic location in the middle of Asia's expanding economies. The gross premiums of the insurance sector grew to a six-year high, while the banking business maintained its growth momentum.

With the Authority's promotion of IFS, there have been an influx of players that offer FinTech propositions ranging from digital currency trading, digital tokens to exchanges in 2018.





## CHAIRMAN'S STATEMENT

While the IFS are encouraged, the Authority has continued to ensure that the businesses are governed by suitable regulations to ensure professional conduct, transparency and that customers' interests are never compromised.

As at December 2018, Labuan IBFC has 6,031 active companies which included more than 500 Labuan licensed financial institutions across different sectors. As the second largest GDP contributing sector for the Island, these businesses which currently employ about 6,000 people, have certainly cushioned the economic slowdown during the oil and gas sector's slump. In fact, new substantial requirements which has come into effect in 2019 will see Labuan entities contributing more to the Island's economy in terms of local employment and spending. This will certainly ensure the Island's economic development grows in tandem with Labuan IBFC's business expansion.

As the businesses of Labuan IBFC grow with increasing complexity, especially with the emerging tech-based ventures, there is a need to ensure a steady supply of professional and skilled talents with relevant business competencies. Bearing this in mind, the Authority has focused on human capital upscaling initiatives comprising technical and soft-skill programmes for both the market and our staff. The Authority has also successfully implemented structured talent management and development for succession planning purposes. These initiatives will continuously be driven together with the industry.

As part of the Island's key stakeholders, Labuan FSA has continued to host corporate social responsibility (CSR) programmes that involve the Labuan community and other relevant agencies. To foster closer links with the locals, the Authority organised various activities throughout the year which included donation drives; community and

charitable events; educational and awards programmes as well as community-based events related to health and well-being awareness.

Moving forward, the growth trend of the Asia Pacific market will continue to present vast opportunities for Labuan IBFC to serve as a platform for businesses to expand in this region. Labuan FSA will ensure that the Labuan IBFC's strong reputation as a well-regulated and business-friendly hub is preserved through the adoption of international standards, strong supervisory regime and practical regulations. In addition, the Authority will also continue to adapt to changing business demands, technological advancements and business developments from the international market. It is paramount that the Centre remains viable and continues to support the economic well-being of the island of Labuan and Malaysia.

On behalf of the members of the Authority, I wish to take this opportunity to put on record our appreciation to the advisory groups of Labuan FSA, government departments as well as the industry for their invaluable support in the development of Labuan IBFC. Also, my gratitude and appreciation to Tan Sri Muhammad bin Ibrahim, former Chairman, and Tan Sri Ranjit Ajit Singh, Dato' Khodijah Abdullah dan Dato' Zahrah Abd Wahab Fenner, former Authority members, for their guidance during their tenure with the Authority, particularly during the transformation phase. I would like to welcome Mr. Adnan Zaylani bin Mohamad Zahid and Mr. Hazim bin Jamaluddin as new members of the Authority. To the staff of Labuan FSA, thank you for your hardwork for the year and I hope to acquire the same or even greater dedication from everyone as we move into a challenging 2019.



# DIRECTOR GENERAL'S REPORT



THE YEAR 2018 HAS BEEN A POSITIVE ONE FOR LABUAN IBFC IN BUSINESS DEVELOPMENT AND POLICY ADVANCEMENT. THE CENTRE MAINTAINED ANOTHER YEAR OF GROWTH TRAJECTORY THAT WAS LAUNCHED ON THE MOMENTUM FROM THE PREVIOUS YEAR. THIS ACHIEVEMENT REAFFIRMS THE RESILIENCE OF OUR POLICIES AND REGULATIONS THAT HAVE ENABLED THE INDUSTRIES TO WEATHER GLOBAL CHALLENGES AND CAPITALISE ON INHERENT STRENGTHS AND OPPORTUNITIES OF THE CENTRE TO CONTINUE GROWING THE BUSINESSES DURING THE YEAR.

THE PRESENCE OF INTERNATIONAL FINANCIAL INSTITUTIONS, INTERMEDIARIES AND PROFESSIONAL SERVICE PROVIDERS NETWORK CONTINUED TO BOOST THE EXPANSION OF THE LABUAN FINANCIAL SERVICES OFFERINGS AND CONTRIBUTED TO THE INCREASE IN VOLUME OF ACTIVITIES AS WELL AS THE INCREASE OF LABUAN ENTITIES.

**DANIAL MAH BIN ABDULLAH**  
Director General





## DIRECTOR GENERAL'S REPORT

FOR THE YEAR UNDER REVIEW, NEW COMPANY INCORPORATION RECORDED A 12.5% INCREASE TO BRING THE TOTAL NUMBER OF LABUAN COMPANIES TO 15,260. THESE COMPANIES WERE OF GLOBAL REPRESENTATION; A MAJORITY ORIGINATED FROM ASIA AND THE PACIFIC REGION, SET UP FOR VARIOUS REGIONAL TRADING PURPOSES AND HOLDING OF INVESTMENTS.

The Labuan international banking industry is the core of Labuan financial system with integrated network of international and regional banks, markets and a wide range of product offerings. During the year, two new foreign banks were licenced, bringing the total number of Labuan banks to 55. Despite a challenging international financial landscape, Labuan banks remained sound and resilient with robust capital adequacy which stood well above the minimum international standards. The Labuan banking sector also maintained its growth trend in financing and deposits.

The total loans outstanding expanded by 19.1% to USD33.2 billion with 20.2% or USD6.7 billion worth of financing granted to the manufacturing sector. Total customer deposits rose by 14.6% from USD8.3 billion in 2017 to USD9.5 billion in 2018. The growing preference in Shariah financial solutions globally has positive ripples to the growth of Islamic finance in Labuan. Similar to conventional banking, the Islamic banking sector maintained its growth in financing and deposits. Complementing the Malaysian Islamic finance, Labuan IBFC will continue to enhance its global footprint in Islamic finance, particularly through its active participation in the International Islamic Financial Market.

2018 was a thriving year for the Labuan insurance industry with impressive business performance in gross premiums underwritten and entrance of new insurance players. The insurance sector registered a double-digit

growth of 19.1% or US1.7 billion worth of gross premiums underwritten, where more than half of the total premium was underwritten by the reinsurance business. This reflects Labuan's strong reinsurance capacity provided by well-known international players and bode well for the Centre in its role to fittingly serve reinsurance market demand in the region and beyond. Non-residents continued to dominate the insurance business accounting for 64.7% of the total premiums underwritten with the remaining 35.3% in Malaysian risks.

The Labuan IBFC business propositions remained attractive to attract new investors of geographical diversity into the Centre. During the year, 22 new insurance licences were granted; coming mainly from Asia Pacific and Europe regions and has further diversified the mix of international and regional insurance and insurance-related operators in Labuan IBFC. This brings the total number of insurance companies to 216 as compared to 203 of the preceding year.

The year 2018 saw some rationalising and restructuring of the leasing companies to comply with the new economic substantial requirements. The total number of leasing companies decreased by 2.4% from 380 to 371 in 2018. Despite the decrease, the total cumulative leased assets grew to USD53.8 billion as compared to USD48.8 billion in 2017. The oil and gas, and aviation sectors remained the two key businesses that use Labuan leasing structures accounting for 61.3% and 37.9% respectively of the total



## DIRECTOR GENERAL'S REPORT

leased assets. In terms of geographical distribution, 70.4% of the leasing companies originated from the Asia Pacific region reflecting Labuan IBFC's strategic position in supporting the oil and gas sector in the region.

The year 2018 saw some rationalising and restructuring of the leasing companies to comply with the new economic substantial requirements. The total number of leasing companies decreased by 2.4% from 380 to 371 in 2018. Despite the decrease, the total cumulative leased assets grew to USD53.8 billion as compared to USD48.8 billion in 2017. The oil and gas, and aviation sectors remained the two key businesses that use Labuan leasing structures accounting for 61.3% and 37.9% respectively of the total leased assets. In terms of geographical distribution, 70.4% of the leasing companies originated from the Asia Pacific region reflecting Labuan IBFC's strategic position in supporting the oil and gas sector in the region.

The Labuan commodity trading business also registered a slower growth in terms of number of new entrants. This is due to the new restriction under the guidelines to allow only petroleum and petroleum-related commodities to trade by the Labuan International Commodity Trading Company (LITC). However, despite the reduction in the number of LITC, the level of the industry revenue rose significantly by 40.4% to USD33.4 billion as compared to USD23.8 billion in 2017, contributing to a hike of 63.2% in profit before tax to USD1.2 billion. Significantly, Labuan commodity trading business generates high employment and talent development opportunity to Malaysians where out of the total of 698 employees, 656 are Malaysians, of which 105 of them are highly-skilled professional traders.

As the world moves towards technology-based solutions to provide financial products and services, Labuan IBFC has continued to bring innovation to the market by providing a FinTech-friendly business environment for innovative financial services to grow. Labuan FSA has put in place the regulations to facilitate various financial-related business including banking, insurance, money-broking, credit token, Islamic finance to adopt FinTech in their products and services offerings. Indeed, Labuan IBFC is seeing strong positive business trending in FinTech related financial

services institutions establishing presence in Labuan to conduct such business. Underscoring this, is the need to provide a robust regulatory framework for the digital and FinTech business in Labuan IBFC.

As we enter the 29<sup>th</sup> year in our journey as an IBFC, the business environment remains challenging. Our policies and rules continually need to be adaptive to international regulatory changes, global competition and technological advancement. In recent years, Labuan IBFC, like other international financial centres, have intensified regulatory reforms on new international standards relating to transparency, disclosure, anti-money laundering, exchange of information and harmful tax practices. IFCs around the world are being assessed by multi-lateral bodies and Labuan is no exception to this. Operating in this environment, regulatory authorities across the globe have been embedding changes and introducing new rulings to ensure their centres remain relevant and compliant with internationally-accepted standards and practices.

Guided by our mission to ensure a sound, stable and dynamic Centre, Labuan FSA has continued to evolve in tandem with the transformation plan to steer the Centre on the path of this new global business. We have made significant strides in implementing major policies to reinforce the Centre's competitiveness, maintain stability and elevate international recognition of Labuan IBFC. In 2018, we achieved a significant milestone with major changes in the tax policy and framework, in particular the Labuan Business Activity Tax Act 1990. These changes would come into effect in January 2019. Amongst the changes were the abolishment of the RM20,000 tax election; removal of ring-fencing elements by eliminating restrictions on dealings with residents and in ringgit (the local currency) coupled with the introduction of substantial economic activities requirements in order for Labuan entities to enjoy tax incentives of Labuan IBFC.

This is a necessary development for the Centre to ensure that its tax regulations and practices are in line with international requirements. As a result of these changes, Labuan has been assessed as "Not Harmful" under the OECD Forum on Harmful Tax Practices. Additionally,



## DIRECTOR GENERAL'S REPORT

Labuan has been rated as "Largely Compliant" under the Peer Review Assessment in the OECD Forum on Tax Transparency and Exchange of Information. These positive assessments highlight that Labuan IBFC's relevant legal requirement and sound practices are in place and on par with internationally adopted standards.

**MOVING FORWARD, A KEY PRIORITY IS TO FACILITATE THE INDUSTRY PLAYERS IN TRANSITIONING TO THE NEW TAX REGIME. THERE IS A NEED TO ADDRESS ALL CONSEQUENTIAL POLICY CHANGES IN THE REGULATIONS AND GUIDELINES, INCLUDING AMENDMENTS IN OTHER RELATED LAWS TO BE CONSISTENT WITH NEW TAX REQUIREMENTS.**

In view of the importance and implications that the new changes will bring, a high level committee was formed comprising senior representatives from the Ministry of Finance, Inland Revenue Board and Labuan FSA to address implementation issues as well as to provide recommendations or any related changes to new tax framework. The key regulatory agencies are committed to preserve the long term stability and business sustainability of the Labuan IBFC industry.

Operating in a more complex and competitive international business arena, Labuan IBFC needs to sustain its core offerings and look for new growth opportunities. Business development was one of the areas that Labuan FSA focused on in 2018 where a slew of business guidelines has been enhanced and updated to facilitate business growth and new business admission. While having business developments, Labuan FSA remained attentive to supervision and enforcement particularly on risks related to money-laundering and other high risk financial activities.

During the year, the Authority stepped up supervision and strengthened its market surveillance capabilities to maintain oversight of non-compliances and violations of Labuan IBFC laws. More efforts were made in collaboration and cooperation with international and domestic

regulators and enforcement agencies in joint inspections and information sharing. Enforcement on anti-money laundering and terrorist financing have been strengthened with more investigation initiated and actions taken to protect investors' interests. During the year, Labuan FSA also conducted a series of outreach and engagement programmes for the industry to enhance reporting of suspicious transactions (STR). The supervisory measures has resulted in the increased number of enforcement actions carried out including business suspension and revocation of licences. The number of STR also increased due to higher awareness of the need to report potential cases that could affect the reputation of the Labuan IBFC.

While focusing on its regulatory and supervisory functions, Labuan FSA continued to phase in the transformation plan to enhance the resiliency and sustainability of Labuan IBFC. The transformation plan is hinged on a business model that is aimed at making Labuan a well-integrated financial and economic regional hub, to better serve the business, investment and intermediation needs of the region. The key priorities entailed in the transformation strategies are firstly, to enhance Labuan IBFC's competitiveness to serve regional businesses where Labuan IBFC can play a more strategic intermediating role. Secondly, there would be greater focus on enhancing financial niche business while leveraging on the strengths of existing sectors to further diversify the spectrum of financial services and products in the centre. Thirdly, there is a need to ensure the smooth implementation of the new tax framework in 2019 by providing clarities and certainties on the new requirements of the tax framework. The transformation plan would reinforce the synergy between Labuan IBFC and the Island's development. The efforts are geared towards supporting the economic development of the island by creating more business substance and activities, visibility and generating more employment opportunities. The outcomes of the transformation plan will be more tangible and apparent in the next couple of years.

In 2019, the global growth trend is expected to moderate underpinned by on-going global economic and political issues. However, the Asia Pacific region will remain the engine of global growth and Labuan IBFC being



## DIRECTOR GENERAL'S REPORT

strategically positioned can grow in tandem with the region. Labuan FSA expects the year 2019 to usher in another outlook of positivity and business growth for Labuan IBFC.

I am pleased to announce that for the year ended 31 December 2018, Labuan FSA recorded an increase in operating revenue of RM66.03 million as compared to RM63.74 million in 2017, while its total reserves also increased to RM76.81 million.

To conclude my report, I would like to extend my appreciation and gratitude to the Chairman and Members of the Authority for their support throughout the year. I would also like to thank the staff of Labuan FSA for their commitment and continuous contributions in 2018 which led to record achievements for the year.

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# CORPORATE INFORMATION



For further information,  
please go to: [www.labuanibfc.com](http://www.labuanibfc.com)



# CORPORATE INFORMATION

LABUAN FSA WAS ESTABLISHED ON 15 FEBRUARY 1996 AS A STATUTORY BODY RESPONSIBLE FOR THE REGULATION, SUPERVISION AND DEVELOPMENT OF THE LABUAN 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 its regulatory mandate, Labuan FSA is entrusted with the following statutory functions:

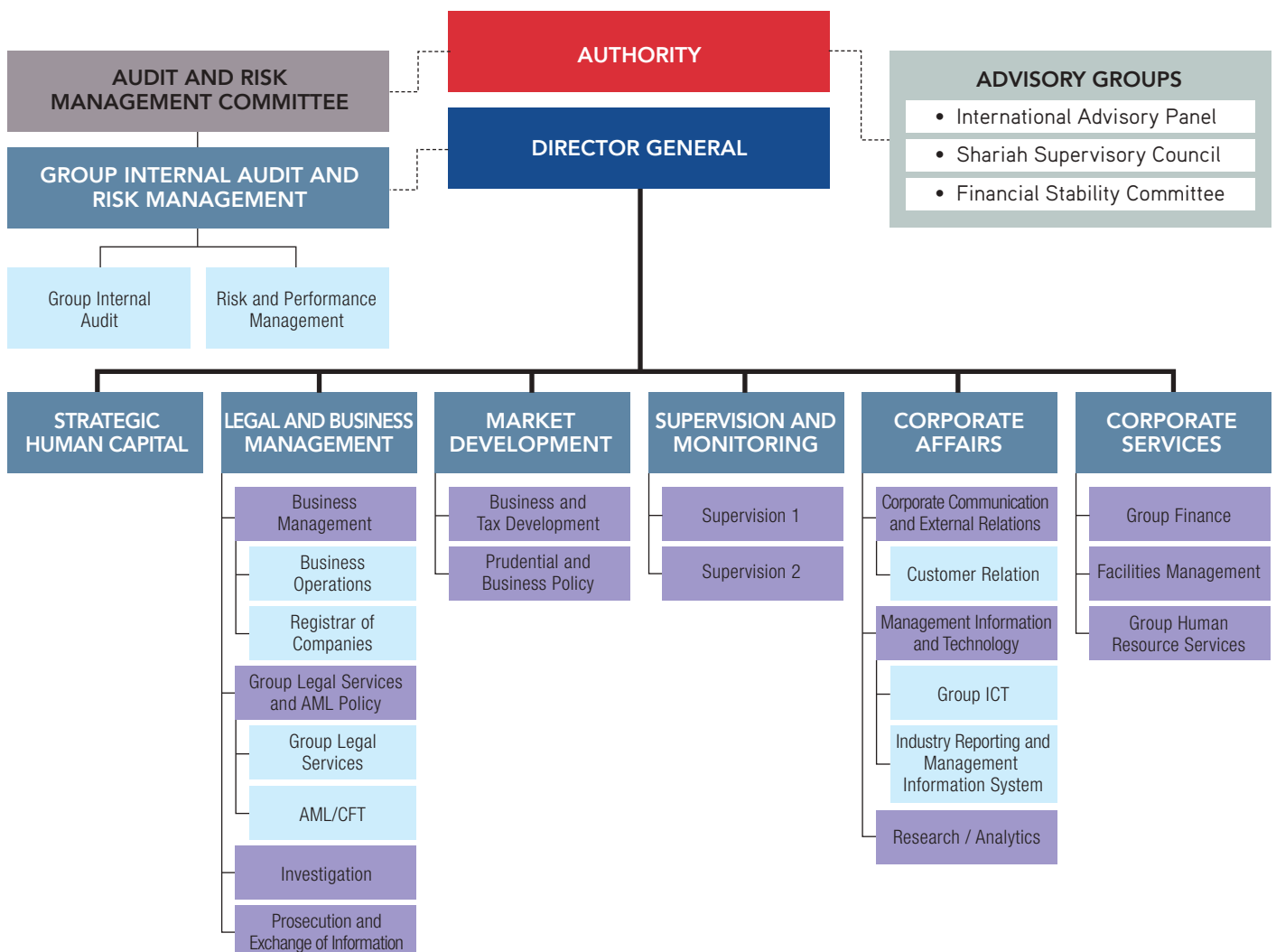
- **To administer, enforce, carry out and give effect to the provisions of the:**
  - Labuan Companies Act 1990
  - Labuan Trusts Act 1996
  - Labuan Financial Services Authority Act 1996
  - Labuan Foundations Act 2010
  - Labuan Financial Services and Securities Act 2010
  - Labuan Islamic Financial 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
- **To ensure** that international financial transactions are conducted in accordance with the laws;
- **To conduct** research and commission studies to deepen and widen the scope of international financial services in Labuan;
- **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

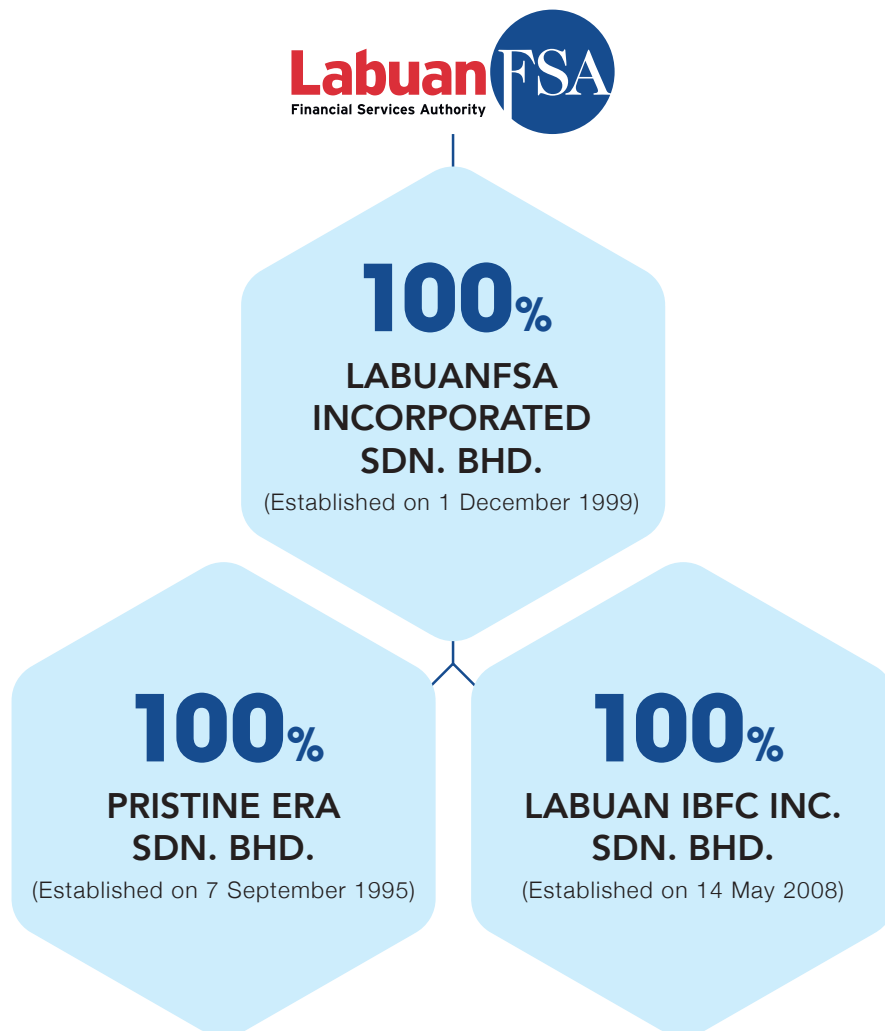
LABUAN FSA IS STRUCTURED INTO SEVEN DEPARTMENTS, NAMELY GROUP INTERNAL AUDIT AND RISK MANAGEMENT, LEGAL AND BUSINESS MANAGEMENT, MARKET DEVELOPMENT, SUPERVISION AND MONITORING, CORPORATE AFFAIRS, CORPORATE SERVICES AND STRATEGIC HUMAN CAPITAL.





# SUBSIDIARIES

THE PRINCIPAL ACTIVITY OF PRISTINE ERA SDN. BHD. IS TO MANAGE THE LABUAN INTERNATIONAL SCHOOL AND LABUAN IBFC INC. SDN. BHD. IS TO PROMOTE THE LABUAN INTERNATIONAL BUSINESS AND FINANCIAL CENTRE.





# AUTHORITY MEMBERS OF LABUAN FSA

## DATUK OH CHONG PENG

Chairman



Datuk Oh is Chairman of the Labuan FSA, a position he has held since 16 October 2018. He is also Non-Executive Director of various board of public listed companies including Malayan Flour Mills Berhad, Dialog Group Berhad, Kumpulan Europlus Berhad, PUC Berhad and a trustee of UTAR Education Foundation. Previously he was Chairman of the Alliance Financial Group, a partner of Coopers & Lybrand Malaysia. In addition, he was also a government-appointed member of the Kuala Lumpur Stock Exchange (now known as Bursa Malaysia) as well as member of 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.

## MR. DANIAL MAH BIN ABDULLAH

Director General



Mr. Danial is the Director General of Labuan FSA, the regulatory authority of Labuan International Business and Financial Centre. Mr. Danial assumed the position of Director General on 3 October 2017. Prior to this, he was the Deputy Director General of Labuan FSA, a position he held since 2007. He has been with Labuan FSA since the early years of its establishment and has held various positions within the organisation.

Mr. Danial is the Vice Chairman of the International Islamic Financial Market and a member of its Executive Committee. He is the Chairman of the Financial Stability Committee of Labuan FSA, Labuanfsa Incorporated Sdn. Bhd. and Pristine Era Sdn. Bhd. He is also a board member of Labuan Corporation, Financial Park (Labuan) Sdn. Bhd. and Labuan IBFC Inc. Sdn. Bhd.

Mr. Danial has a Bachelor of Accounting (Hons) from the University of Malaya, Malaysia; and a Masters in Business Administration from the Manchester Business School, UK. He is a Chartered Accountant registered with the Malaysian Institute of Accountants.



## AUTHORITY MEMBERS OF LABUAN FSA

### DATO' MOHAMMED AZLAN BIN HASHIM



Dato' Azlan is Chairman of IHH Healthcare Berhad, D&O Green Technologies Berhad, Marine & General Berhad and Labuan IBFC Inc. Sdn. Bhd.

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 the Institute of Chartered Secretaries and Administrators and Hon. Member of The Institute of Internal Auditors, Malaysia.

### DATUK ALI BIN ABDUL KADIR



Datuk Ali is the Chairman of JcbNext Berhad and ENRA Group Berhad. He is a board member of Glomac Berhad, Citibank Malaysia and Ekuiti Nasional Berhad (Ekuinas).

Datuk Ali was the Chairman of the Securities Commission Malaysia (SC) 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 SC, he was the Executive Chairman and Partner of Ernst & Young and its related firms. He was appointed an Adjunct Professor Faculty and then appointed to the Advisory Board in the Accounting and Business Faculty, University of Malaya. He also chaired the Financial Reporting Foundation from July 2009 to June 2015.

Datuk Ali is a Fellow of the Institute of Chartered Accountants in England & Wales (ICAEW), member of the Malaysian Institute of Certified Public Accountants 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.

## AUTHORITY MEMBERS OF LABUAN FSA

### MR. ADNAN ZAYLANI BIN MOHAMAD ZAHID



Mr. Adnan Zaylani is an Assistant Governor of Bank Negara Malaysia, responsible for development of the financial and insurance sectors, development finance, Islamic finance and oversees the Legal Department.

Previously he had held responsibilities and oversight over financial markets, investment, foreign exchange administration and currency management. He is a member of the Management Committee, Financial Stability Committee and Reserve Management Committee of Bank Negara Malaysia.

Mr. Adnan has a Bachelor in Economics, MSc in Global Market Economics from London School of Economics, UK, and holds a Masters in Public Policy from Blavatnik School of Government, University of Oxford, UK.

### MR. HAZIM BIN JAMALUDDIN



Mr. Hazim is Secretary of the Remuneration Policy and Management Division, Ministry of Finance, Malaysia (MOF). He is responsible for the management of remuneration policy and management services which include human capital development and financial management of the MOF. He also manages the development projects of MOF.

In a career with the Government that began in 1989, Mr. Hazim held senior positions in various ministries and division including Ministry of Health, Ministry of Human Resource and MOF. In MOF, he has an extensive year of experience in the Tax Analysis Division and Strategic Investment Department.

Mr. Hazim has a Bachelor in Financial Management from Indiana State University, USA and holds a Master Degree in Business Administration from City University, USA.



# SENIOR MANAGEMENT OF LABUAN FSA



1. **MR. DANIAL MAH BIN ABDULLAH** (Director General)
2. **MR. ISKANDAR BIN MOHD NULI**
3. **MRS. YON ZAHIMAH BINTI IBRAHIM**
4. **MR. SYAHRUL IMRAN BIN MAHADZIR**
5. **MR. AZUDDIN BIN JASIN**
6. **MR. MOHD RIZLAN BIN MOKHTAR**
7. **MR. JIMMY CHEN SIEW HANG**
8. **MR. WAN AHMAD SANUSI BIN MAHMOOD**





# ADVISORY GROUPS OF LABUAN FSA

## INTERNATIONAL ADVISORY PANEL

The International Advisory Panel (IAP) is a consultative committee that was set up in 2004 to provide guidance and advice on the strategic business direction and market development of the Labuan IBFC. The nine-member panel, appointed by the Chairman of Labuan FSA, comprises prominent individuals from international and domestic markets, each with unique industry experience and expertise.

### IAP Members:

1. Dato' Mohammed Azlan bin Hashim - Chairman
2. Mr. Michael Troth
3. Mr. Mark Lea
4. Dato' Mohammad Faiz bin Azmi
5. Datuk Dr. Mohd Daud bin Bakar
6. Mr. Chew Seng Kok
7. Ms. Pushpa Rajadurai
8. Mr. Malcolm Cutts-Watson
9. Mr. Iain Johns

## SHARIAH SUPERVISORY COUNCIL

The Shariah Supervisory Council (SSC) comprises renowned Malaysian and international Shariah scholars. The SSC reviews the Shariah compliance of proposed financial instruments regulated and supervised by Labuan FSA and advises Labuan FSA on developments in Islamic jurisprudence to facilitate the creation of new Islamic financial products and services in Labuan IBFC.

### SSC Members:

1. Datuk Dr. Mohd Daud bin Bakar - Chairman
2. Dr. Mohamad Akram Laldin - Deputy Chairman
3. Dr. Mohamed Ali Elgari Bineid
4. Dr. Engku Rabiah Adawiah binti Engku Ali
5. Dr. Sheikh Nedham Yaqoobi
6. Dr. Syed Musa Syed Jaafar Al-Habshi

## FINANCIAL STABILITY COMMITTEE

The Financial Stability Committee (FSC) was established to assist in preserving the financial stability and integrity of the Labuan IBFC. It comprises five members from Labuan FSA, Bank Negara Malaysia and the Securities Commission Malaysia.

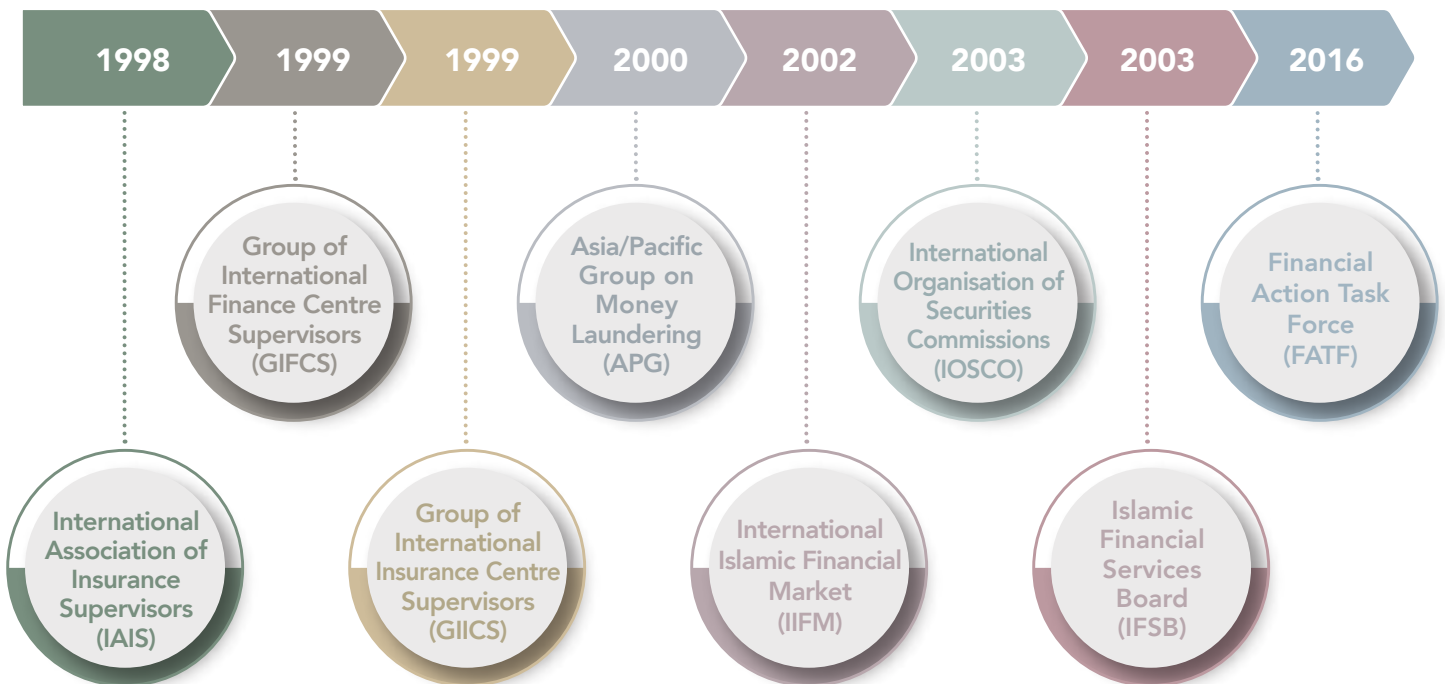
### FSC Members:

1. Mr. Danial Mah bin Abdullah - Chairman
2. Mr. Syahrul Imran bin Mahadzir
3. Mr. Qaiser Iskandar bin Anwarudin
4. Ms. Salmah Bee binti Mohd Mydin
5. Mr. Aznan bin Abdul Aziz



# INTERNATIONAL MEMBERSHIPS

LABUAN FSA IS A MEMBER TO THE FOLLOWING EIGHT INTERNATIONAL ORGANISATIONS THAT PROMOTE HIGH REGULATORY STANDARDS AMONG INTERNATIONAL FINANCIAL CENTRES, AS WELL AS ENHANCE COOPERATION TO ADVANCE THEIR DEVELOPMENT.





# EVENT HIGHLIGHTS 2018

QUARTER 1



- Labuan FSA together with Bank Negara Malaysia conducted an awareness programme for the Labuan business community to promote the initiatives to boost businesses and to bridge financial sector with the local SMEs. The programme included briefing on the latest policy and procedures of financing facilities and debit structuring schemes. A briefing was also conducted to the financial institutions to increase their capabilities and equip the bank officers with the knowledge on financial matters of SMEs.
- A dialogue session was held with key representatives from the various local Labuan Chambers of Commerce and Industries to exchange views on current issues impacting the economy and business environment in Labuan.
- Labuan FSA held bilateral meetings with the Labuan IBFC industry associations. At the meetings, Labuan FSA provided the global economic outlook of the year and shared Labuan FSA's strategic business plan 2018-2020. The meetings also shared the emerging trends, Labuan IBFC's prospective on opportunities and challenges facing the international business financial centres as well as the transformation plan of Labuan IBFC.
- Labuan FSA in collaboration with Jabatan Penerangan Malaysia held the Budget Talk 2018 for the Labuan community. The briefing highlighted the impact of the relevant items under the budget that were related to Labuan.



## EVENT HIGHLIGHTS 2018

- Karnival Kewangan was held in Labuan Island to create public awareness on financial services and served as a one-stop platform for the public to learn about new initiatives and opportunities in business and financial management. The two-day programme organised by Bank Negara Malaysia together with Labuan FSA and Financial Park Labuan has benefitted all segments of the local community.
- Labuan FSA hosted the International Islamic Financial Market (IIFM) 38<sup>th</sup> board meeting in Kuala Lumpur. A seminar on Islamic Financial Markets - *'A Broad Spectrum of Horizons and Opportunities – Towards Achieving Sustainable and Balanced Growth in the Islamic Financial Sector'* was also held to create greater awareness and understanding on the standardisation efforts spearheaded by the IIFM.
- Malaysia, including Labuan IBFC was assessed under the Phase III Peer Review Assessment undertaken by the Organisation for Economic Co-operation and Development (OECD). The assessment focused on the effectiveness of the legal provisions and implementations of the respective provisions under the Labuan IBFC laws. The overall rating for Malaysia is 'Largely Compliant'.
- Labuan FSA attended meetings and forums of international financial centre groupings including the Group of International Finance Centre Supervisors and Group of International Insurance Centre Supervisors. Labuan FSA also attended meetings at the OECD, Paris to discuss on Forum on Harmful Tax Practices.

QUARTER 2



## EVENT HIGHLIGHTS 2018

QUARTER 3



- Labuan IBFC was awarded the Captive Asian Domicile Category Award at the Asian Captive Conference 2018. The inaugural award recognised Labuan IBFC’s contribution to Asian’s captive market and showcase its great potential in the emerging market for captive insurance and risk management industry.
- Labuan FSA conducted a briefing at the Asian Development Bank’s Economic Corridor Development for Competitive and Inclusive Asia Training Programme. The programme was to promote regional cooperation and integration among the developing ASEAN countries. It discussed issues and challenges related to the economic corridor development and to enhance capacity of cooperation in pursuing initiatives for social and economic development amongst members the ASEAN countries.
- The annual Labuan International Finance Lecture Series titled ‘Barbarians at the Gate: Cybersecurity for Business Survival’ was held in October. The speaker shared insights on global cyberattack risks and security controls needed in creating a more resilient cyber environment for businesses in Labuan IBFC.
- Bank of China (Malaysia) Berhad was appointed as a Renminbi settlement bank in Labuan to enhance the Labuan IBFC’s financial infrastructure in bringing efficiency, seamless and cost-effective real-time settlement of Renminbi-denominated transactions to the Labuan financial institutions and entities. This initiative is in line with the increasing role of Labuan IBFC in facilitating financial and trade investments as well as trade flows in the Asia and ASEAN regions.
- Labuan FSA signed a MoU with the Seychelles Financial Services Authority to foster closer ties on cooperation and mutual assistance in areas of regulation and supervision functions under the relevant laws of the two jurisdictions.





## EVENT HIGHLIGHTS 2018

- The Deputy Minister of Finance, Malaysia visited Labuan IBFC in October and was briefed by Labuan FSA on the development of the IBFC. He also visited offices of three financial institutions in Labuan IBFC to have an overview of the business operations.
- Labuan FSA delivered a presentation at the Labuan Halal Hub Conference for prospective foreign halal industry players. The conference highlighted on the value propositions and business potentials of Labuan IBFC that prospective halal industry players can tap on.
- Throughout the year, Labuan FSA organised community programmes and sponsored projects that benefit the local communities. Awareness talks on 'Safety and Health' and 'SMART Retirement Plan and Solution' were conducted for the communities in Labuan. In addition, a career fair themed 'Discovering a Career in Labuan IBFC' was held at the University Malaysia Sabah, Labuan Campus to raise awareness in career opportunities in the Labuan IBFC.



QUARTER 4





# CORPORATE GOVERNANCE



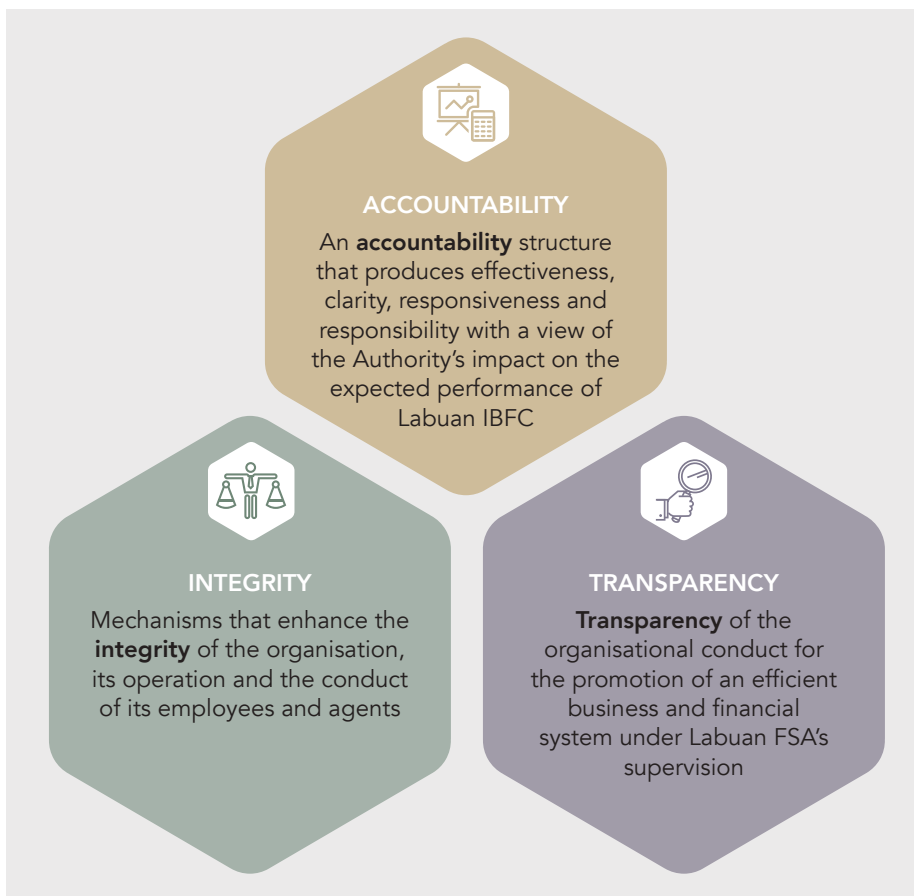
For further information,  
please go to: [www.labuanibfc.com](http://www.labuanibfc.com)



# CORPORATE GOVERNANCE

The principles of corporate governance are embedded in every aspect of Labuan FSA, from its decisions to operations and interactions with stakeholders. The 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, Labuan FSA is committed to ensuring **accountability, integrity and transparency** in its governance and stakeholder management. The stand on corporate governance resonates throughout the organisation, and is reinforced by the strong business ethics and uncompromising integrity of our employees and industry players.

## GOVERNANCE FRAMEWORK



## ACCOUNTABILITY

Labuan FSA accepts accountability for its actions and is assured of the soundness of judgements because of the support of various decision-making structures and the strength of internal resources. Adequate checks and balances are in place and remained effective, responsive and responsible as the Authority works to meet the mandated objectives.



## CORPORATE GOVERNANCE

### The Authority

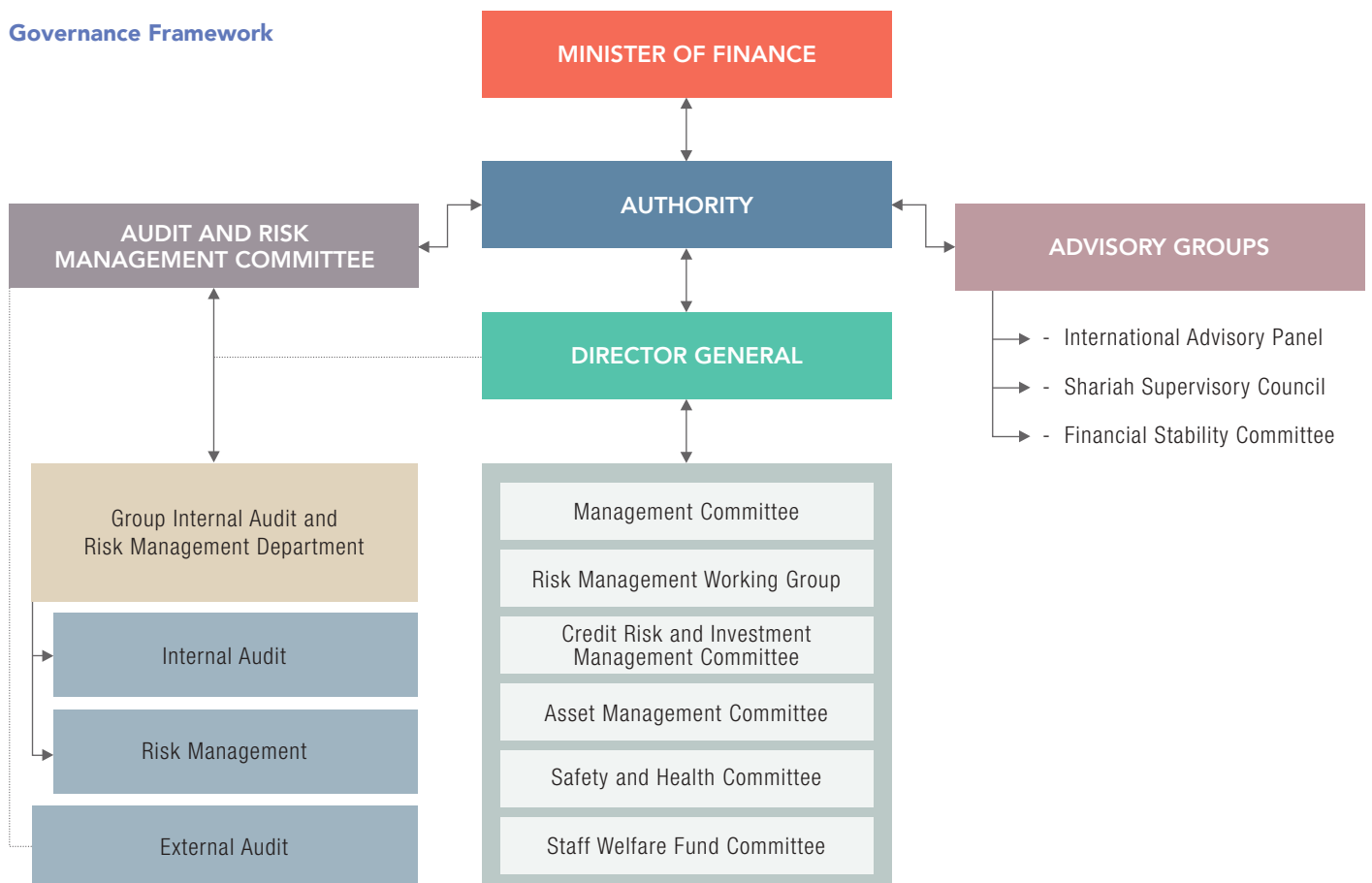
In the hierarchy of Labuan FSA, the Authority is the highest decision-making body. It comprises eight prominent members with backgrounds in business, financial, regulatory, private and public services sectors. Under the Labuan Financial Services Authority Act 1996 (Act), the Director General is directly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

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.

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 in monitoring the development and implementation of various initiatives.

### Governance Framework





## CORPORATE GOVERNANCE

The Authority held four meetings in 2018. A schedule of Authority meetings for the whole year is prepared before the end of the preceding financial year, to facilitate the members in discharging their responsibilities at the Authority meeting.

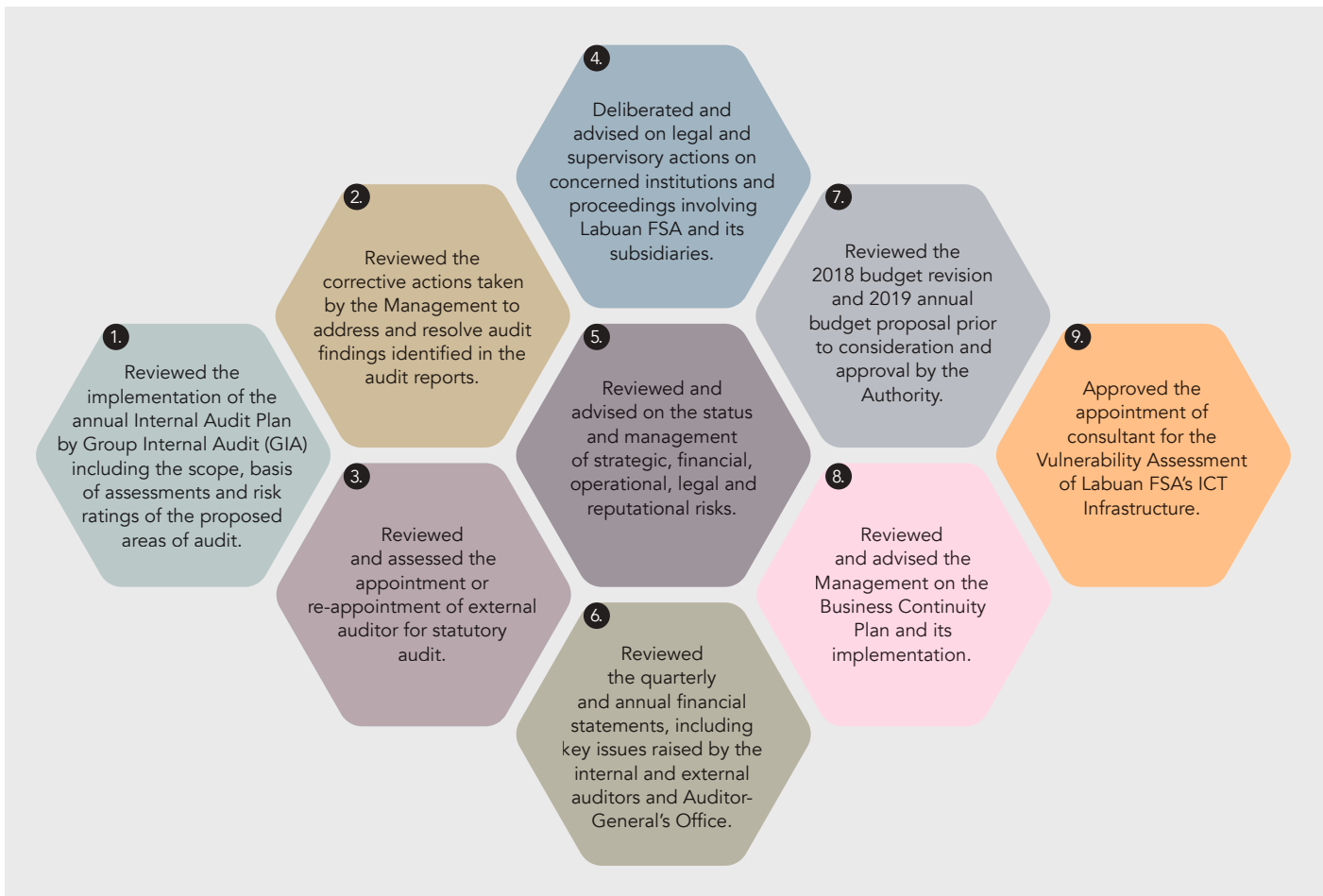
In 2018, the Authority continued to oversee the management of Labuan FSA through the review and approval of proposals discussed at Authority meetings. These included business policies and guidelines, corporate action plan 2018, budget and the appointment of advisory committee members. In addition, the Authority authorised procurement of goods or services valued at more than RM250,000, reviewed appeal for the application of licence, and provided guidance to the management on Labuan IBFC 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 the management on progress of Labuan IBFC industries, financial position of Labuan FSA and performance of its subsidiaries and advisory committees.

### The Audit and Risk Management Committee

The Audit and Risk Management Committee (ARMC) is the central pillar for the effective governance of Labuan FSA, with the oversight responsibility regarding the adequacy, quality and integrity of Labuan FSA's governance, risk management and control practices. The ARMC comprises five independent members.

In 2018, the ARMC convened six meetings and presided over the deliberation of audit reports of Labuan FSA and its subsidiaries, enterprise risk management assessment, financial statements as well as budget revision and other internal audit activities reports.

During the year 2018, the ARMC carried out the following activities in discharging its function and duties:





## CORPORATE GOVERNANCE

### INTERNAL AUDIT

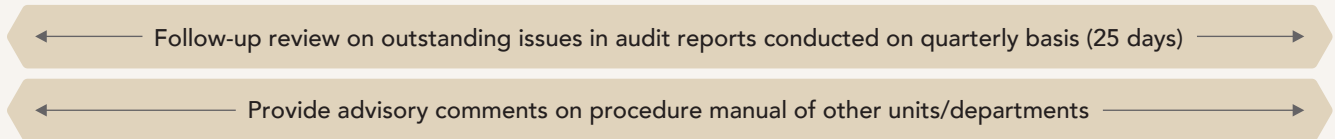
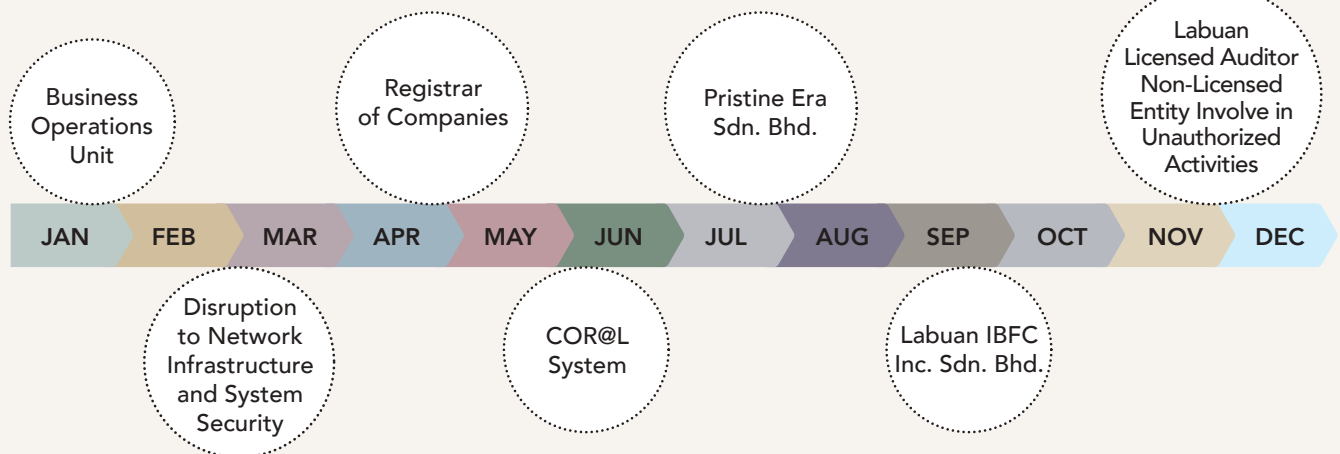
The Group Internal Audit (GIA) supports the ARMC in discharging its responsibilities by providing an independent, objective assurance and consulting activity designed to add value and improve the Labuan FSA and its subsidiaries' operations. This facilitated Labuan FSA in accomplishing its objectives by bringing a systematic, disciplined approach to

evaluate and improve the effectiveness of risk management, control, and governance processes.

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



#### Audit Activities in 2018





## CORPORATE GOVERNANCE

GIA conducted seven audit reviews in 2018 to evaluate control measures established and the effectiveness of risk management system. It also engaged proactively with audited parties to ensure the implementation of appropriate actions to resolve weaknesses identified.

### Internal Controls

Recognising the need to instill clear lines of accountability in each functional unit within the organisation, Group Internal Audit and Risk Management Department (GIARM) continuously review and provide advisory comments on procedure manuals. The ultimate objective is to enhance the efficiency and effectiveness of key controls, simplify procedures and strengthen internal systems that support Labuan FSA's overall governance. In 2018, a total of six procedure manuals were reviewed.

GIA also participated as observer for the tender opening process and assets bidding, ensuring all activities were conducted in a fair, transparent and consistent manner.

## EXTERNAL AUDIT

As a federal statutory body, Labuan FSA submits its 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). Key issues raised by the external auditors were addressed promptly by the management.

### Management

Labuan FSA is headed by the Director General (DG), who is responsible for the implementation of Labuan FSA's 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 the 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 eight 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 its operations, and authorises the purchase of goods or services up to RM250,000. In 2018, MC conducted 49 meetings, chaired by the DG, deliberated a variety of significant matters including business and prudential policies and cases of concerned institutions. It also discussed on budget and expenditure, functional units' policies and procedures, corporate social responsibility activities and human resource matters. The MC also monitored all projects under management.

### Other Management Committees

#### i. Risk Management Working Group

The Risk Management Working Group (RMWG) oversees and reviews the implementation of risk management elements, which may affect the achievement of the objectives and strategic goals of Labuan FSA and its subsidiaries. The RMWG comprised of eight directors including the DG of Labuan FSA who is the Chairman of RMWG. The RMWG convened four meetings in 2018 and deliberated among others, the appropriate risk mitigation on key business risks, outputs from risk assessment and implementation of action plans, the degree of integration of risk management techniques and the continued applicability of the risk tolerances and escalation criteria.

#### ii. Credit Risk and Investment Management Committee

The Credit Risk and Investment Management Committee (CRIMCO) reviews and recommends to the DG for approval or rejection of any application referred to the committee. CRIMCO consists of six members from various relevant units/departments within the organisation. The committee deliberated on recommendations made by the Legal and Business Management Department with regard to applications, exemptions, revocations and registrations pursuant to relevant laws related to Labuan IBFC. In 2018, CRIMCO had deliberated on 205 licence applications and operational matters.

#### iii. Asset Management Committee

The Asset Management Committee (AMC) chaired by the Senior Director, oversees all aspects of asset management including 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. In 2018, AMC approved 28 requisitions and discussed on Labuan FSA's assets management.





## CORPORATE GOVERNANCE

### iv. Safety and Health Committee

The Safety and Health Committee (SHC) was formed to assist the management in developing safety and health rules and safe systems of work. In 2018, the SHC conducted a Mental Health and Stress Management Programme. A total of three meetings were held in 2018.

### v. Staff Welfare Fund Committee

The committee reviews and recommends to the DG for approval or rejection of staff loan applications. In 2018, the committee approved 19 applications with regard to staff personal loans.

## INTEGRITY

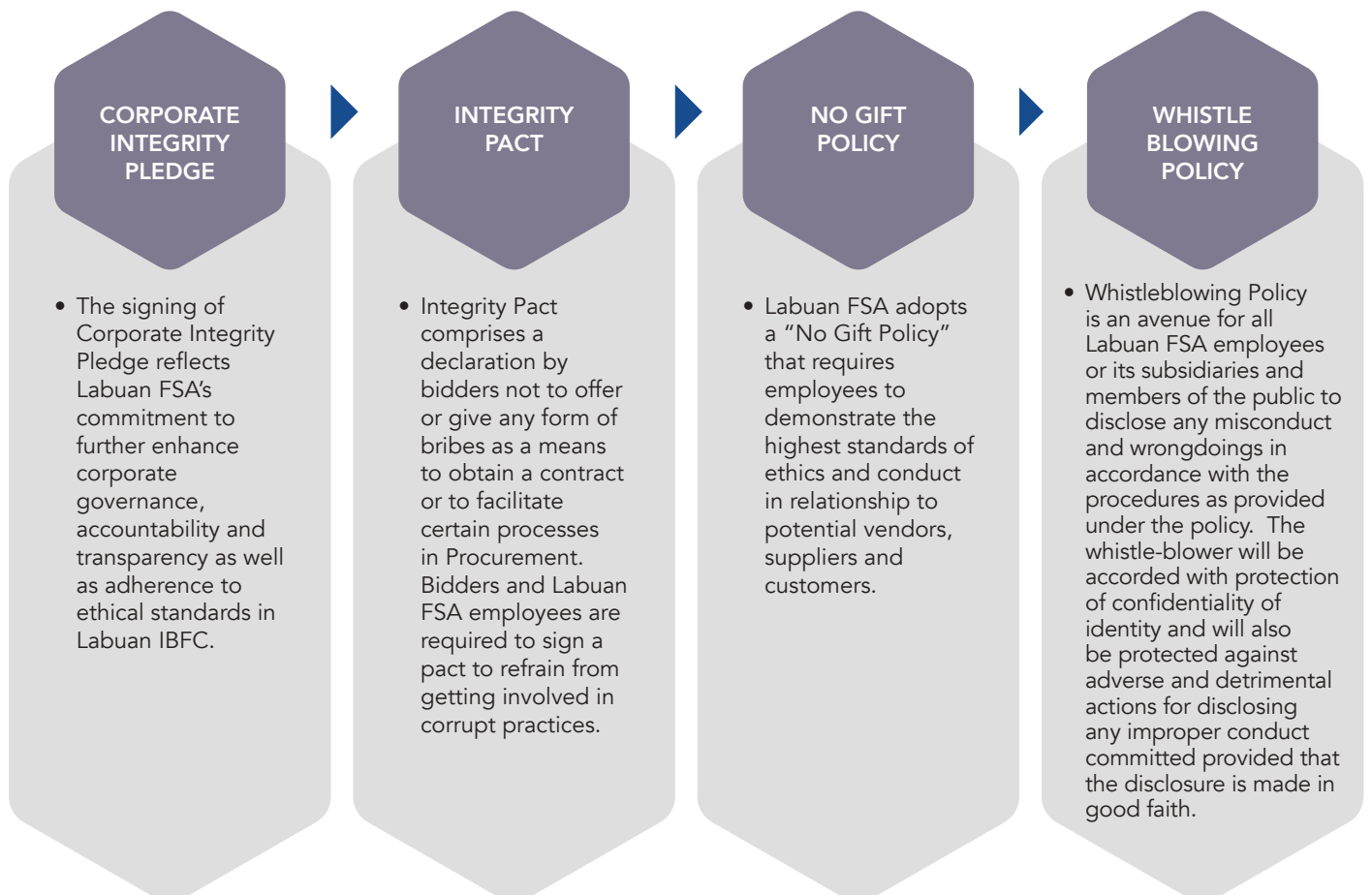
Good corporate culture demands high integrity at all levels of the organisation. The governance of Labuan FSA is built on individual values which are aligned with the following organisational shared values:

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

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

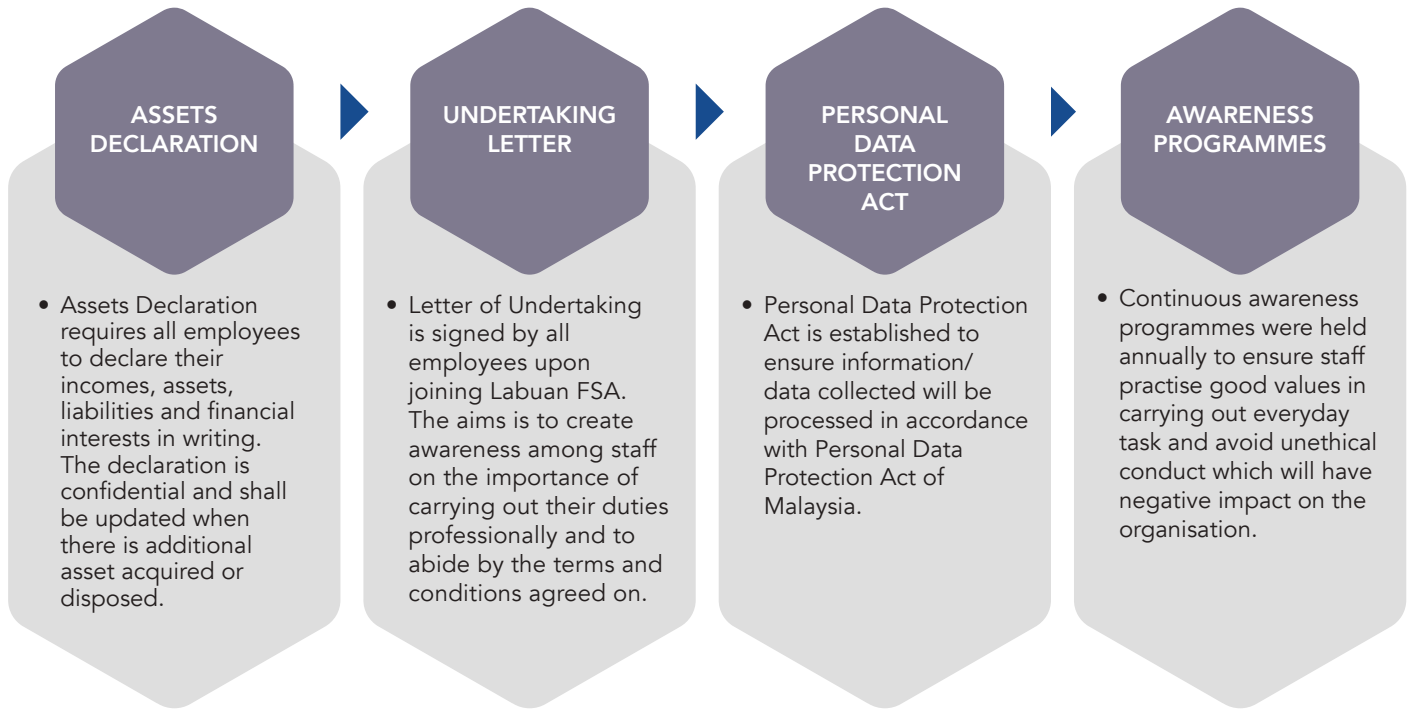
The following initiatives further enhanced the ethical work environment in Labuan FSA.

### Integrity Programmes





## CORPORATE GOVERNANCE



## ENTERPRISE RISK MANAGEMENT

Labuan FSA has embraced Enterprise Risk Management (ERM) as an integrated component of its business, operation and decision making process. Based on the ISO 31000, Risk Management Principles and Guidelines, the ERM Framework standardises Labuan FSA's risk management approach across the Group. The key components are illustrated in Diagram 1.

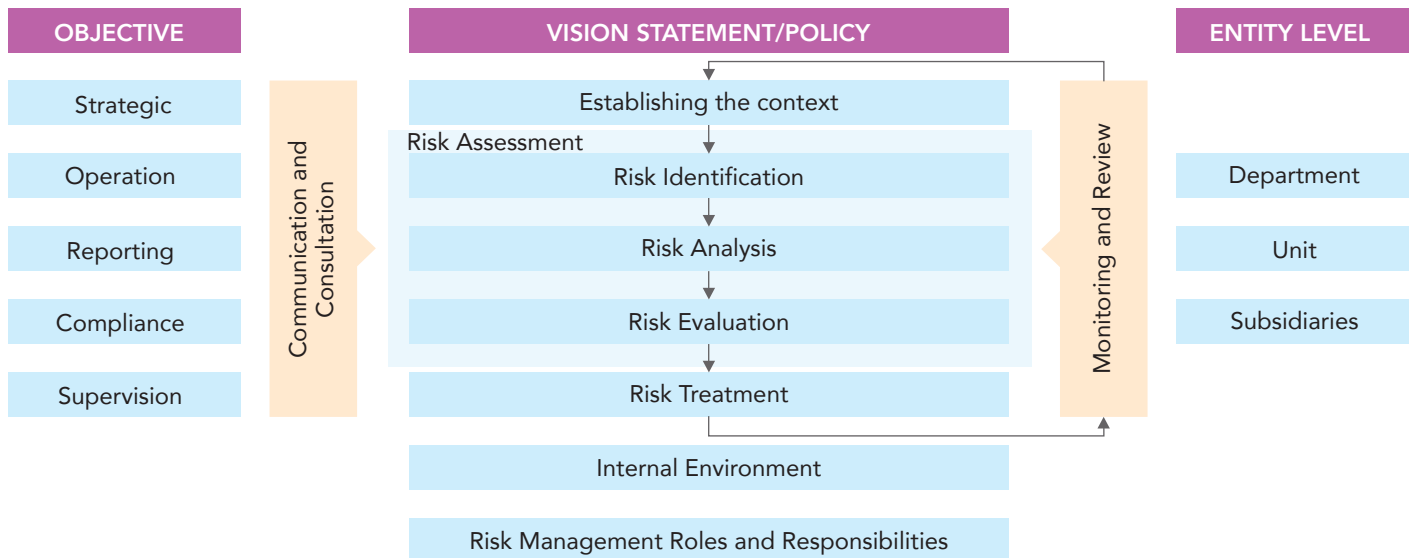
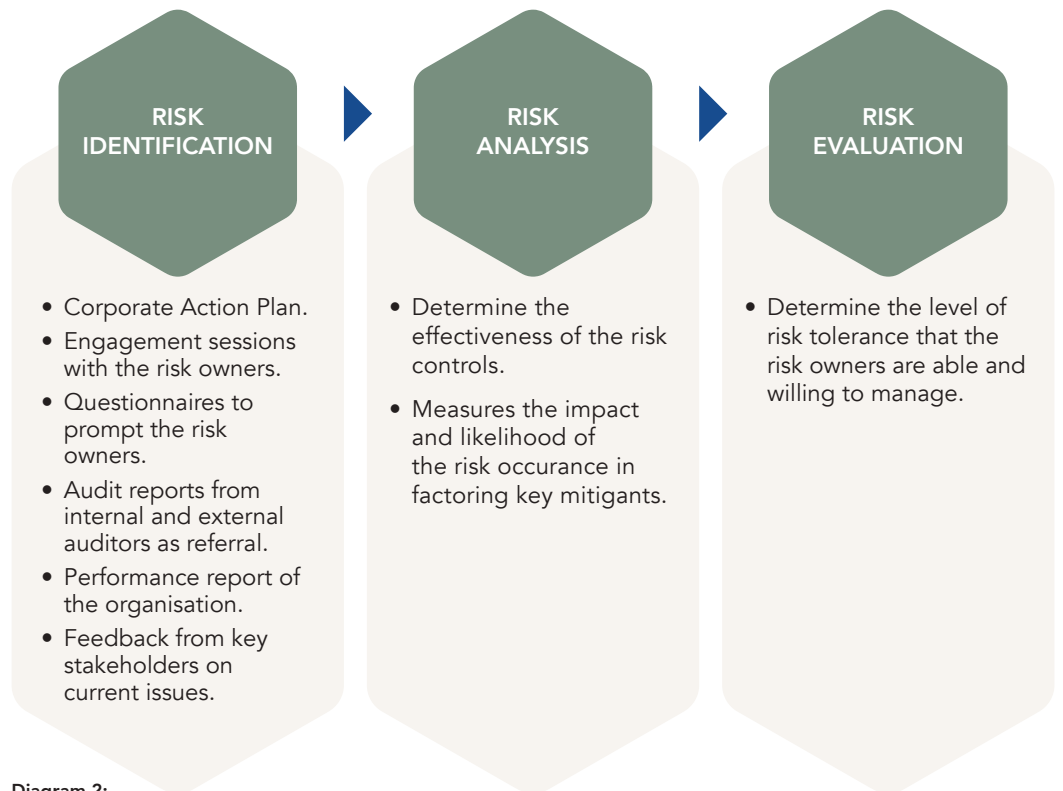


Diagram 1:  
ERM Framework

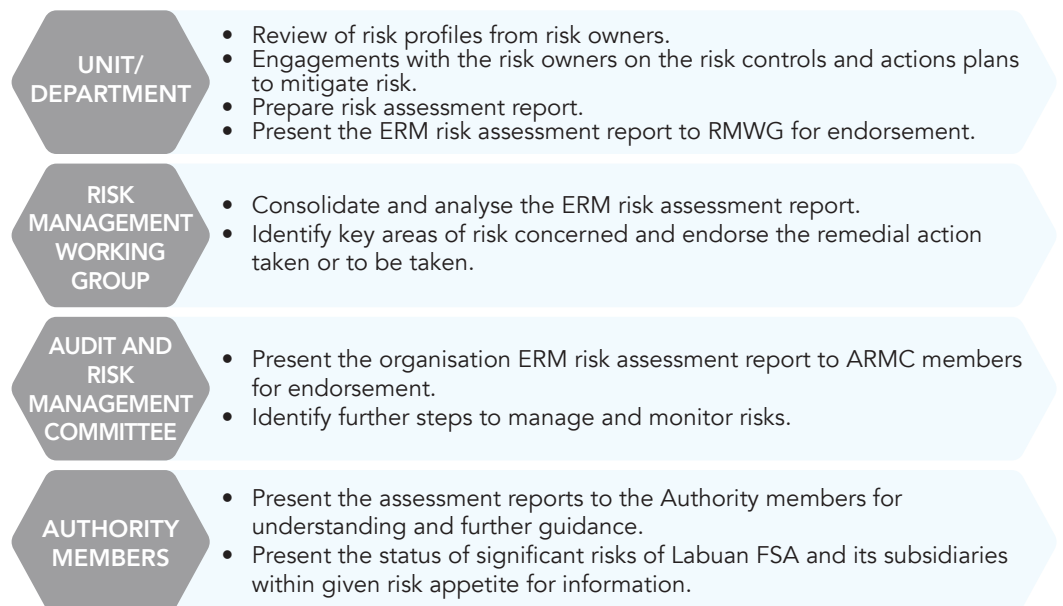
## CORPORATE GOVERNANCE

The ERM framework facilitates Labuan FSA to systematically conduct risk assessment, which include risk identification, risk analysis and risk evaluation across Labuan FSA and its subsidiaries. The key activities of the risk assessment are summarised in Diagram 2.



**Diagram 2:**  
Risk Assessment Processes

In 2018, Labuan FSA completed a full cycle of the ERM processes, involving the participation of the RMU, Head of Units / Departments, Risk Management Working Group (RMWG), Audit and Risk Management Committee (ARMC) and the Authority. The key actions under the ERM Processes of Labuan FSA is illustrated in Diagram 3.



**Diagram 3:**  
ERM Processes



## CORPORATE GOVERNANCE

The RMWG convened four meetings in 2018 and deliberated on key risk matters pertaining to the objectives and strategic goals as well as operational risks of Labuan FSA and its subsidiaries.

The ERM framework is implemented across the Group, encompassing subsidiaries namely Labuan IBFC Incorporated Sdn. Bhd. (LIBFC Inc.) and Pristine Era Sdn. Bhd. (PESB). This allowed Labuan FSA to achieve:

- ✓ Alignment of risk appetite and strategy within the Group
  - Convergence of strategic goals, related objectives and develop mechanisms to manage related risks.
- ✓ Prioritisation of the risk management activity
  - Ensure that resources and capital are focused on higher priority risks within the Group.
- ✓ Identification and management of multiple and cross-enterprise risks
  - Integrated responses to the multiple risks affecting different entities of the Group; and
- ✓ More effective capital deployment
  - Enhance assessment of Group capital needs and facilitates capital allocation.

A total of 12 engagement sessions were conducted involving Labuan FSA, PESB and LIBFC Inc. in 2018 and several measures have been implemented including:

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

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

Labuan FSA embraces ERM as it emphasized a top-down holistic approach to effective risk management for the entire organisation. The goal of ERM is to increase the likelihood that an organisation will achieve its objectives by managing risks within the stakeholders' appetite for risk. Using ERM as a framework, Labuan FSA is able to review risks to initiatives as outlined in the Corporate Action Plan. These comprise four main group, namely strategic, operational, system and financial, followed by nine sub-risk, as shown in Diagram 4 below.

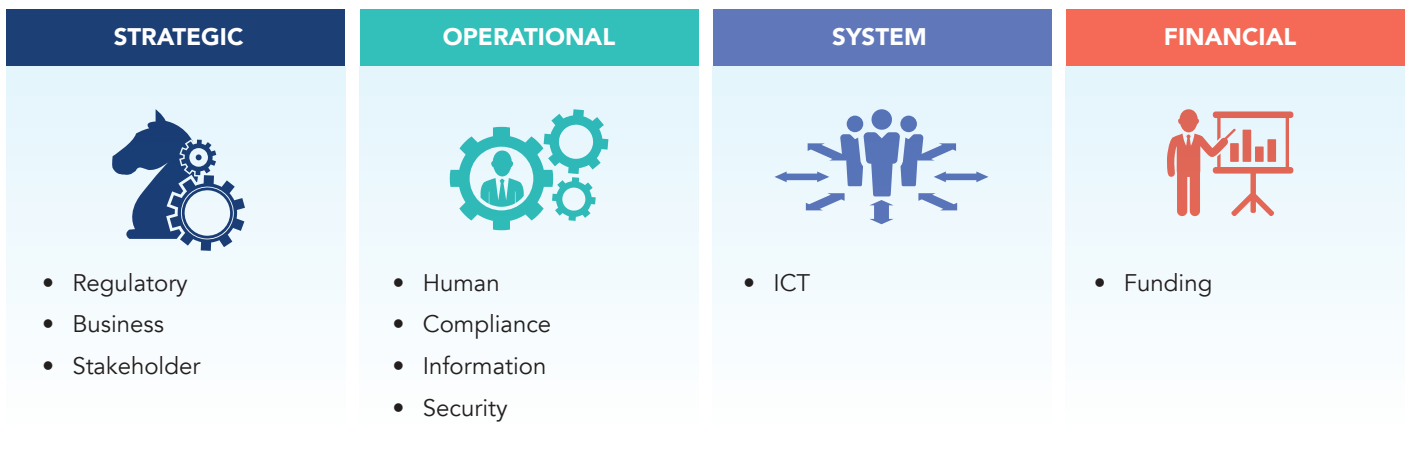


Diagram 4: Risk Grouping

## CORPORATE GOVERNANCE

### Significant Risks

Labuan FSA monitors and minimises significant risks in a proactive manner. The significant risks and Labuan FSA’s response in order to manage and minimise them are as follows:



Diagram 5:  
Significant Risks

#### 1. Regulatory Risk

Labuan FSA keeps abreast on the regulatory developments and ensures proper planning in formulating viable and effective measures to align with domestic and international regulatory requirements. In 2018, our prudential and business policies were regularly reviewed and aligned with international standards to ensure the business environment of Labuan IBFC remained robust and attractive as compared with others.

RISK	RESPONSE
Regulatory	Conduct adequate risk-based supervisory activities on intermediaries with greater focus on market conduct, AML and effective off-site monitoring.
	Regular engagement with the relevant authorities and agencies to ensure adherence with the required international standards, laws and regulations.
	Review the existing guidelines, laws and regulations as well as enhance the existing framework to be on par with international requirements.

#### 2. Business Risk

Labuan FSA continues to monitor the risk of current developments on activities of Labuan IBFC arising from changes on the regulations, tax policies and the requirements which could have an adverse impact on strategic directions, implementation of decision and responsiveness to economy and industry.

RISK	RESPONSE
Business	Issuance of business guidance to facilitate and promote greater market awareness on Labuan offerings.
	Revised the business requirements to spur greater business growth and comply with international tax standards.
	Issuance of the revised and new checklists and forms for licence and operational applications, to facilitate and provide efficient delivery services to existing and potential players.



## CORPORATE GOVERNANCE

### 3. Financial Risk

Financial risk refers to the risk of Labuan FSA experiencing reduction in revenue and cash flow and impairing its capabilities to implement key strategies. In 2018, Group Finance Unit continuously monitored and planned the budget accordingly. The implementation of prudent spending measures and rationalisation of the operations of Labuan FSA with its subsidiaries contributed towards improving cash flow management.

RISK	RESPONSE
Financial	Reduced Labuan FSA and its subsidiaries’ operating cost in line with the SMART spending and effective cost management strategies.
	Rationalised the operations of Labuan FSA and its subsidiaries, LIBFC Inc. and PESB.
	Optimised the fixed assets of Labuan FSA to generate additional revenue.

#### Key Activities in 2018

Key activities pertaining to risk management undertaken for the year were as follows:

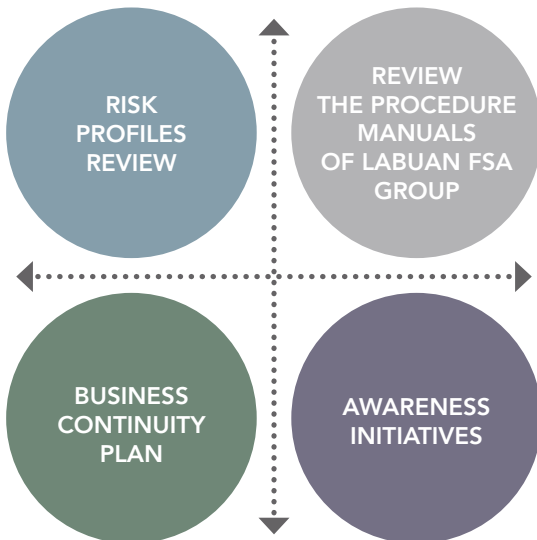


Diagram 6: Key Activities

#### Risk Profiles Review

In 2018, RMU conducted a comprehensive review of the risk profiles to identify the implication arising from any changes in strategy. The review involved engagement with Head of Units/Departments of Labuan FSA and the subsidiaries. The results of the review were reported to the RMWG and ARMC for approval.

#### Review the Procedure Manuals of Labuan FSA Group

The unit reviewed procedure manuals of Labuan FSA and its subsidiaries in line with the ISO 9001: 2008 Quality Management System – Requirements to ensure the operations are being managed more effectively, which resulted in an improvement in the overall performance of the organisation.

#### Awareness Initiatives

RMU issued three bilingual risk bulletins with various topics on risk management for internal circulation.

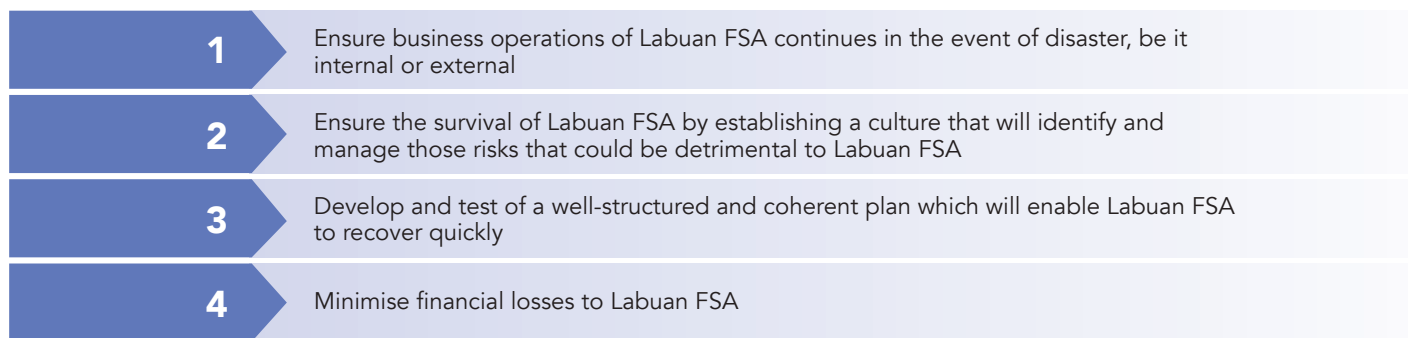




## CORPORATE GOVERNANCE

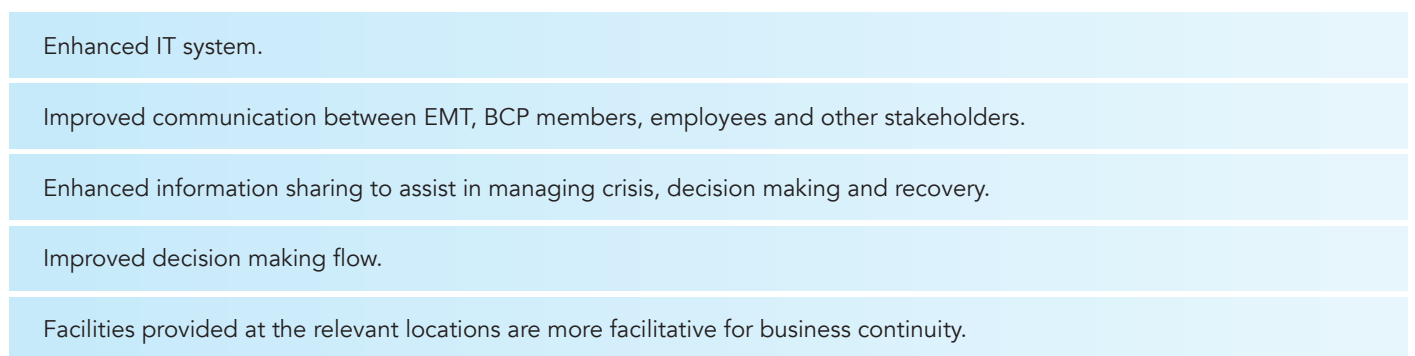
### Business Continuity Plan

The Business Continuity Plan (BCP) framework of Labuan FSA is a key component of the organisation's governance to ensure resiliency and enable an effective response when faced with adverse events such as natural disasters, technological failures, human errors or damage to its office premises. The objectives of the BCP is depicted in Diagram 7.



**Diagram 7:**  
Objectives of BCP

Labuan FSA conducted two BCP simulation exercises in February and September of 2018, involving 32 employees under the Emergency Management Team (EMT), and supported by the Safety and Health Committee to assess the robustness and feasibility of the BCP while ensuring the preparedness of the EMT in emergency situation. As a result of the exercise, Labuan FSA has further strengthened the BCP framework in five areas, as shown in Diagram 8.



**Diagram 8:**  
Outcomes of BCP Simulation



## CORPORATE GOVERNANCE

The BCP will be activated depending on the impact of the disaster that has been identified under the organisation’s level of emergency as shown in Diagram 9.

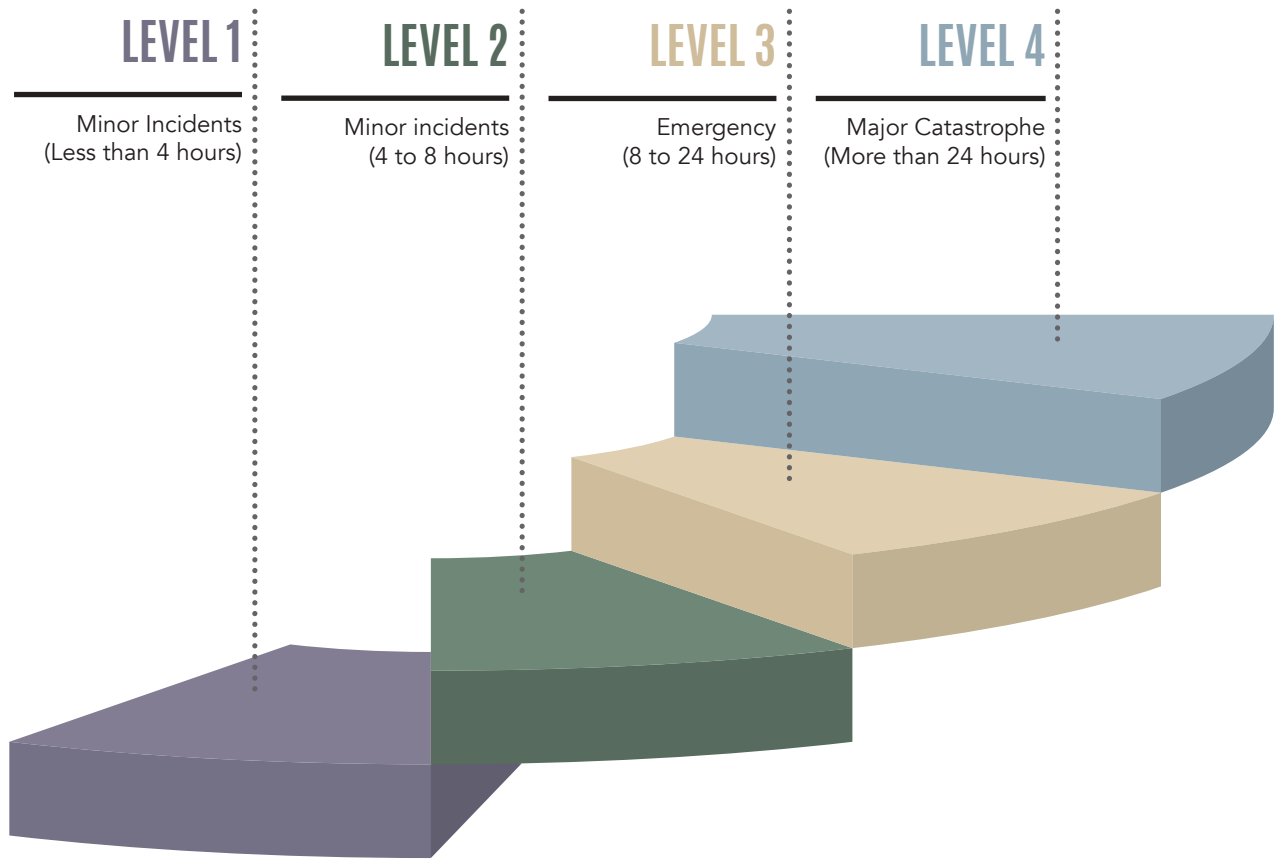


Diagram 9:  
Labuan FSA's Emergency Level

# LABUAN IBFC INDUSTRY PERFORMANCE



For further information,  
please go to: [www.labuanibfc.com](http://www.labuanibfc.com)



# LABUAN IBFC INDUSTRY PERFORMANCE

LABUAN IBFC'S STRONG FOUNDATION HAS ENABLED THE BUSINESS CONTINUE TO GROW AND EXPAND IN 2018. THIS WAS MADE POSSIBLE BY A FACILITATIVE BUSINESS REGIME IN A WELL-REGULATED ENVIRONMENT AND SUPPORTED BY A POOL OF PROFESSIONAL SERVICE PROVIDERS IN THE CENTRE. OVERALL, THE LABUAN IBFC INDUSTRY RECORDED ANOTHER YEAR OF STRONG PERFORMANCE WITH BROAD-BASED GROWTH ACROSS KEY BUSINESS SECTORS IN 2018.

## HIGHLIGHTS OF KEY BUSINESS SECTORS PERFORMANCE IN 2018



### COMPANIES

In tandem with the growing pace and potential of Asia's economies, Labuan companies registered an increase of 12.5% in new incorporations.



### INSURANCE

The improving economic conditions have brightened Labuan insurance industry and it garnered a double digit growth of 19.1% in total gross premium underwritten.



### BANKING

Despite challenging international banking landscape, Labuan banks stood resilient and maintained their business momentum with lending activities recorded historical high.



### COMMODITY TRADING

Recovery of oil prices spur the performance of Labuan commodity trading business and this has significantly increased the profitability of LITCs by 63.2%.



### INNOVATIVE FINANCIAL SERVICES

The rapid embrace of financial innovation bodes well for the growing FinTech-related business in Labuan IBFC using a ready suite of structures and solutions.

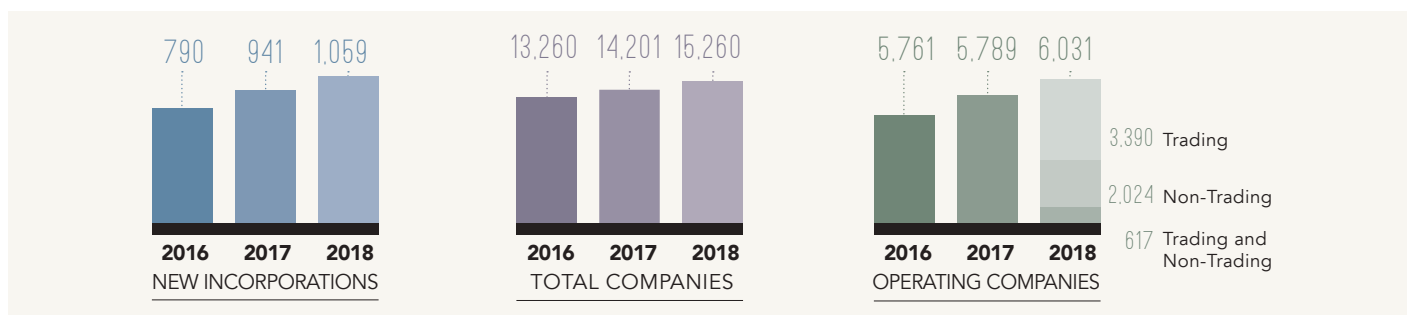
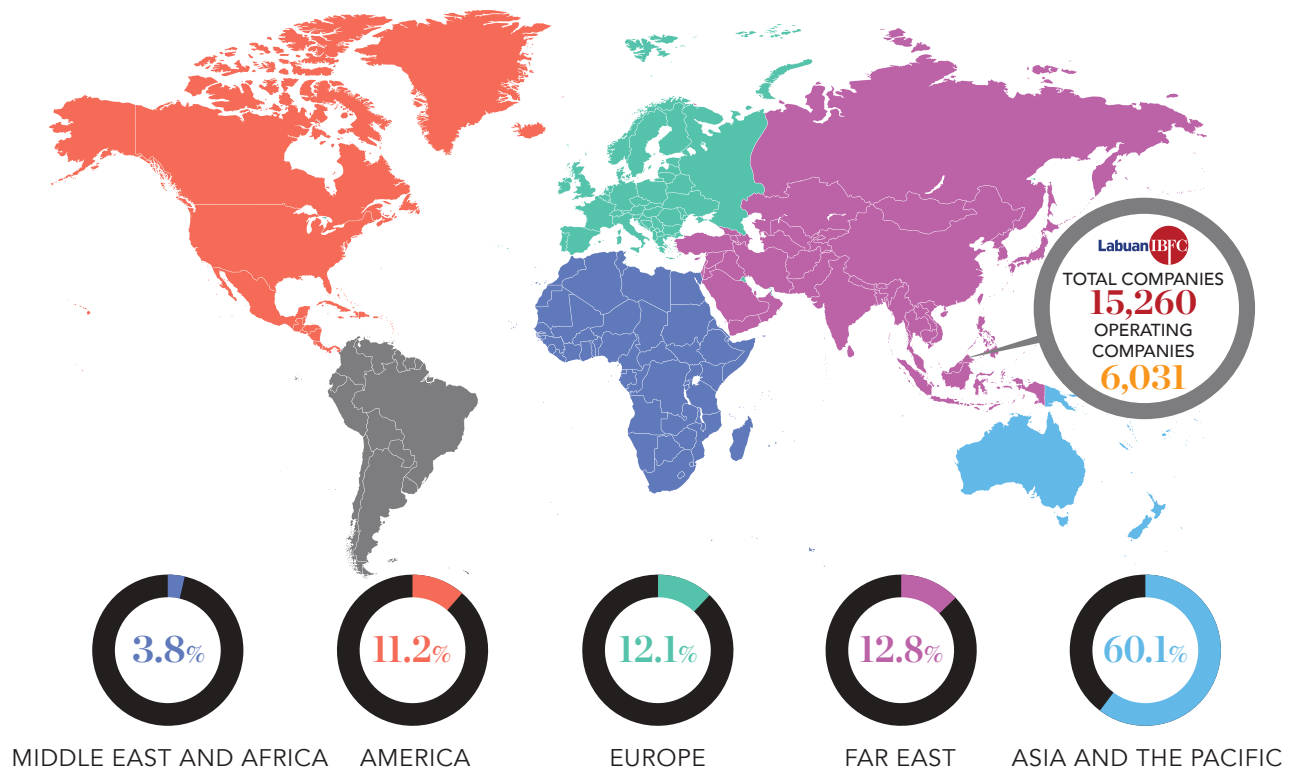


## LABUAN IBFC INDUSTRY PERFORMANCE

### COMPANIES

The year saw a double-digit growth of 12.5% in new company incorporations, bringing the total number of companies to 15,260 (2017: 14,201). 60.1% (2017: 61%) of the total companies originated from Asia and the Pacific region. There was an increase in establishment of companies from the Far East region at 12.8% from 9.8%. Representation from Europe stood at 12.1% (2017: 12.6%) and followed by America, and the Middle East and Africa, accounted for 11.2% (2017: 12.1%) and 3.8% (2017: 4.5%), respectively.

Operating companies increased to 6,031 with a hike of 4.2% from the previous year. 3,390 were trading companies while 2,024 were established solely for holding of investments.





## LABUAN IBFC INDUSTRY PERFORMANCE

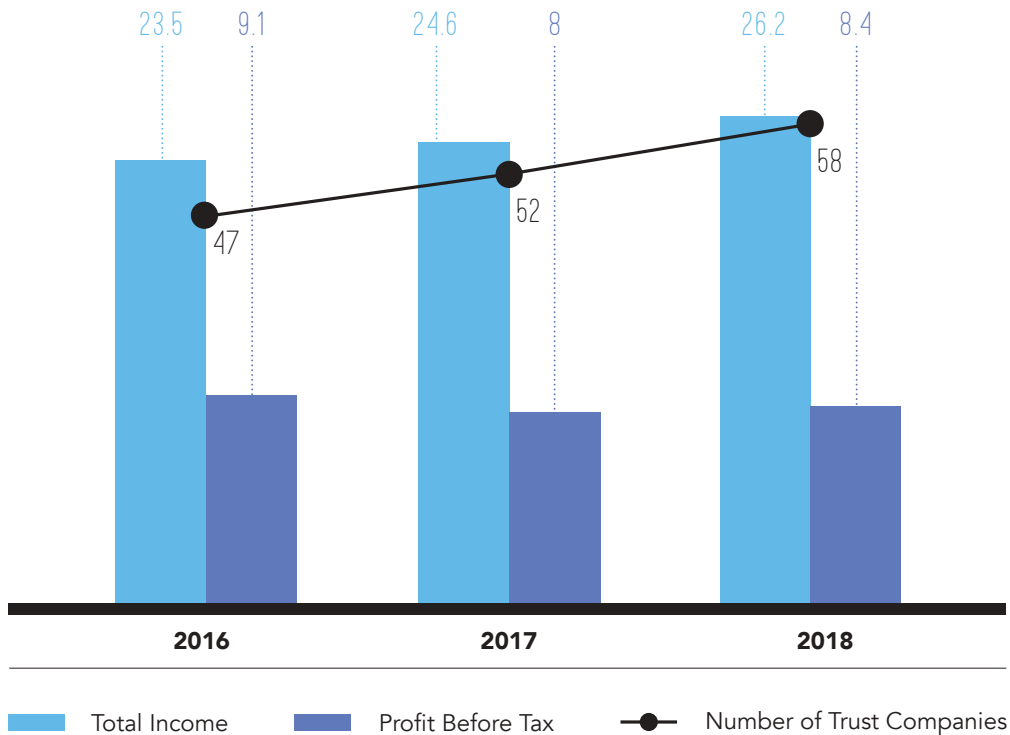
### TRUST COMPANIES

The increase in company incorporation has boosted the growth of the trust and corporate services sector in Labuan IBFC. These service providers offer a wide range of services to entities across the market as well as to the international investors.

In 2018, six new trust companies were approved, comprising two full-fledged trust, three managed trust and one private trust company. This brings the total number of trust companies to 58 (2017: 52), an increase of 11.5% from last year.

The total income of the trust companies increased by 6.5% to USD26.2 million (2017: USD24.6 million) and this led to a 5.1% increase in the sector's profitability to USD8.4 million (2017: USD8 million). The income was mainly derived from secretarial, trusteeship, accounting and administrative activities.

#### PROFITABILITY (In USD Million)



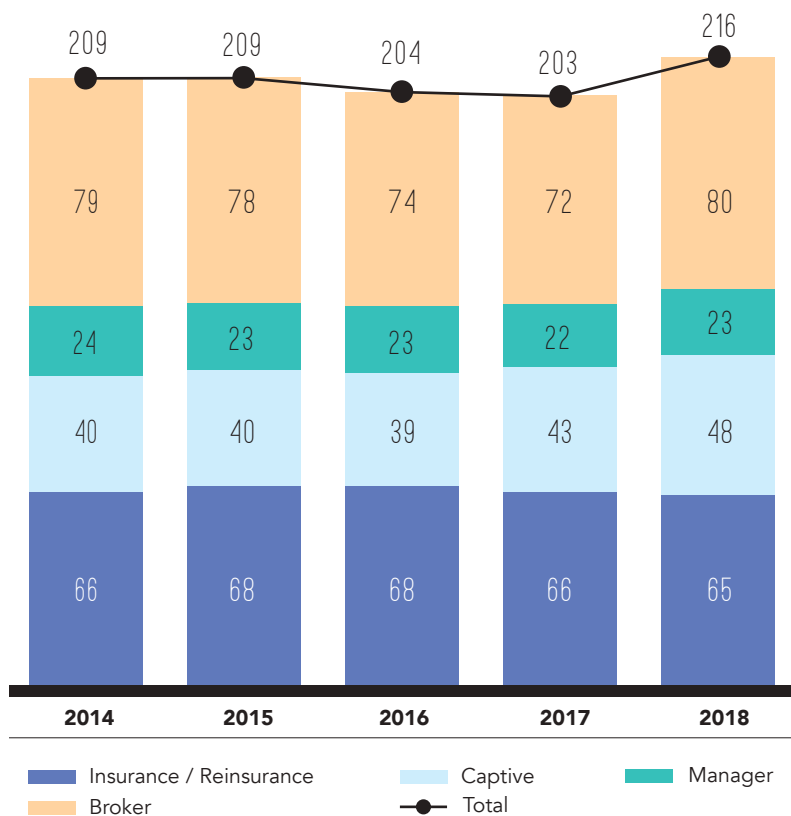


## LABUAN IBFC INDUSTRY PERFORMANCE

### INSURANCE

Labuan IBFC's insurance market has been buoyed by the region's growth momentum. During the year, 22 insurance and insurance-related entities were approved, comprising six captives, 13 brokers, two reinsurers and one underwriting manager. During the year, six licensees have surrendered their licences because of business decisions or inability to continue their business on going concern basis. Furthermore, three licensees have had their licences revoked due to non-compliances with the requirement of the Labuan laws. This brings the total number of approved Labuan insurance and insurance-related entities to 216 (2017:203).

**NUMBER OF LABUAN INSURANCE AND INSURANCE-RELATED ENTITIES**



**TOTAL ASSETS**  
(In USD Billion)







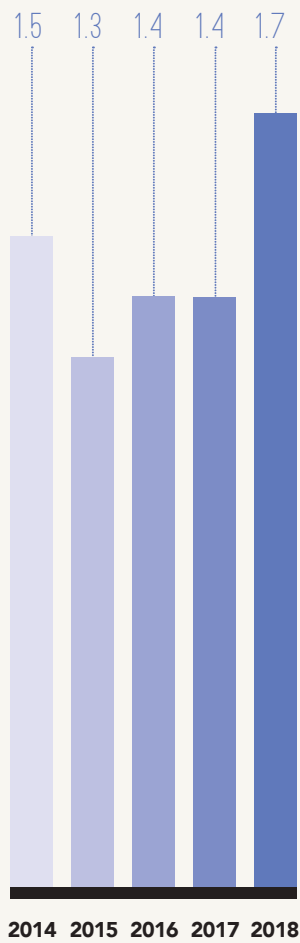
## LABUAN IBFC INDUSTRY PERFORMANCE

Total assets increased by 3.3% to USD4.2 billion (2017: USD4.1 billion), mainly attributed to the increase in amount due from ceding/related companies. Fixed deposits and money market remained the largest portion of total assets components, representing 22.4% or USD948.5 million (2017: USD958.9 million).

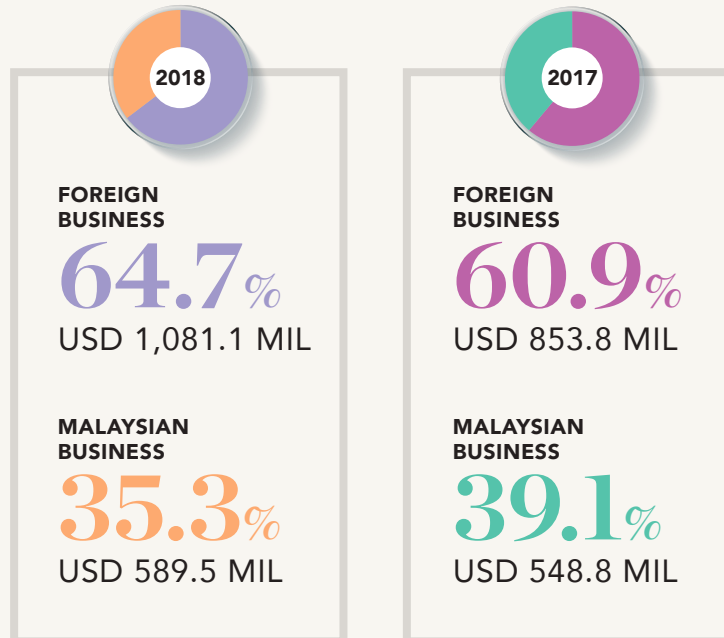
The Labuan insurance sector garnered a significant double-digit growth of 19.1% in its total gross premiums to USD1.7 billion (2017: USD1.4 billion). The increase was mainly due to the growth in gross premiums written on fire insurance outside of Malaysia by the Labuan general (re)insurers. Non-resident business continued to dominate the reinsurance activity with a higher share of 64.7% (2017: 60.9%) and fire sector remained the biggest contributor of 39.8% or USD664.9 million (2017: USD514.9 million) of the total gross premiums.

### TOTAL GROSS PREMIUMS

(In USD Billion)

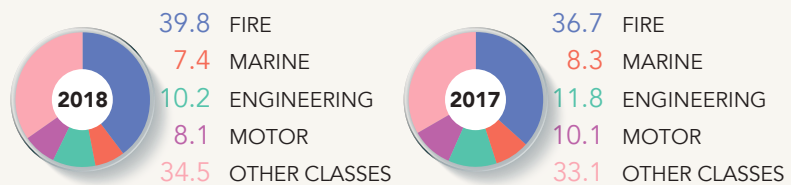


### PREMIUMS BY ORIGIN



### DISTRIBUTION OF GROSS PREMIUMS

(In %)



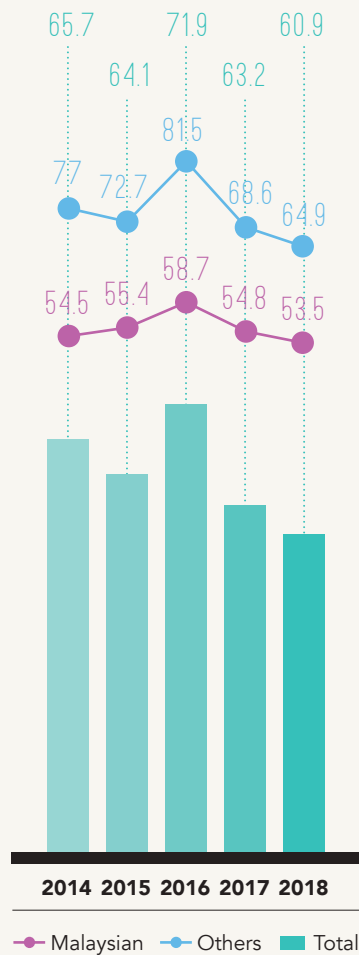


## LABUAN IBFC INDUSTRY PERFORMANCE

The overall net retention ratio of the industry decreased to 60.9% with the reduction of retention in the motor, marine and other sectors. Nonetheless, motor sector recorded the highest total net retention at 73.3%. The industry earned premium income increased by 14% to USD982.8 million (2017: USD862.4 million), hence, increase in underwriting margin by 4.3% to USD95.8 million (2017: USD91.9 million). The commission and management expenses recorded an increase of 19.5% and 16.9% to USD206.3 million and USD59 million, respectively. Net claims incurred recorded an increase of 13.6% to USD621.7 million, consequently, the profit before tax decreased by 22.1% to USD132.3 million (2017: USD169.9 million).

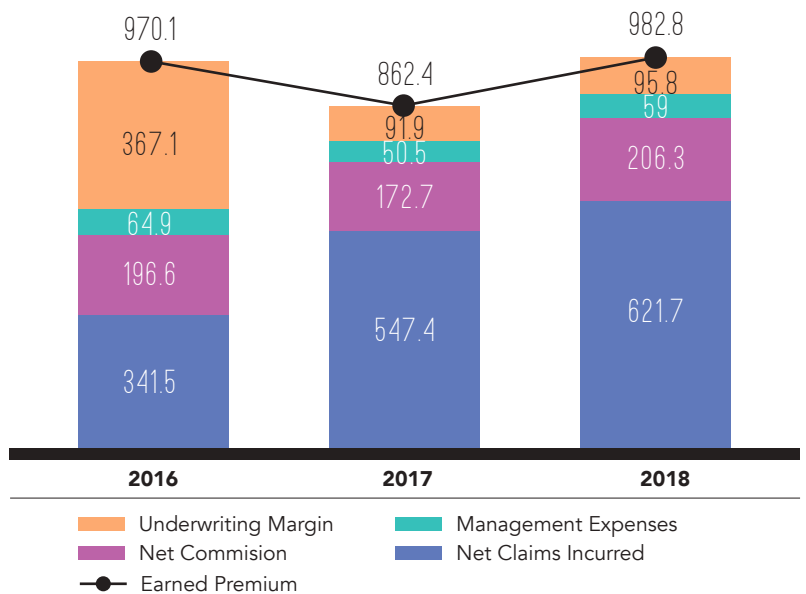
### NET RETENTION RATIO

(In %)



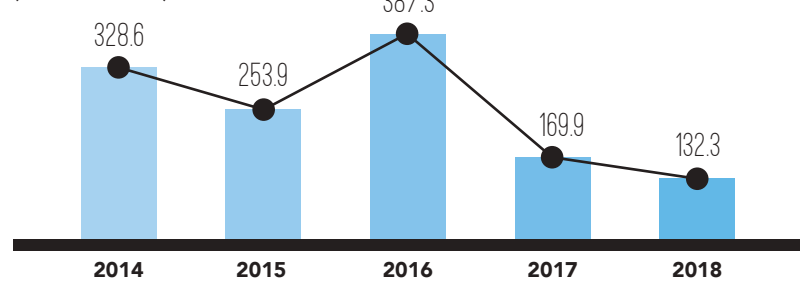
### UNDERWRITING MARGIN

(In USD Million)



### PROFITABILITY

(In USD Million)

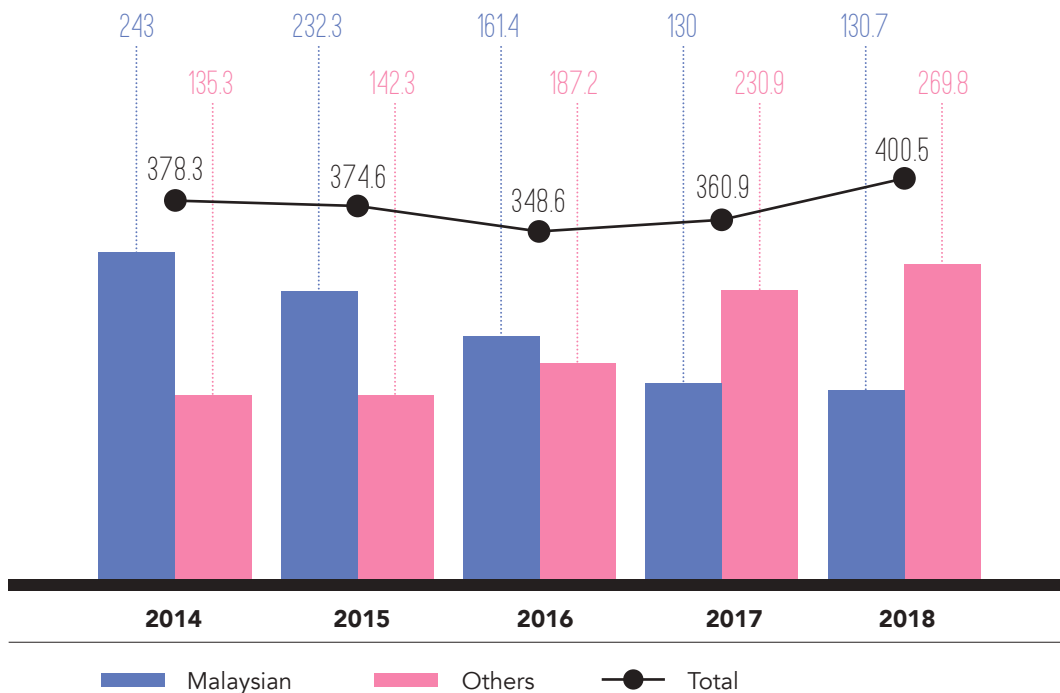




## LABUAN IBFC INDUSTRY PERFORMANCE

Captive business continued to grow with more than half of the captive insurance premiums coming from international markets. The total gross premiums for captive insurance business increased by 11% to USD400.5 million (2017: USD360.9 million). Engineering sector and other classes of business continued to be the main sectors that contributed to the increase in total gross premiums of the captives with USD98.7 million (2017: USD101.5 million) and USD246.1 million (2017: USD212.2 million), respectively.

### TOTAL GROSS PREMIUMS (In USD Million)



6.4 FIRE  
4.3 MARINE  
37.7 ENGINEERING  
0.6 MOTOR  
51.1 OTHER CLASSES



7.1 FIRE  
5.4 MARINE  
28.1 ENGINEERING  
0.6 MOTOR  
58.8 OTHER CLASSES



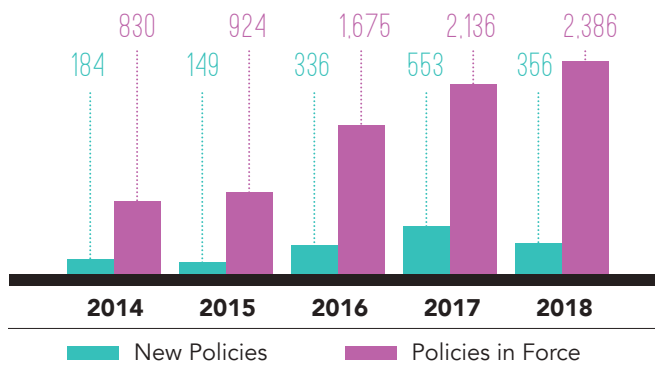
9.7 FIRE  
3.7 MARINE  
24.6 ENGINEERING  
0.5 MOTOR  
61.4 OTHER CLASSES



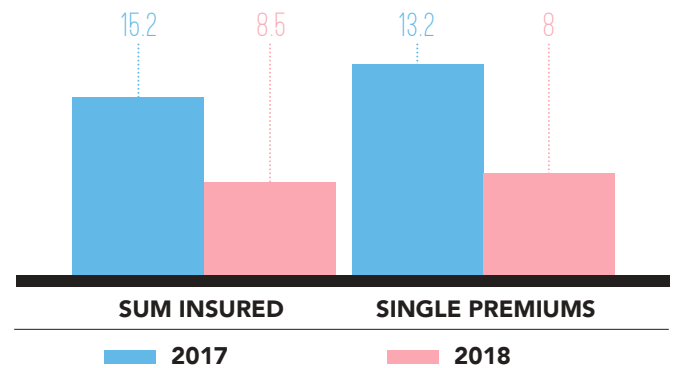
## LABUAN IBFC INDUSTRY PERFORMANCE

For life insurance business, a total of 356 new investment-linked policies were issued in 2018 with a total of USD8 million worth of premiums. (2017: USD13.2 million) The total number of policies in force increased by 11.7% to 2,386.

### NUMBER OF INVESTMENT-LINKED POLICIES

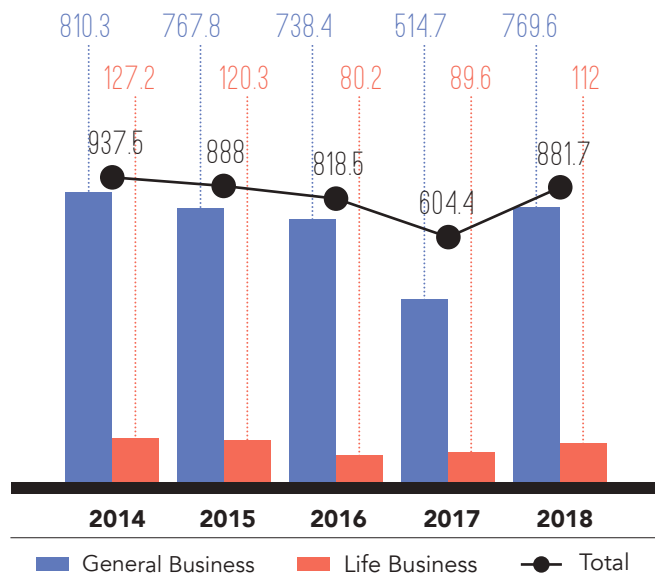


### NEW INVESTMENT-LINKED POLICIES (In USD Million)

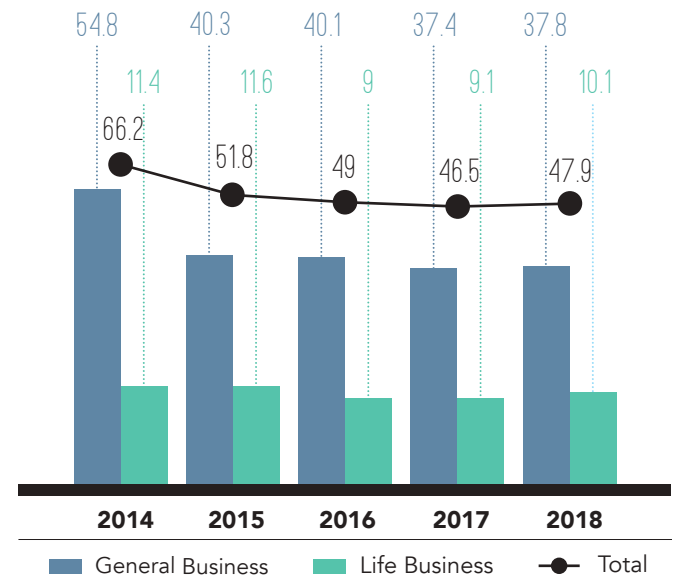


The total premium placement by the Labuan insurance brokers increased by 45.9% to USD881.7 million (2017: USD604.4 million). The general insurance business contributed 87% of the total premium placement, mainly derived from the international market. The brokerage fees earned by the Labuan insurance brokers improved slightly by 3% to USD47.9 million (2017: USD46.5 million).

### PREMIUMS PLACEMENT (In USD Million)



### BROKERAGE FEES EARNED (In USD Million)

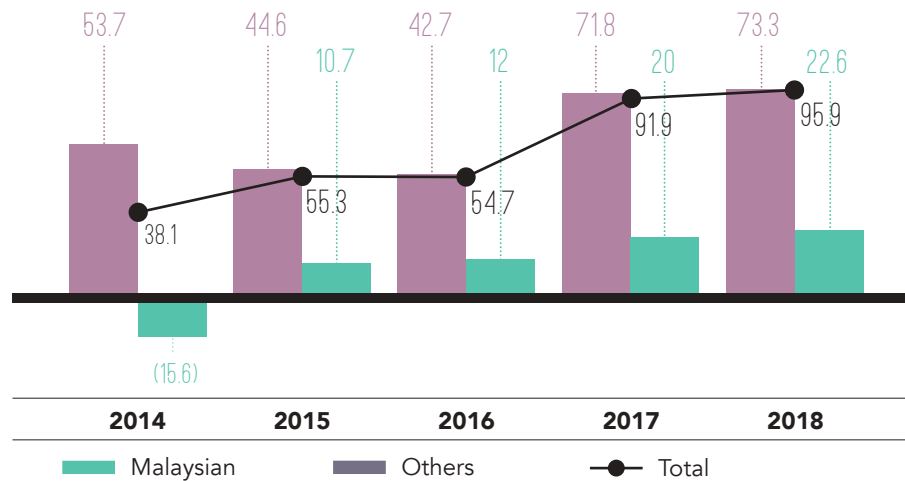




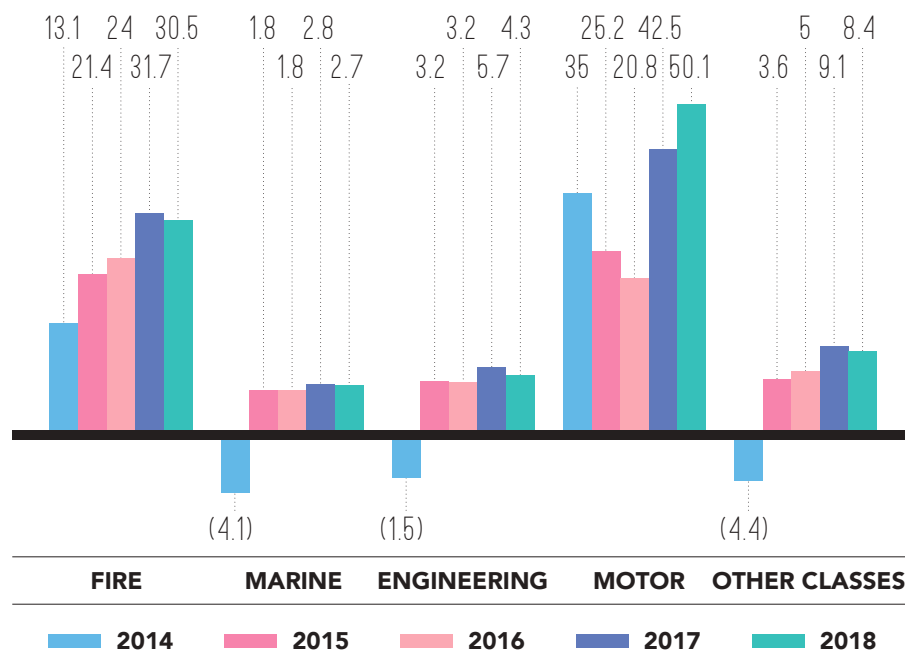
## LABUAN IBFC INDUSTRY PERFORMANCE

The total gross contribution for (re)takaful sector also improved by 4.4% to USD95.9 million (2017: USD91.9 million) with motor sector remained the highest contributor of 52.2% or USD50.1 million.

### TOTAL GROSS CONTRIBUTION (In USD Million)



### DISTRIBUTION OF GROSS CONTRIBUTION (In USD Million)





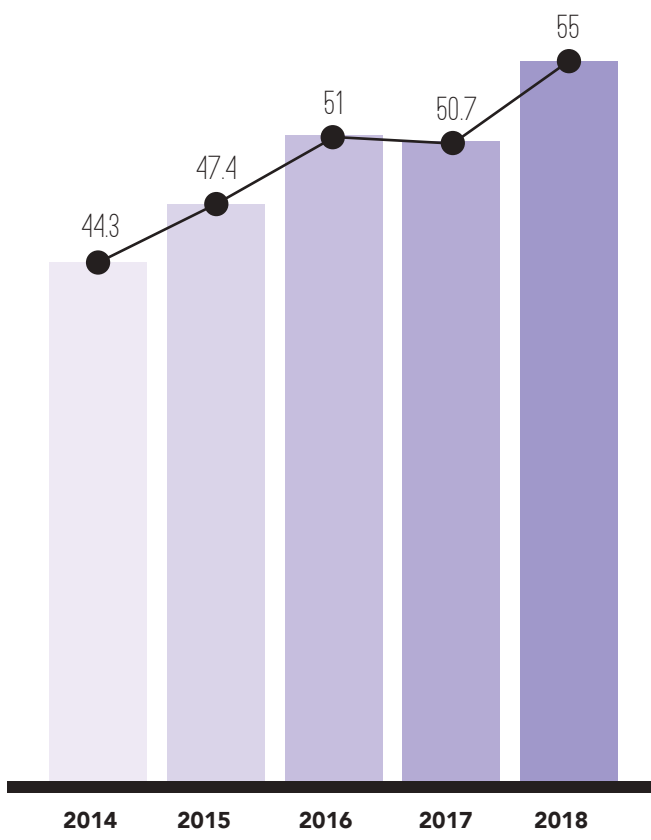
## LABUAN IBFC INDUSTRY PERFORMANCE

### BANKING

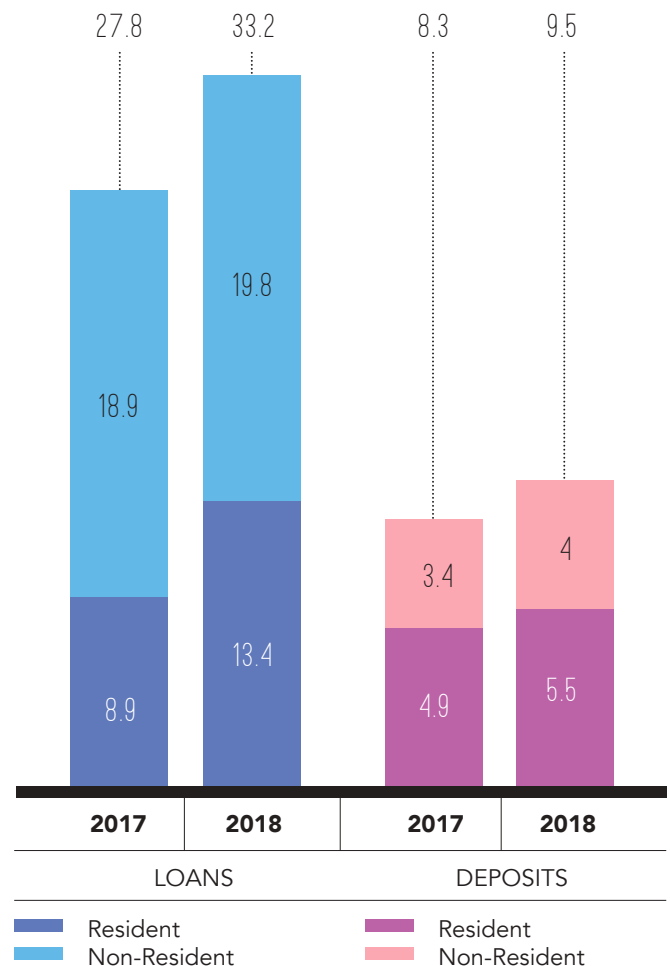
The banking sector continued to grow with the entrance of one commercial bank and one investment bank, bringing the total number of banks to 55 in 2018. The banks maintained their business momentum with a steady level of earnings, positive liquidity and quality assets.

Total assets improved by 8.4% to USD55 billion (2017: USD50.7 billion) due to higher financing, particularly in the manufacturing sector. In terms of capital, the shareholders' funds of Labuan banks increased to USD3.5 billion. Borrowing from head offices and financial institutions continued to be the primary funding source for Labuan banks, comprising 71.4% or USD39.2 billion (2017: USD36.6 billion).

#### TOTAL ASSETS (In USD Bilion)



#### LOANS AND DEPOSITS (In USD Billion)





## LABUAN IBFC INDUSTRY PERFORMANCE

Total loans increased by 19.1% to USD33.2 billion (2017: USD27.8 billion) with non-resident customers contributing 59.7% or USD19.8 billion (2017: 68%, USD18.9 billion) of the loans portfolio. The total customer deposits increased by 14.6% to USD9.5 billion. Deposits from residents amounted to USD5.5 billion or 58%.

Financing extended to manufacturing sector showed a growth of 142.2% or USD3.9 billion during the year. The new lendings were mainly to oil and gas related and electronic businesses.

### FINANCING BY SECTOR

(In %)

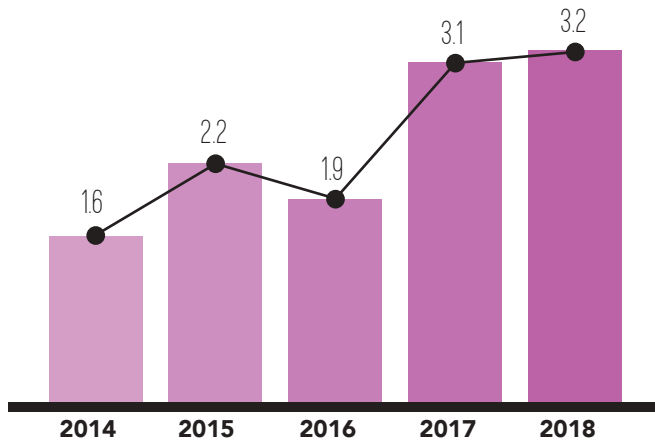


The banking sector's profit before tax registered a growth of 10.1% to USD500.3 million in 2018 (2017: USD454.6 million).

The Islamic banking business also continued to grow in financing and customer deposits, with total assets up by 2.4% to USD3.2 billion, and total financing up by 8.4% to USD2.7 billion and non-resident customers accounted for 70.4% of the total financing. The total Islamic deposits rose by 10% to USD212.7 million.

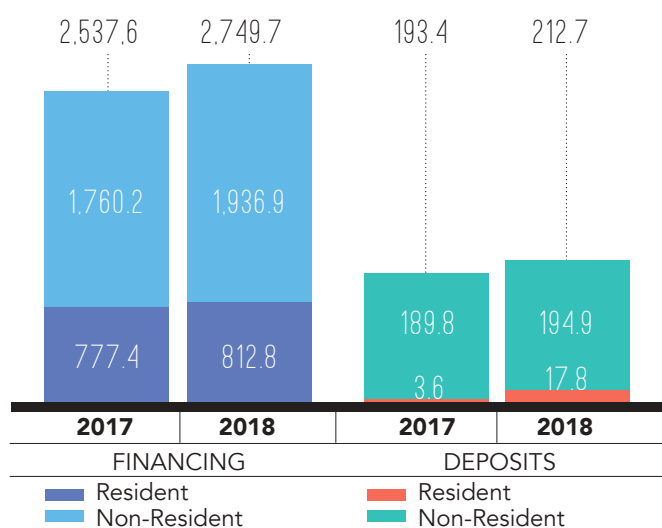
### TOTAL ISLAMIC ASSETS

(In USD Billion)



### FINANCING AND DEPOSITS

(In USD Million)







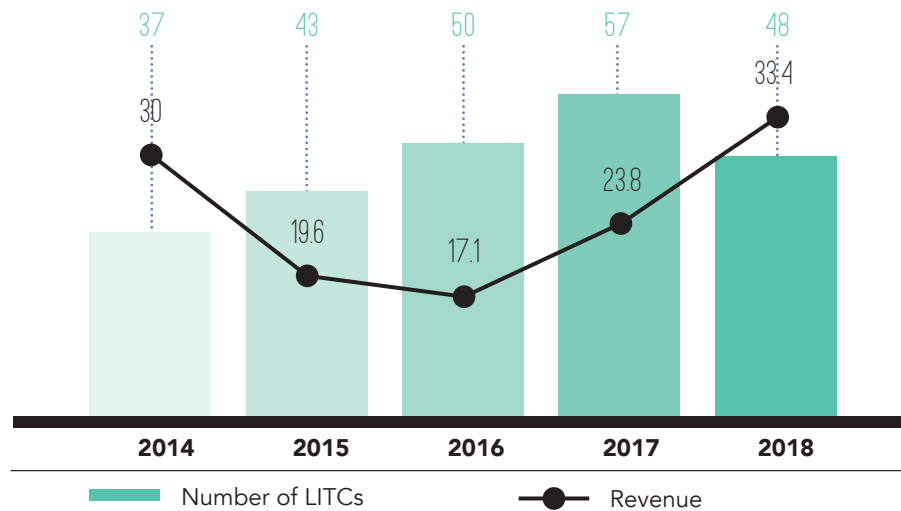
**LABUAN IBFC  
INDUSTRY PERFORMANCE**

**INTERNATIONAL COMMODITY TRADING**

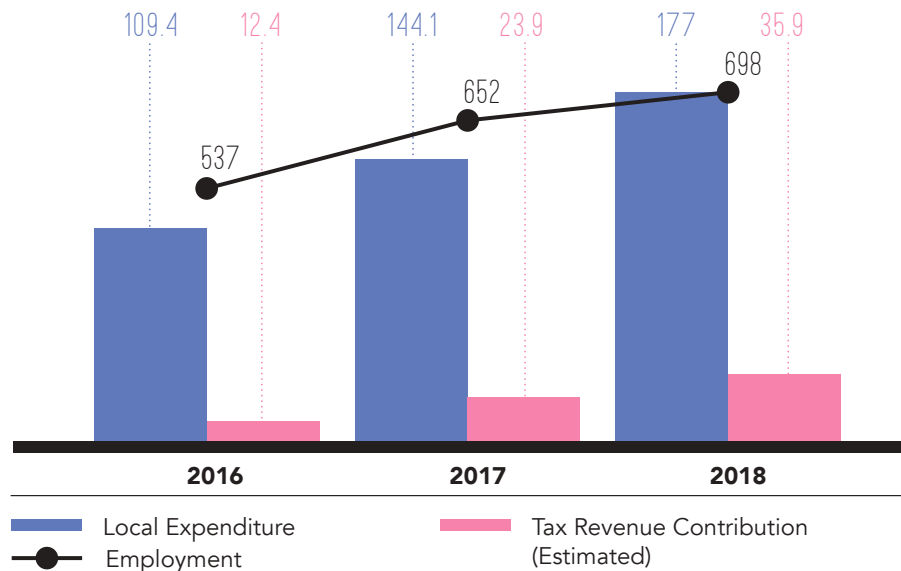
The recovery of global oil prices in 2018 has spur the performance of the international commodity trading business. This led to a significant improvement in the Labuan International Commodity Trading Companies (LITC)'s profitability by 63.2% to USD1.2 billion (2017: USD755.4 million).

The total revenue of LITC increased by 40.4% to USD33.4 billion while total expenditure incurred decreased by 7.9% to USD307.6 million. More than half, 57.6% or USD177 million (2017: USD144.1 million) out of the total expenditure was spent in Malaysia.

**TOTAL REVENUE**  
(In USD Billion)



**LOCAL SPENDING**  
(In USD Million)



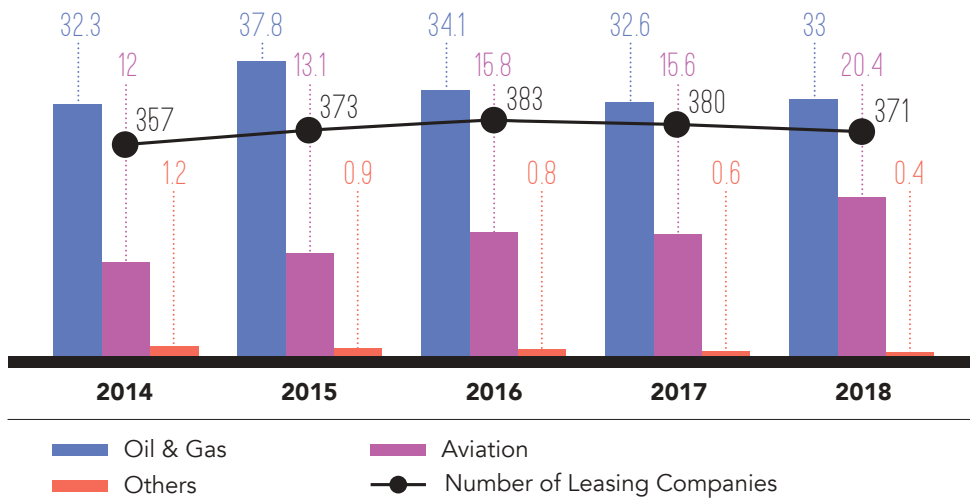


LABUAN IBFC  
INDUSTRY PERFORMANCE

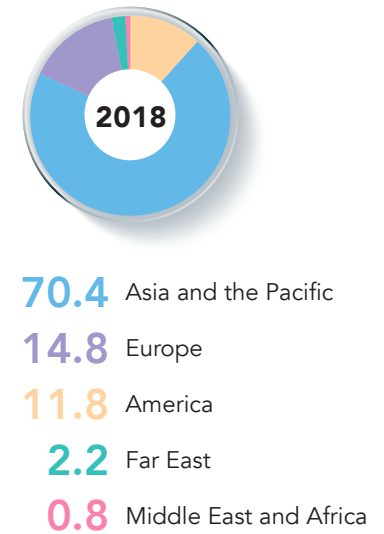
LEASING

The leasing companies rationalised their business operations in 2018 to comply with the global change in economic substance requirements. Although the consequential effect of the rationalisation has resulted in lower number of leasing companies, the cumulative value of assets leased expanded by 10.2% to USD53.8 billion (2017: USD48.8 billion) with oil and gas and aviation sectors contributing 61.3% and 37.9% (2017: 66.9% and 31.9%), respectively.

TOTAL COMPANIES AND LEASED ASSETS BY SECTOR  
(In USD Billion)



THE ORIGIN OF LEASING COMPANIES  
(In %)



70.4% (2017: 68.2%) of the Labuan leasing companies originated from Asia and the Pacific region. The remaining 29.6% were from Europe (14.8%) (2017: 15.5%), America (11.8%) (2017: 13.2%), Far East (2.2%) (2017: 2.4%) and Middle East and Africa (0.8%) (2017: 0.8%).

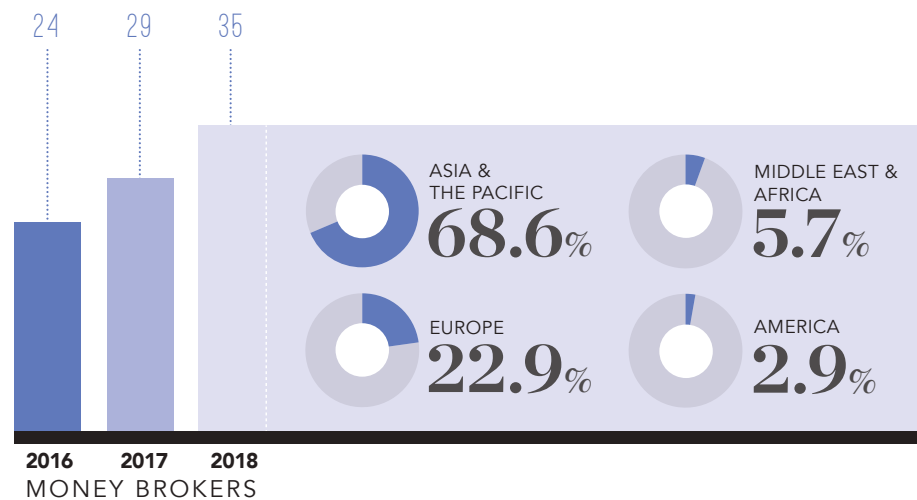


## LABUAN IBFC INDUSTRY PERFORMANCE

### INNOVATIVE FINANCIAL SERVICES

In 2018, many Fintech start-ups established innovative financial services-related businesses in Labuan IBFC; offering a ready suite of structures and solutions in the areas of money broking and capital market.

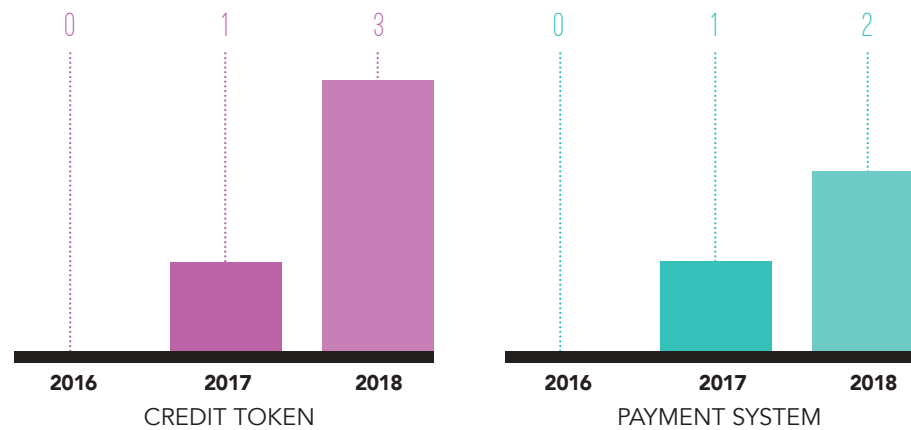
Money broking business continued to grow with increasing interest to provide a platform for trading of digital assets due to the established legal framework. In 2018, nine money brokers were approved of which two were licensed to provide digital currencies as part of their money broking operations, bringing the total number of approved money brokers to 35.



68.6% of Labuan money brokers originated from Asia and the Pacific region, mainly from Japan, Hong Kong and Malaysia.

The provisions under the Labuan IBFC laws and guidelines with regard to credit token business and payment system operator have further facilitated the setting up of innovative financial services related activities such as distributed ledger technology and digital currencies.

During the year, three licences were approved for the purpose of issuing asset back tokens and one payment system has also been approved within the credit token business to support the clearing and settlement of funds. In addition, one securities token exchange was approved to provide platform for fiat/cryptocurrency conversion, listing and trading of securities token custodial services of digital assets.





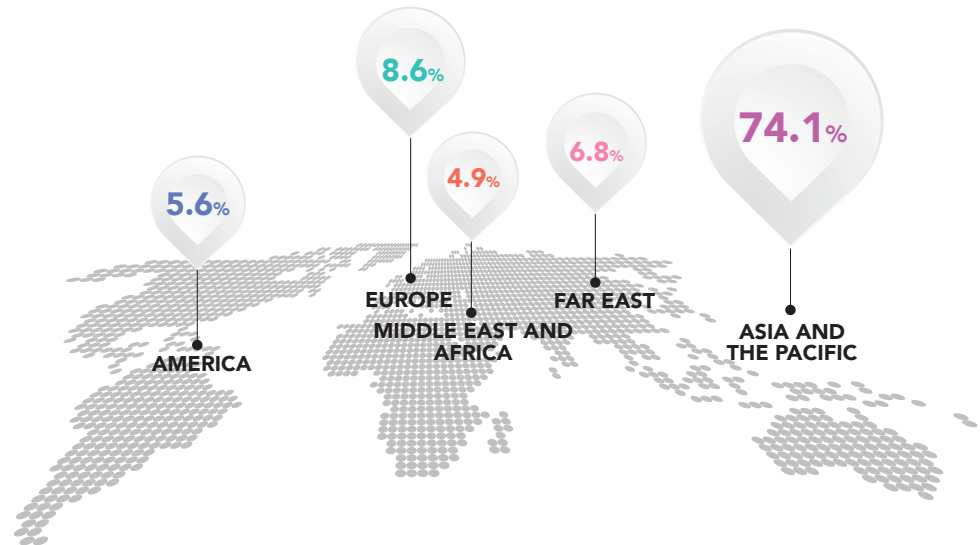
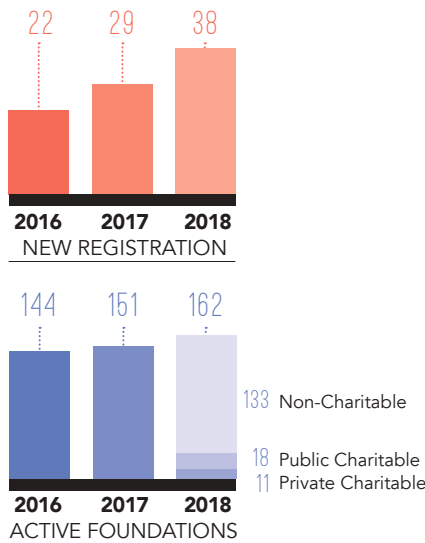
## LABUAN IBFC INDUSTRY PERFORMANCE

### WEALTH MANAGEMENT

The wealth management sector remained strong with continued growth in global assets and rising number of high net-worth individuals (HNWIs) population in Asia. The positive outlook has continued to present opportunities for Labuan IBFC's wealth management solution in the form of Labuan trusts and foundations for estate planning, investment holding and management of private wealth.

In 2018, 38 new foundations were registered, an increase of 31%, bringing the total number of active foundations to 162 (2017: 151). Of the total, 29 (2017: 32) were charitable foundations and 133 (2017: 119) non-charitable. 74.1% (2017: 72.8%) of Labuan foundations originated from Asia and the Pacific region.

#### FOUNDATIONS



### CAPITAL MARKET

There was an increasing demand of money brokers for the past five years to act as intermediaries to provide fund management services, advisory services and fund administration. These intermediaries were also moving towards using Fintech solutions in the form of electronic trading platform to provide value added services to their clients to trade in foreign exchange.

In 2018, five fund management companies were granted approval, bringing the total number of fund management companies to 19 while the number of securities licensees remained at 10.

Ten new private funds were registered and two ceased their operations, bringing the total number of private funds to 62. The total cumulative fund size increased by 9.2% to USD13.1 billion. Most of these funds were used as investment vehicles for infrastructure projects in the ASEAN region.

### EXCHANGE

In 2018, Labuan International Financial Exchange (LFX) recorded one new listing with a market capitalisation of USD320 million, and two existing instruments were delisted upon reaching maturity, bringing the total number of active listings to 30.

The total market capitalisation declined by 1% to USD24.3 billion. Of the total, 31.7% or USD7.7 billion were sukuk listings.

# POLICY DEVELOPMENT



For further information,  
please go to: [www.labuanibfc.com](http://www.labuanibfc.com)



# POLICY DEVELOPMENT

## PRUDENTIAL POLICIES DEVELOPMENT

### I. Strengthening the Financial Resilience of Key Sectors

2018 marks as a milestone year that saw moderation in intensity for new prudential regulations. This however is not a reflection of lesser emphasis on safety and soundness but rather the accumulation of prudential upscaling efforts since 2013 to harmonise with the requirements of the international standards and best practices. Major efforts were made to complete the final process in modernising the financial regulations, for both the Labuan insurance and banking sectors.

- **Developments of the Insurance Capital Adequacy Framework (ICAF)**

For 2018, ICAF initiatives to complete the capital regulations for the insurance sector were continued. The year saw full operationalisation of the insurance liabilities valuation requirements to ensure that these are valued in a realistic and market-consistent manner. Labuan FSA's efforts for 2018 was then to construct a set of meaningful risk-based capital (RBC) requirements which were exposed to the industry via a consultative paper. In essence, the proposed RBC aims:

- (i) to ensure that players maintain sufficient regulatory capital level that commensurate with their risk profile regardless of size and business operations;
- (ii) to calibrate the extent of capital buffer required by individual insurer vis-à-vis the nature, type and extent of both the businesses underwritten as well as their portfolio of investment held;

- (iii) to provide the foundation for capital management for an insurer to use in managing and strategising its business; and
- (iv) to have a practical set of capital rules that is suited to Labuan's predominantly international insurance business which focuses on non-life sector.

Based on the industry's comments and recommendations received, Labuan FSA will undertake a quantitative impact study in 2019 prior to finalising the RBC framework.

- **Review of Captive Solvency Requirements**

In tandem with the ICAF initiatives, Labuan FSA had also undertaken a review of the solvency requirements for Labuan captive insurance business. The intention was to identify other capital requirements which would better suit the captives other than the existing solvency margin of their commercial insurer counterparts. Furthermore, the businesses and operations of a captive is far smaller than a normal insurer due to underwriting of own or group-related risks. With lesser regulatory concerns, proportionate capital regulation as evidenced in other prominent international captive centres around the world can also be emulated in Labuan. The industry's views have been sought on the modified solvency approach before the Authority firms up the sector's new capital regulations.

- **Greater Guidance on Implementing the Banking Capital Adequacy Framework (BCAF)**

The year also shows a significant shift for the Labuan banks as they transition into Basel II and III capital rules when BCAF took effect on 1 July 2018. To





## POLICY DEVELOPMENT

complement the requirements of BCAF Guidelines, a list of Frequently Asked Questions with regulatory advice were issued to guide and address various implementation queries raised by the industry.

### II. Promoting Effective Corporate Governance

In addition to promulgating financial soundness, Labuan FSA continued to drive for good corporate governance and culture during the year with regard to the key markets in Labuan IBFC.

- **Enhancing the Governance Practices for Labuan Banks and Labuan Insurers**

Taking cognisant that effective corporate governance is critical to the proper functioning of the Labuan banks and (re)insurers, a review was made on the previous governance requirements for the two financial sectors to ensure consistency as well as taking into account the benchmarks' requirements and best practices. This culminated into a revised governance framework issued to the industry which included the following new tenets:

- (i) enhancements to the role and responsibilities of the board and senior management including establishment of board committees;
- (ii) guidance on instituting a sound risk culture to drive good risk management which included ensuring effective internal control functions as well as cyber risk management; and
- (iii) promotion of business transparency and integrity of the Labuan banks and (re)insurers.

- **Refinements to the External Auditors Framework**

Following the issuance of the Guidelines on External Auditors engaged by Labuan Financial Institutions,

a clarification note was issued to provide further guidance on the implementation of the requirements for the Labuan banks and (re)insurers. This includes clarification made on the flexibility accorded to the annual appointment of the external auditor as well as for branch entities.

## BUSINESS POLICIES DEVELOPMENT

### I. Innovation-Led IBFC via Innovative Financial Services Solutions

With the increasing technological waves sweeping the global financial landscape, FinTech has increasingly become a prominent feature in the Asian markets, including Labuan. The Centre recognised the vast business opportunities offered by this development and has been, over the last two years, been embracing these innovations. Exclusively branded as Innovative Financial Services (IFS) in the Labuan market, Labuan FSA had made it publicly known over the year of its active advocating for FinTech propositions which can cater for demands from the vicinity Asian markets:

- A market circular issued in June 2018 announced of Labuan FSA's stance in promoting IFS as part of the Centre's market innovations and the national agenda for digital economy. It also emphasises for IFS providers to be mindful of regulatory fundamentals such as the requirements of Malaysia's anti-money laundering and counter financing of terrorism, market conduct, cyber risk management and sound governance.



## POLICY DEVELOPMENT

- Press release on the Labuan IBFC's promotion of IFS which can be readily paired with the plethora of financial solutions that are already readily being offered by the Centre. The public was also informed of a list of Frequently Asked Questions which has been provided to better guide prospects interested in starting up IFS in Labuan IBFC.

### II. Promoting Growth and Expansion of the Labuan Insurance Market

In line with past year's strategic intent to expand this sector, in 2018, Labuan FSA continued to facilitate the growth pace of the Labuan insurance industry by granting greater liberalisation and providing more guidance to the market.

- **Liberalising the Labuan Life Insurance Business**

Revisions were made to Guidelines on Permissible Life Insurance Business with High Net-Worth Malaysian Individuals to effect deregulation of operating cost control limits on Labuan life insurers which have tie-ups with Malaysian financial institutions as distribution channels. The revision entailed removal of limits on the commissions payable to Malaysian banking institutions which participate in bancassurance arrangements with Labuan life insurers as well as to Malaysian agents in respect of marketing Labuan investment-linked products.

- **Greater Clarity on Labuan Captives Insurance Business**

A clarification note was issued to the market on the insurable risks of the (re)insured that Labuan captives can underwrite. It was explained that these risks should be linked back to those of a captive's own group (i.e. a pure captive); or of parties related to the captive (e.g. association captive). This business scoping would also apply for rental captive vehicles such as protective cell companies.

- **Explaining the Role of Labuan Insurance and Underwriting Managers**

To instil greater awareness on the Labuan insurance service providers, a guidance note was issued to outline the range of professional services that can be offered by Labuan insurance and underwriting managers (Labuan Managers) to their principal (re)insurers. This enhances the business visibility of the roles that are played by Labuan Managers as one of the key intermediaries within the Labuan insurance ecosystem.

### III. Continuous Enhancement to Labuan Business Regulations

As part of the Authority's continuous efforts to ensure relevancy of the Centre's business regulations vis-à-vis international standards, business requirements continued to be reviewed and revised accordingly. In 2018, this entailed a revision of the Labuan leasing business regulations to incorporate recommendations of the Organisation for Economic Co-Operation and Development (OECD) under the Forum on Harmful Tax Practices (FHTP).

For 2018, the same efforts continued with the review of the requirements for Labuan international trading companies under the Global Incentives for Trading Programme. Among others, restrictions on resident dealings and in ringgit currency were removed; whilst the licence conditions relating to minimum annual turnover and types of professional traders were revised to reflect better market practicality.



## POLICY DEVELOPMENT

### TAX POLICY DEVELOPMENT

#### I. Conforming to International Tax Standards and Requirements

- **Forum on Harmful Tax Practices by the Organisation for Economic Co-operation and Development (OECD)**

Several initiatives have been undertaken in 2018 in line with OECD's Forum of Harmful Tax Practices (FHTP). The key actions include removal of 'ring-fencing' elements in Labuan laws which restrict Labuan entities from dealing with residents and in ringgit as well as introduction of substantial activities requirements in Labuan IBFC. The substance regulation was gazetted on 31 December 2018 and took effect on 1 January 2019. With the amendments made to Labuan legislations, FHTP has concluded that Labuan IBFC is in compliance with the FHTP's standards and not harmful.

- **Global Forum on Tax Transparency and Exchange of Information**

In October 2018, Malaysia including Labuan has undergone an assessment via a peer review process for the implementation of the requirements for exchange of information between jurisdictions for tax purposes. The assessment which comprised ten elements covered the following broad categories:

- (i) Availability of ownership, accounting and banking information;
- (ii) Access to information by the competent authority; and
- (iii) Exchange of information.

The preliminary assessment concluded that the rating for Malaysia (including Labuan) as 'Largely Compliant'.

#### II. Labuan New Tax Framework

In tandem with the developments in international tax standards and as part of the continuous efforts to modernise the Centre's tax architecture, the Labuan tax regulations were reviewed. The initiative is to ensure the continued business competitiveness with a sustainable fiscal model that can better integrate Labuan IBFC's growth to the Island's local economy. The salient features of the new Labuan tax framework include:

- (i) Abolishment of RM20,000 tax election by Labuan entities;
- (ii) Labuan trading activities would be taxed at 3% of the net audited profits; and
- (iii) Labuan entities are required to have substantial activities in the Island in order to avail to the Labuan tax incentives.

Through the new tax requirements, it is expected that Labuan entities would not only provide greater fiscal contribution to the nation but also create more employment opportunities in the Island through their substantial activities.

### FACILITATING LABUAN IBFC'S ISLAMIC FINANCE INITIATIVES

With the objective of promoting Labuan IBFC as a market that offers alternative Islamic finance market, Labuan FSA developed business guides to inculcate greater awareness on Labuan Islamic capital and the Islamic wealth management solutions:

- **Guidance on Sukuk Wakala Bi Al-Istithmar**

A market guidance on Sukuk Wakala Bi Al-Istithmar was issued to complement the existing requirements on the issuance and subscription of Labuan sukuk. The business guide highlighted the conducive and flexible requirements for raising funds through sukuk issuance under key Shariah principles in Labuan IBFC. The business guides also highlighted benefits of sukuk issuance out of the Centre which would be useful for prospective issuers and subscribers.

- **Proposed Guidance on Islamic Trusts**

Labuan FSA had tabled the proposed Guidance Note on Islamic Trust at its Shariah Supervisory Council in October 2018 and is expected to be issued in the second quarter of 2019. The business guide is intended to elevate greater market understanding by depicting salient features of the diverse Shariah-based products that can be structured via Labuan IBFC. The end-game is to strengthen further the growth of Islamic wealth management for those which prefer shariah-compliance vehicles as an alternative to the Centre's conventional solutions.



## POLICY DEVELOPMENT

### Financial Stability Committee

In 2018, the Financial Stability Committee (FSC) deliberated pertinent developments as part of its advisory roles in respect of safety and soundness of the Labuan IBFC landscape. The FSC meetings during the year touched on the various prudential regulations and supervisory issues of concerned institutions. In addition, the Committee also discussed the pertinent developments during the year:

- the assessment made by the OECD's FHTP in which Labuan was required to address the ring-fencing elements within its legislation and guidelines and to institute a more transparent set of substantial activity requirements for Labuan entities. Subsequently, the rating of the Centre was revised to 'Not Harmful'.
- the Phase III Peer Review Assessment on Malaysia (including Labuan) in relation to conformity to the OECD's requirements on exchange of information. The FSC was informed that Labuan was cited as to have improved its level of compliance from the Phase II exercise in 2013. Overall the rating for Malaysia was maintained at 'Largely Compliant' with improvements in several areas of assessment.
- the Budget 2019 which was announced by the Finance Minister on 2 November 2018, outlined several fiscal changes to the Labuan tax framework. This includes modernisation of the tax payable requirements as well as introduction of explicit substantial activity requirements for identified Labuan entities. The Committee took note of Labuan FSA's plans to facilitate the implementation of the new requirements for the Labuan players.
- Labuan FSA's assessments on the new financial reporting standards of the International Accounting Standards Board which have or expected to have effects on Labuan banking, insurance and leasing businesses;
- the ongoing works undertaken on by Labuan FSA on the Sectoral Risk Assessments on Labuan as part of the initiatives of AML/CFT.

- sharing on the Securities Commission Malaysia's risk-based supervisory approach and methodology for AML/CFT.

### International Advisory Panel

The International Advisory Panel (IAP) of Labuan FSA met in August 2018. Key highlights of the meeting include members' input on opportunities in the international business landscape:

- discussions on developments affecting IBFCs, particular, the waves of change arising from China's Belt and Road Initiative (BRI). Taking cue from this, Labuan would opportunise on the expected real economic growth in the countries within the vicinity of the BRI path which can translate into demands for financing that can be offered by the Centre.
- with the increasing regional demand for Malaysia's Islamic finance, opportunities exist for Labuan's Shariah-compliant solutions to be promoted along with the offerings of Malaysia International Islamic Finance to attract more US-denominated Islamic businesses.
- new business prospects for Labuan were also deliberated based on current demands in the region:
  - Growing demands for alternative risk transfers in the form of Insurance-Linked Securities which was still considered as fairly modest in the western reinsurance markets.
  - Increasing FinTech waves in IBFCs, particularly for Blockchain-based offerings.
  - New insurance and banking licences that can be offered by the Centre as proliferation of existing licence offerings. Labuan Managing General Agents as specialised underwriters to serve foreign insurers which are off-Labuan; and Labuan Private Banks that can enrich the Centre's wealth management ecosystem were mooted as possible new business propositions.



## POLICY DEVELOPMENT

### Shariah Supervisory Committee

In 2018, the Shariah Supervisory Committee (SSC) met and deliberated:

- the proposed Guidance Note on Islamic Trust in Labuan IBFC intended as essential guidance for prospects to gain insights on the fundamentals of Labuan Islamic trusts and how such Shariah-compliant solutions can be used for wealth management and succession planning; and
- the Islamic finance market development initiatives planned by Labuan FSA including promotional activities by LBFC Inc.

## ANTI-MONEY LAUNDERING COMBATING THE FINANCING OF TERRORISM (AML/CFT)

2018 reflects an eventful accomplishment for all law enforcement agencies including Labuan FSA in completing the crucial action plans ensemble in the National Strategic Action Plan (NSAP). This ultimately addresses FATF Recommendations highlighted in the Malaysia Mutual Evaluation Report (MER 2015).

Notable achievements were derived from endorsement of the outcome of the National Risk Assessment (NRA) by the National Coordination Committee (NCC) in May 2018. The endorsement relates to identifying national wide threat crimes and vulnerabilities of money laundering (ML) and terrorist financing (TF) risk on financial institutions, non-profit organisations, designated non-financial bodies and professional sectors.

In addition, substantial legislative changes on The Strategic Trade Act 2010 (STA 2010) to implement counter measures on proliferation financing were successfully enacted and implemented in April 2018. The STA 2010 amendments in June 2017 included the listing of Bank Negara Malaysia, Securities Commission Malaysia and Labuan FSA as authorised officers to enforce the STA 2010 on the

Reporting Institutions (RIs). In addition, the Strategic Trade (United Nations Security Council Resolutions) Regulations 2010 (STA Regulations), which sets out the freezing obligation and other relevant sanctions measures on designated individuals and entities was amended in April 2018 to extend the obligations and prohibitions under the STA Regulations to all persons, including foreign individuals and entities in Malaysia.

Further policy review was conducted to complement this implementation across the authorised law enforcement agencies, led by Ministry of International Trade Industry in a joint collaboration with six agencies and ministries, including Labuan FSA, Royal Malaysian Customs Department and Ministry of Foreign Affairs. The Directive on Implementation of Targeted Financial Sanctions (TFS) relating to proliferation financing (PF) was later issued in April 2018 to facilitate the RIs' understanding and compliance with the TFS-PF obligations and restrictions under the STA 2010, STA Regulations, STA Order and the relevant UNSCRs. The Directive is legally binding on all RIs.

The amended STA 2010, STA Regulations and Directives had further improved the overall results of Malaysia to compliant status, thus positioned Malaysia among jurisdictions with the highest technical ratings for Mutual Evaluation Results.

### **Risk Assessment Results**

The NRA 2017 is the third centralised assessment on ML/TF risk for Malaysia, apart from other targeted and sector-based assessments, which Labuan FSA has jointly participated with other law enforcement agencies. The NRA 2017 consists of three separate assessments:

- i. Threat Risk Assessment (TRA)—serious crimes that pose ML threats and probability of these serious crimes to generate illegal funds and disguise their illegal origin.
- ii. Terrorism and TF Risk Assessment (T&TF) assessed under Domestic Review on Non-Profit Organisations (DR-NPO)—terrorism, the probability of raising, moving and using funds to support terrorists' activities.



## POLICY DEVELOPMENT

iii. Sectoral Risk Assessment (SRA)–vulnerabilities of financial and non-financial sectors to risk of ML and TF.

Labuan FSA has provided the relevant data pertaining to the Labuan IBFC's business activities as well as regulatory and enforcement actions undertaken by Labuan FSA as the competent regulator for the jurisdiction. Apart from that, as member of the NCC, Labuan FSA has also involved in moderation during the NCC High-Level meetings, NCC Working Group meetings and other sub-committee meetings under the NCC.

Based on the analysis and methodologies employed, the result of the NRA concluded that there were five types of crimes that pose high money laundering risk threat to the country. Those crimes were:

- Fraud (which comprises fraud-related offences, for example cheating offences under the Penal Code, illegal investments schemes offences under the Financial Services Act, Capital Market and Services Act, Direct Sales and Anti-Pyramid Scheme Act, and Companies Act),
- Drugs trafficking,
- Corruption and bribery,
- Smuggling offences (including evasion of customs and excise duties), and
- Tax crimes.

The NRA is an important tool to facilitate understanding of money laundering and terrorist financing risks facing the country. Understanding of risks is important as it set the foundation upon which our AML/CFT regime is implemented. For an AML/CFT regime to be effective, it has to target the resources and AML/CFT initiatives towards areas that pose the greatest risks.

### Measures of Risk Mitigation

Appropriate national strategies and action plans were developed progressively to mitigate vulnerabilities in

crimes or sectors identified as higher risk, and to address any identified gaps. At the same time, the communication strategies have been initiated including the publication of NRA report.

### Curbing Global Imminent Risk in Proliferation Financing (PF)

The proliferation of nuclear, chemical and biological weapons of mass destructions (WMDs) and their intermediary vehicles has been a persistent threat to global peace and security, which has called for international community alike to formulate policies and action to prevent state and non-state actors from attaining WMDs.

Since 2012, in strengthening domestic counter proliferation finance (CPF) regimes, the UN has created mechanisms for evaluating the progress of member states in meeting their relevant obligations, including issuance of sanctions to countries that poses threats to international peace and security in the form of sanctions committees, expert groups or UN Secretariat monitoring. With the recent issuance of Security Council Resolutions (UNSCR) 2231 which forms a binding obligations to implement restrictions on all UN member states to address threats on WMD proliferation and non-state actors, as well as sanctions regime on North Korea. In tandem to these global initiatives, FATF had in June 2017, further updated the FATF Recommendations on combating money laundering the financing of terrorism and proliferation targeting on harnessing enhanced counter measures required by its members.

At the domestic level, Malaysia as state member and FATF member premised on closing gaps highlighted by FATF in Malaysia MER 2015 Report, the NCC had undertaken comprehensive measures designed to combat proliferation financing including legislation amendments and empowerment of relevant law enforcement agencies to take action against a proliferation-linked transaction, individual or entity.

In closing any legal gaps on the CPF measures, and addressing the widened sanctions regime arising from UNSCRs imposed on DPRK since March 2016, Labuan FSA



## POLICY DEVELOPMENT

as one of the supervisory authority bodies in Malaysia, has jointly conducted the initial assessment and made cognisant approach to impose new obligations through various initiatives below:

- I. Enactment of New Legislations - The Strategic Trade Act 2010 (STA 2010) and The Strategic Trade (United Nations Security Council Resolutions) Regulations 2010 (STA Regulations)
  - New regulatory power to include an able sufficient enforcement powers Authorised Officer to enforce STA 2010 including Labuan FSA, BNM and SC.
  - Freezing obligation and other relevant sanctions measures on designated individuals and entities extended to all persons, including foreign individuals and entities in Malaysia.
- II. Development of Policy Changes to Reporting Institutions
  - Directive on Implementation of Targeted Financial Sanctions relating to Proliferation Financing (TFS-PF) (Peraturan-Peraturan Perdagangan Strategik (Pengkompaunan Kesalahan) 2018
  - Strategic Trade (Compounding of Offences) Regulations 2018 (Garis Panduan Pelaksanaan Pengkompaunan Kesalahan Di Bawah Akta Perdagangan Strategik 2010 [Draft Guidelines]
  - Draft SOP Strategic Trade (Compounding of Offences) Regulations 2018



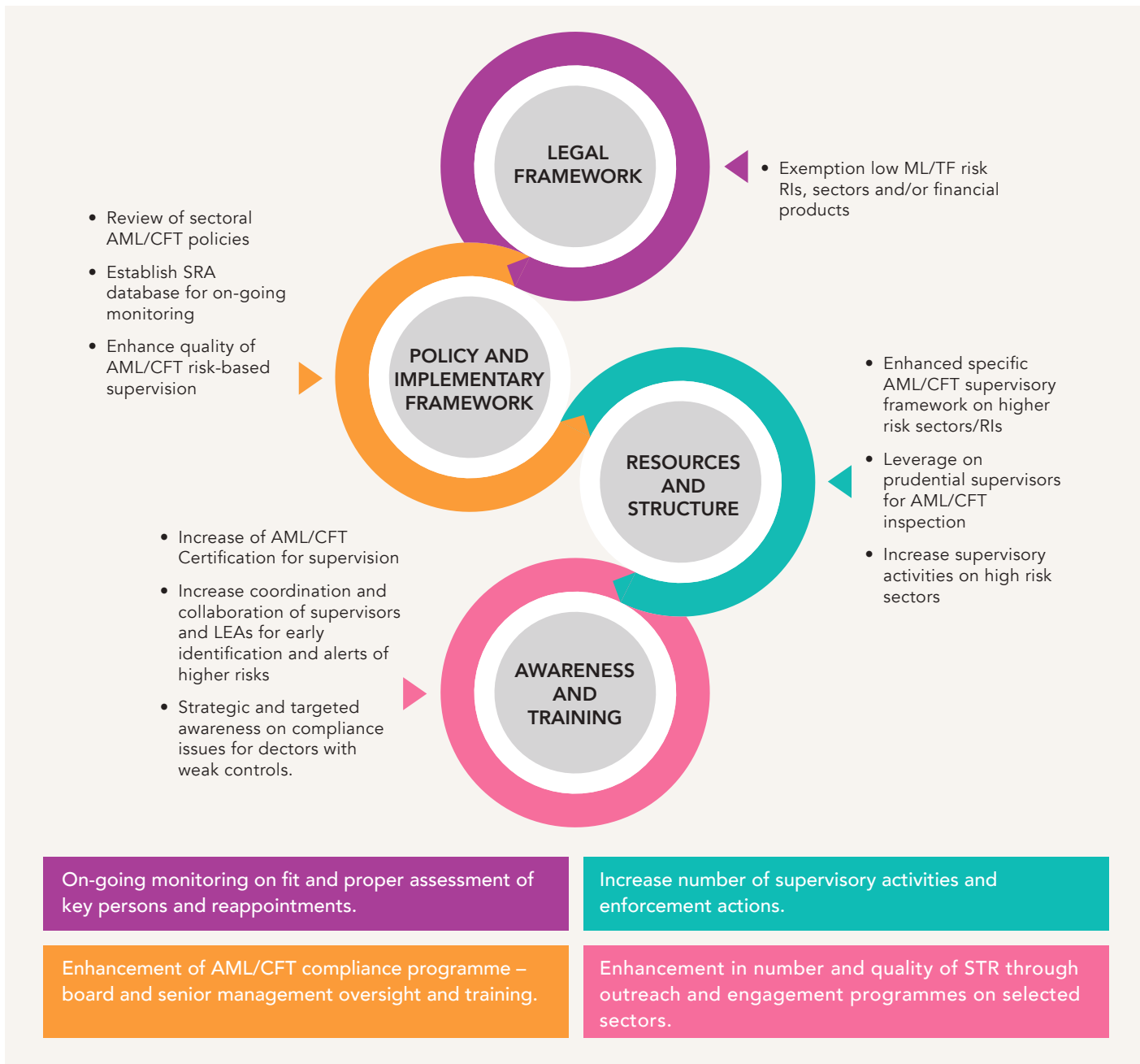


## POLICY DEVELOPMENT

### Opportunities for Improvement Way Forward

In addition to the ongoing measures in preventing and reducing the vulnerabilities of the financial system to ML and TF activities, more focus will be emphasized on Labuan money brokers, trust companies and fund managers which were assessed as having substantial net risk exposure to ML and TF risks.

Specific key measures which call for further improvement identified, including:



# SUPERVISORY ACTIVITIES





# SUPERVISORY ACTIVITIES

## SUPERVISION AND MONITORING

THE LABUAN FSA'S SUPERVISORY PHILOSOPHY HAS CONTINUED TO EMPHASISE ON OBTAINING A THOROUGH UNDERSTANDING OF THE INDIVIDUAL LABUAN FINANCIAL INSTITUTION (LFI) IN ORDER TO ENSURE THE SAFETY AND SOUNDNESS OF THE FINANCIAL SECTORS. AS SUCH, THIS SUPERVISORY PHILOSOPHY ENSURES THAT THE RISKS OF MONEY LAUNDERING (ML), TERRORISM FINANCING (TF) AND PROLIFERATION FINANCING (PF) ARE ADEQUATELY IDENTIFIED, MITIGATED AND CONTROLLED IN LABUAN IBFC.

Due to heightened global attention on AML/CFT, the dedicated supervision unit on AML/CFT has covered both offsite and onsite examination in 2018. The leveraging concept of supervision, i.e., an integration of AML/CFT supervision into the broader framework of prudential and business conduct supervision had certainly addressed the issue of manpower limitation and improved the effectiveness in monitoring and managing ML and TF risks.

The result of the 2017 Sectoral Risk Assessment (SRA) on ML/TF/PF for Labuan financial sectors was a major and important factor in planning the supervisory strategy. In 2018, greater supervisory activities and focus, both onsite and supervisory engagement were given to money-broking business and trust company sectors, which were identified as higher risk sectors under the 2017 SRA. During the year, a refined risk-based supervisory framework on AML/CFT was established and approved by the Management Committee of Labuan FSA to guide examiners in assessing an LFI's inherent risk, quality of risk management, and control functions related to AML/CFT.

Overall, Labuan FSA conducted 45 onsite examinations and 92 supervisory engagements with the board and senior management of the identified institutions in 2018 as compared to 49 onsite examinations and 114 supervisory engagements in 2017. However, more time was spent to assess and verify the conduct, implementation and effectiveness of the risk management and control function embedded by the LFIs to identify, monitor and control the inherent risk of ML and TF, particularly in relation to record-keeping, customer due diligence, beneficial ownership, profiling and ongoing

monitoring. Also, during the year, besides the two supervisory colleges attended, full cooperation was also given to a home supervisor for a group-wide supervision and examination of a sister company operating in Labuan IBFC.

To ensure holistic coverage in monitoring the ML/TF risks in Labuan IBFC, the supervisory scope was also widened during the year to include regulatory compliance aspects of other non-financial sectors such as leasing, foundation, factoring and LITC. Preliminary assessment and profiling on these sectors were conducted and will be continued in 2019 to facilitate understanding and identifying the risk of ML and TF on these sectors.

A risk-based supervisory framework continued to be applied in supervising the LFIs in line with the supervisory practices of other international jurisdictions. Each FI is subject to continuous monitoring by the respective relationship manager, with greater focus given to higher risk institutions. In addition to onsite and supervisory engagement activities that were carried out, the respective relationship manager also reviewed and updated the composite risk rating for banks and insurance companies. Risk profiles and new development of each FI for trust companies, capital market entities, money brokers and other intermediaries were also created through the review of statistical returns, audited financial statements, compliance, internal audit and actuarial reports. This is to ensure the safety and soundness of LFIs and their compliance to regulatory requirements.

Overall, majority of the banks, (re)insurance companies and other sectors were rated as lower risks, while only a few were rated as higher risks (Above Average and High), mainly due to concerns on capital and earnings performance. Based on the supervisory activities conducted during the year, common issues identified include capital inadequacies, non-compliance to single counterparty exposure limit and Guidelines on Kuala Lumpur Marketing Office, compliance and internal audit functions, inadequacies of records kept in Labuan, inadequacies in customer due diligence, operating from and outsourcing of functions without Labuan FSA's approval. Nevertheless, these FIs do not pose any threat to the stability of the financial system in Labuan IBFC.



## SUPERVISORY ACTIVITIES

The supervisory and enforcement actions taken depend on the severity of the issues identified. For normal supervisory issues, supervisory letters were issued to the respective LFIs for rectification actions. For more serious issues, including capital deficiency, restriction of business would be imposed on the LFI. The publishing of names on Labuan FSA website of LFIs whose licences were restricted, has resulted in improved industry behaviour towards regulatory compliance. Proposals were also made to the Prosecution Unit to impose administrative penalties or revocation of licence for non-compliance.

About six investment banks, two (re)insurance sectors, two insurance brokers, two money brokers, one trust company and one security licensee were categorised as concerned institutions mainly due to capital deficiency and non-compliance with regulatory requirements. Of these, six entities were on restriction of business and their names were published on Labuan FSA website while one is still under investigation, four were given notices of intention for revocation and three under close monitoring. These FIs were closely monitored by the respective relationship manager and their status was frequently reported to Labuan FSA's management committee and the Financial Stability Committee.

Over time, laws and guidelines as well as requirements for AML/CFT have become more stringent; this has demanded for a change of culture and an enhanced discipline of compliance among the operational management staff, senior management and board of the LFIs. Furthermore, the international standard setting bodies have instituted requirements covering governance, supervision and prudential requirements that must be instituted by all centres if they do not wish to be labelled as non-compliant or blacklisted and be imposed with sanctions. In this regard, a series of engagements were held on periodic basis, with the Labuan industry associations, to discuss areas of concerns and common issues identified by the supervisory activities. Furthermore, the sessions are also used to disseminate the result of the SRA and share the latest development and expectations on AML/CFT requirements to raise knowledge amongst LFIs to overcome the ML/TF risks. In addition, specific industry briefings and workshops were also held with identified sectors and entities to enhance knowledge on ML/TF risks and suspicious transaction reporting. The briefings were aimed to inculcate a culture of compliance and further enhance understanding and obligation for the implementation of risk management and control functions related to ML and TF.

In enhancing skills as well as ensuring that supervisors are kept abreast with developments, relevant trainings were provided to supervisors in the critical areas, including on AML/CFT, risk-based supervisions as well as financial technology. Moving forward, the use of information technology will assist the supervisory process further. Improvements in systematic data collection via enhancement of the Labuan FSA's Statistical Management System will provide greater granularity of industry data. This will improve the supervisory assessments in terms of in-depth analysis of the LFIs and monitoring of compliance with regulatory requirements.

AML/CFT matters will continue to be a focus in our supervisory plan for the year 2019. Apart from the 42 onsite examinations and 70 supervisory engagements planned for 2019, Labuan FSA will also continue to provide advisory services and briefings to the identified sectors in ensuring the adoption and implementation of risk management and control functions in effectively managing ML, TF and PF in Labuan IBFC.

### INVESTIGATION AND ENFORCEMENT

EQUIPPED WITH MANDATE FROM THE LABUAN FINANCIAL SERVICES AUTHORITY ACT 1996 (LFSAA 1996), LABUAN FSA CONTINUED TO UNDERTAKE INVESTIGATION, ENFORCEMENT AND PROSECUTION AGAINST THE LABUAN INSTITUTIONS FOR NON-COMPLIANCE OF THE VARIOUS LABUAN LEGISLATION AND ALSO BREACHES OF OTHER LAWS GOVERNING LABUAN IBFC. THESE INCLUDE THE ANTI-MONEY LAUNDERING, ANTI-TERRORISM FINANCING, AND PROCEEDS OF UNLAWFUL ACTIVITIES ACT 2001 (AMLATFAPUAA) WITH THE AIM OF ENSURING THE SAFETY AND STABILITY OF LABUAN IBFC.

#### Investigation

In 2018, there was an increase of more than 80% of investigation cases initiated against Labuan entities as compared to previous year. Most of the cases were found with breaches related to promoting financial services business without approval of Labuan FSA, deposit taking activity from the public by unlicensed Labuan entities and forgery of Labuan FSA's documents. The significant increase was attributed predominantly from public complaints, anomalies detected from desk monitoring and assessments report by Labuan FSA's internal parties.



## SUPERVISORY ACTIVITIES

### Enforcement and Prosecution

In the area of enforcement and prosecution, Labuan FSA continued its surveillance and enforcement focus on compliance with the requirement under the AML/CFT regime during the year. The effectiveness of the enforcement actions taken has resulted in the increase of detection of non-compliance cases by 55.7% for 2018. In total, Labuan FSA has undertaken a total of 369 enforcement cases, revocation of 32 licences and suspension of two entities for numerous non-compliance with the regulations, comprise of various industries including banking entities, insurance entities, trust companies, leasing business activities and normal Labuan companies. In addition, Labuan FSA has undertaken four criminal prosecutions during the year.

Further to the above, Labuan FSA also committed to protecting investors' interest and continued to caution the public against any risk of money laundering and/or financing of terrorism activities. We have issued blacklisted entities under Labuan FSA Investors' Alert List and published it on the website. This reflects the robust enforcement measures taken to further strengthen the Authority's commitment in improving the compliance index and soundness of the Labuan IBFC.

### Collaborations and Sharing of Information

During the year, Labuan FSA continued to collaborate and cooperate with various law enforcement agencies domestically and internationally to ensure robust and comprehensive intelligence gathering and sharing of information with counterparties. Enforcement efforts were further strengthened through active collaboration and engagement with other financial regulators and law enforcement agencies such as the Attorney General's Chambers, Bank Negara Malaysia, Securities Commission Malaysia, Inland Revenue Board and Royal Malaysian Police. This has translated to an increase of 51% in terms numbers of collaborations and sharing of information with other regulators involving over 633 entities. The on-going alliance is to ensure a strong surveillance monitoring mechanism between the various agencies to maintain public confidence in Labuan IBFC.

Further, Labuan FSA being a member of the National Coordination Committee to Counter Money Laundering also received cooperation from the members in executing its mandated roles to safeguard Labuan IBFC from any potential risks to money laundering, financing of terrorism activities as well as other financial crimes.



# FINANCIAL STATEMENT







**REPORT OF THE AUDITOR GENERAL  
ON THE FINANCIAL STATEMENTS OF  
LABUAN FINANCIAL SERVICES AUTHORITY  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**Report on the Audit of the Financial Statements**

**Opinion**

The financial statements of Labuan Financial Services Authority and of the Group have been audited by my representative which comprise the Statements of Financial Position as at 31 December 2018 and Statements of Comprehensive Income, Statement of Changes in Reserves and Statements of Cash Flows for the year then ended, a summary of significant accounting policies and notes other explanatory information as set out on pages 9 to 49.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Labuan Financial Services Authority and of the Group as at 31 December 2018 and of their financial performance and cash flows for the year then ended in accordance with the approved financial reporting standards in Malaysia and Labuan Financial Services Authority Act 1996 (Act 545).

**Basis for Opinion**

The audit was conducted in accordance with the Audit Act 1957 and the International Standards of Supreme Audit Institutions. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

**Independence and Other Ethical Responsibilities**

I am independent of the Labuan Financial Services Authority and of the Group and I have fulfilled the other ethical responsibilities in accordance with the International Standards of Supreme Audit Institutions.

## **Information Other than the Financial Statements and Auditor's Report Thereon**

The Directors of Labuan Financial Services Authority are responsible for the other information in the Annual Report. My opinion on the financial statements of the Labuan Financial Services Authority and of the Group does not cover the information other than the financial statements and auditor's report thereon and I do not express any form of assurance conclusion thereon.

## **Responsibilities of the Directors for the Financial Statements**

The Directors are responsible for the preparation of financial statements of the Labuan Financial Services Authority and of the Group that give a true and fair view in accordance with approved financial reporting standards in Malaysia and Labuan Financial Services Authority Act 1996 (Act 545). The Directors are also responsible for such internal control as it determines is necessary to enable the preparation of the financial statements of Labuan Financial Services Authority and of the Group that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Labuan Financial Services Authority and of the Group, the Directors are responsible for assessing of the Labuan Financial Services Authority and of the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

My objectives are to obtain reasonable assurance about whether the financial statements of the Labuan Financial Services Authority and of the Group as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standards of Supreme Audit Institutions will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the International Standards of Supreme Audit Institutions, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- a. Identify and assess the risks of material misstatement of the financial statements of the Labuan Financial Services Authority and of the Group, whether due to fraud or error, design and perform audit procedures to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- b. Obtain an understanding of internal control relevant to the audit 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 Labuan Financial Services Authority and of the Group's internal control.
- c. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- d. Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Labuan Financial Services Authority and of the Group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I have to draw attention in my auditor's report to the related disclosures in the financial statements of the Labuan Financial Services Authority and of the Group, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of auditor's report.
- e. Evaluate the overall presentation of the financial statements of the Labuan Financial Services Authority and of the Group, including the disclosures that achieve fair presentation.
- f. Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the financial statements of the Group. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

I communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control identified during my audit.



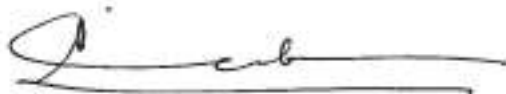
## Report on Other Legal and Regulatory Requirements

In accordance with the requirements of Labuan Financial Services Authority Act 1996 (Act 545), I also report the following:

- a. In my opinion, the accounting and other records required by the Act to be kept by Labuan Financial Services Authority and its subsidiaries of which we have acted as auditors have been properly kept in accordance with Labuan Financial Services Authority Act 1996 (Act 545).
- b. I have considered the accounts and the auditor's reports of all the subsidiaries of which I have not acted as auditor which are indicated in Note 10 to the financial statements being accounts that have been included in the consolidated accounts.
- c. I am satisfied that the accounts of the subsidiaries that have been consolidated with the Labuan Financial Services Authority financial statements are appropriate and proper in form and content for the purposes of the preparation of the financial statements of the Group and I have received satisfactory information and explanations required by me for those purposes.
- d. The auditor's reports on the accounts of the subsidiaries did not contain any qualification or any adverse comment.

## Other Matters

This report is made solely to the Directors and for no other purpose. I do not assume responsibility to any other person for the content of this report.



(DATO' HAJI CHE ISA BIN CHE KOB)  
ON BEHALF OF AUDITOR GENERAL  
MALAYSIA



PUTRAJAYA  
30 JUN 2019



# STATEMENT BY THE MEMBERS OF THE LABUAN FINANCIAL SERVICES AUTHORITY

We, **OH CHONG PENG** and **DANIAL MAH ABDULLAH**, 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 2018 and their financial performance and cash flows for the year then ended on that date.

On behalf of the Members of the Authority.

**OH CHONG PENG**  
Chairman

**DANIAL MAH ABDULLAH**  
Director-General

15 APR 2019



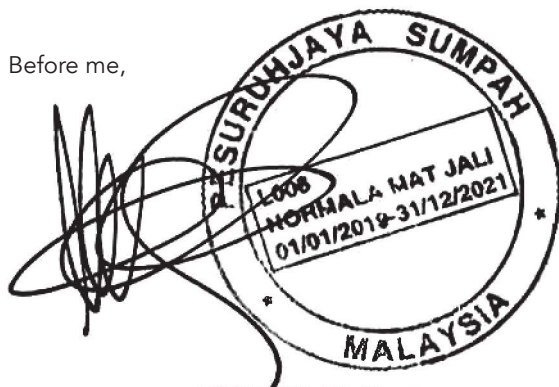
# STATUTORY DECLARATION BY THE OFFICER PRIMARILY RESPONSIBLE FOR THE FINANCIAL MANAGEMENT OF LABUAN FINANCIAL SERVICES AUTHORITY

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

Before me,



LOT 10031, TINGKAT 1,  
JALAN OKK AWANG BESAR,  
P.O. BOX 81862, 87028 W.P. LABUAN.  
TEL: 087-416057, 415057  
FAX: 087-413057



# STATEMENTS OF FINANCIAL POSITION

AS OF 31 DECEMBER 2018

	NOTE	THE GROUP		THE AUTHORITY	
		2018 RM	2017 RM	2018 RM	2017 RM
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	9	83,236,448	86,051,318	82,297,259	85,173,535
Investment in subsidiary	10	-	-	900,000	900,000
Deferred tax asset	11	5,893	6,405	-	-
Other receivables	12	753,376	1,393,615	753,376	1,393,615
		83,995,717	87,451,338	83,950,635	87,467,150
<b>Current assets</b>					
Fees and receivables	12	15,936,389	15,094,795	19,570,034	18,732,826
Inventories	13	318,776	245,255	-	-
Cash and bank balances	14	73,341,268	67,967,574	60,495,305	63,082,152
		89,596,432	83,307,624	80,065,339	81,814,978
<b>Total assets</b>		<b>173,592,150</b>	<b>170,758,962</b>	<b>164,015,974</b>	<b>169,282,128</b>
<b>RESERVES AND LIABILITIES</b>					
<b>Reserves</b>					
Accumulated surplus		76,806,267	70,449,007	69,892,478	64,748,184
<b>Non-current liabilities</b>					
Deferred income	15	72,012,294	73,688,654	72,012,294	73,688,654
Government loans	16	2,000,000	4,000,000	2,000,000	4,000,000
		74,012,294	77,688,654	74,012,294	77,688,654
<b>Current liabilities</b>					
Deferred income	15	2,995,532	3,643,419	2,202,629	2,579,937
Other payables	17	17,778,057	17,477,882	15,908,573	22,765,353
Government loans	16	2,000,000	1,500,000	2,000,000	1,500,000
		22,773,589	22,621,301	20,111,202	26,845,290
<b>Total liabilities</b>		<b>96,785,883</b>	<b>100,309,955</b>	<b>94,123,496</b>	<b>104,533,944</b>
<b>Total reserves and liabilities</b>		<b>173,592,150</b>	<b>170,758,962</b>	<b>164,015,974</b>	<b>169,282,128</b>

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





# STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	NOTE	THE GROUP		THE AUTHORITY	
		2018 RM	2017 RM	2018 RM	2017 RM
<b>Revenue</b>	4	60,288,930	58,684,491	57,400,773	55,880,475
<b>Other operating income</b>					
Government grant	15	2,409,737	2,065,880	2,053,668	1,963,480
Income from investments	5	2,557,752	2,554,079	2,557,752	2,554,079
Other income	6	777,118	432,982	249,987	214,295
<b>Other operating expense</b>					
Staff costs	7	(32,430,500)	(34,553,062)	(24,921,362)	(26,407,201)
Depreciation of property, plant and equipment	9	(5,228,953)	(4,684,842)	(4,889,291)	(4,395,042)
Other expenses	6	(22,003,538)	(21,525,356)	(27,307,233)	(27,829,972)
Surplus before tax		6,370,546	2,974,172	5,144,294	1,980,114
Income tax expenses	8	(13,286)	(2,776)	-	-
<b>Net surplus for the year</b>		<b>6,357,260</b>	<b>2,971,396</b>	<b>5,144,294</b>	<b>1,980,114</b>
Other comprehensive income, net of income tax			-		-
<b>Total comprehensive surplus for the year</b>		<b>6,357,260</b>	<b>2,971,396</b>	<b>5,144,294</b>	<b>1,980,114</b>
<b>Total comprehensive surplus attributable to the Authority</b>		<b>6,357,260</b>	<b>2,971,396</b>	<b>5,144,294</b>	<b>1,980,114</b>

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 2018

	ACCUMULATED SURPLUS RM
<b>THE GROUP</b>	
Opening balance at 1 January 2017	67,477,611
Net surplus for the year	2,971,396
<b>Closing balance at 31 December 2017</b>	<b>70,449,007</b>
<b>THE AUTHORITY</b>	
Opening balance at 1 January 2017	62,768,070
Net surplus for the year	1,980,114
<b>Closing balance at 31 December 2017</b>	<b>64,748,184</b>
Opening balance at 1 January 2018	64,748,184
Net surplus for the year	5,144,294
<b>Closing balance at 31 December 2018</b>	<b>69,892,478</b>

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 2018

	THE GROUP		THE AUTHORITY	
	2018 RM	2017 RM	2018 RM	2017 RM
<b>OPERATING ACTIVITIES</b>				
Net surplus for the year	6,357,260	2,971,396	5,144,294	1,980,114
Adjustments for:				
Income tax expenses / (credit)	512	2,776	-	-
Unrealised loss on foreign exchange	33,030	84,409	26,981	76,094
Depreciation of property, plant and equipment	5,228,953	4,684,842	4,889,291	4,395,042
Dividend income	-	-	-	-
Utilisation of government grant	(2,324,247)	(2,065,880)	(2,053,668)	(1,963,480)
Loss/(Gain) on disposal of property, plant and equipment	(26,078)	(8,867)	(24,618)	(5,760)
Property, plant and equipment written off	3,793	231	3,792	-
Interest income from investments and staff loans	(2,184,159)	(2,601,130)	(2,589,674)	(2,601,130)
Net fair value (gain)/loss on other receivables	(90,040)	(142,317)	(90,040)	(142,317)
Allowance for impairment losses on fees and trade receivables recognised	3,201,422	3,729,607	3,201,422	3,715,566
Allowance for impairment losses on fees and trade receivables reversed	(3,170,249)	(3,447,185)	(3,170,249)	(3,445,350)
Amount owing by subsidiaries written off	-	-	11,018	11,054
Fees and trade receivables written off	2,600,300	2,788,515	2,600,300	2,784,300
Operating Surplus Before Working Capital Changes	9,630,497	5,996,397	7,948,849	4,804,133
Changes in working capital:				
Increase/(Decrease) in:				
Fees and trade receivables	(3,302,802)	(3,259,337)	(3,335,464)	(3,222,205)
Other receivables	620,061	1,312,383	646,091	1,733,613
Inventories	(73,521)	(140,960)	-	-
Amounts due from subsidiaries	-	-	-	-
Increase/(Decrease) in:				
Fees received in advance	(2,851,806)	1,614,051	(2,851,806)	1,614,051
Refundable deposits	20,314	(218,574)	-	(200,000)
Other payables and accruals	3,141,666	(1,369,898)	2,995,025	(3,073,766)
Amount due to subsidiary	-	-	(7,000,000)	875,000
Cash Generated From Operating Activities	7,184,409	3,934,062	(1,597,305)	2,530,826
Interest received	66,059	435,560	76,059	435,560
Net Cash From Operating Activities	7,250,468	4,369,622	(1,521,246)	2,966,386



## STATEMENTS OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	THE GROUP		THE AUTHORITY	
	2018 RM	2017 RM	2018 RM	2017 RM
<b>INVESTING ACTIVITIES</b>				
Net increase in fixed deposits with maturity period of more than 3 months	(4,000,000)	-	(1,000,000)	-
Proceeds from disposal of plant and equipment	51,054	128,612	49,566	125,505
Additions of property, plant and equipment	(2,442,852)	(3,779,845)	(2,041,755)	(3,350,046)
Dividend income	-	-	-	-
Interest received	2,048,054	2,415,995	2,453,569	2,415,995
<b>Net Cash Used In Investing Activities</b>	<b>(4,343,744)</b>	<b>(1,235,238)</b>	<b>(538,620)</b>	<b>(808,546)</b>
<b>FINANCING ACTIVITIES</b>				
Repayment of government loans	(1,500,000)	(1,500,000)	(1,500,000)	(1,500,000)
<b>Net Cash Used In Financing Activities</b>	<b>(1,500,000)</b>	<b>(1,500,000)</b>	<b>(1,500,000)</b>	<b>(1,500,000)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>1,406,724</b>	<b>1,634,384</b>	<b>(3,559,866)</b>	<b>657,840</b>
<b>Cash and cash equivalents at 1 January</b>	<b>12,967,574</b>	<b>11,417,599</b>	<b>8,082,152</b>	<b>7,500,406</b>
Effect of exchange difference	(33,030)	(84,409)	(26,981)	(76,094)
<b>Cash and cash equivalents at 31 December (Note 21)</b>	<b>14,341,268</b>	<b>12,967,574</b>	<b>4,495,305</b>	<b>8,082,152</b>

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 2018

## 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) issued by Malaysian Accounting Standard Board (MASB) 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 2018, the Group and the Authority adopted the following new standards and amendments to MFRS for annual financial periods beginning on or after 1 January 2018.

MFRS 9	Financial Instruments
MFRS 15	Revenue from Contracts with Customers
Amendments to MFRS 15	Clarification to MFRS 15
Amendments to MFRS 1 and MFRS 128	Annual Improvements to MFRS Standards 2014-2016 Cycle
Amendment to MFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendment to MFRS 4	Applying MFRS 9 Financial Instrument with MFRS 4 Insurance Contracts
Amendment to MFRS 140	Transfer of Investment Property
IC Interpretation 22	Foreign Currency Transaction and Advance Consideration

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.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

### 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 16	Leases <sup>1</sup>
MFRS 17	Insurance Contract <sup>3</sup>
Amendment to MFRS 10 and MFRS 128	Sale or Contribution of Assets
MFRS 16	Leases <sup>2</sup>
Amendments to MFRS 2	Classification and Measurement of Share-based Payment Transactions <sup>1</sup>
Amendments to MFRS 10 and MFRS 128	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>4</sup>
Amendments to MFRS 3	Business Combinations <sup>1</sup>
Amendments to MFRS 9	Prepayment Features with Negative Compensation <sup>1</sup>
IC Interpretation 22	Foreign Currency Transactions and Advance Consideration <sup>1</sup>
IC Interpretation 23	Uncertainty Over Income Tax Treatments <sup>2</sup>
Amendment to MFRS 1	First-time Adoption of Malaysian Financial Reporting Standards <sup>1</sup>
Amendment to MFRS 3	Business Combinations <sup>2</sup>
Amendment to MFRS 9	Prepayment Features with Negative Compensation <sup>2</sup>
Amendments to MFRS 11	Joint Arrangement <sup>2</sup>
Amendments to MFRS 112	Income Taxes <sup>2</sup>
Amendments to MFRS 119	Plan Amendment, Curtailment or Settlement <sup>1</sup>
Amendments to MFRS 123	Borrowing Costs <sup>1</sup>
Amendment to MFRS 128	Long-term Interest in Associates and Joint Ventures <sup>1</sup>
Amendment to MFRSs	Amendment to Reference to Conceptual Framework in MFRS Standards <sup>2</sup>
IC Interpretation 23	Uncertainty over Income Tax Treatments <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.

<sup>2</sup> Effective for annual periods beginning on or after January 1, 2020, with earlier application permitted.

<sup>3</sup> Effective for annual periods beginning on or after January 1, 2021 with earlier application permitted.

<sup>4</sup> 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 2018

### 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.





## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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

#### 2.4 Basis of consolidation (Continued)

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.

#### *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.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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

#### 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.

#### 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.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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

#### 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.

**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.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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

#### 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.

##### 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.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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

#### 2.9 Taxes (Continued)

##### b) Deferred tax (Continued)

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.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

### 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 2018

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

#### 2.12 Financial instruments

##### i) Financial assets

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

##### **Initial recognition and measurement**

Financial assets are classified, at initial recognition, and subsequently measured at amortised cost, fair value through other comprehensive income (OCI), or fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group and the Authority's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group and the Authority has applied the practical expedient, the Group and the Authority initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group and the Authority's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group and the Authority commits to purchase or sell the asset.

##### **Subsequent measurement**

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

##### **Financial assets at amortised cost (debt instruments)**

The Group and the Authority measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.





## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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

#### 2.12 Financial instruments (Continued)

##### i) Financial assets (Continued)

###### *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and listed equity investments which the Group and the Authority had not irrevocably elected to classify at fair value through OCI. Dividends on listed equity investments are also recognised as other income in the statement of profit or loss when the right of payment has been established.

All other categories of financial assets are not relevant to the Group and the Authority.

###### **Impairment of financial assets**

The Group and the Authority recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group and the Authority expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group and the Authority applies a simplified approach in calculating ECLs. Therefore, the Group and the Authority does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group and the Authority has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group and the Authority considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group and the Authority may also consider a financial asset to be in default when internal or external information indicates that the Group and the Authority is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group and the Authority. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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

#### 2.12 Financial instruments (Continued)

##### i) Financial assets (Continued)

###### *Derecognition*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Group and the Authority's statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or
- The Group and the Authority has 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 has transferred substantially all the risks and rewards of the asset, or (b) the Group and the Authority has 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 has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group and the Authority continues to recognise the transferred asset to the extent of the Group and the Authority's continuing involvement in it. In that case, the Group and the Authority also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group and the Authority 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.

#### 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 20.

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.

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.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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

#### 2.13 Fair value measurement (Continued)

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.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

### 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

##### *Short-term employee benefit*

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related services provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has present legal or constructive obligation to pay this amount as a result of past service provided by the employee and obligation can be estimated reliably.

##### *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.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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

#### 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 JUDGMENTS 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.

##### b) Impairment of fees and receivables

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.

##### c) 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.

##### d) 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.

**NOTES TO THE FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2018

**4. REVENUE**

	THE GROUP		THE AUTHORITY	
	2018 RM	2017 RM	2018 RM	2017 RM
Fee income from:				
Licence Fees	34,645,858	35,250,768	34,645,858	35,250,768
Annual Fees	15,587,250	14,971,150	15,587,250	14,971,150
Incorporation & Registration	1,263,550	1,165,750	1,263,550	1,165,750
Marketing/Admin Office	1,510,000	1,548,755	1,510,000	1,548,755
Other fees	7,282,272	5,748,068	4,394,115	2,944,052
	60,288,930	58,684,491	57,400,773	55,880,475

**5. INCOME FROM INVESTMENTS**

	THE GROUP		THE AUTHORITY	
	2018 RM	2017 RM	2018 RM	2017 RM
Interest received from:				
Fixed deposits	2,513,616	2,535,570	2,513,616	2,535,570
Money at call	44,136	18,509	44,136	18,509
Dividend income	-	-	-	-
	2,557,752	2,554,079	2,557,752	2,554,079



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

### 6. OTHER INCOME/(EXPENSES)

Included in other operating income/(expenses) are the following:

	THE GROUP		THE AUTHORITY	
	2018 RM	2017 RM	2018 RM	2017 RM
Interest income from staff loans:				
Key management personnel	1,499	5,893	1,499	5,893
Others	30,424	41,158	30,424	41,158
Rental income	373,225	105,492	192,000	192,000
Miscellaneous income	234,451	512,754	29,331	90,891
(Loss)/Gain on disposal of property, plant and equipment	26,078	8,867	24,618	5,760
(Loss)/Gain on foreign exchange:				
Realised	(404)	(47,028)	(404)	(45,311)
Unrealised	(33,030)	(84,409)	(26,981)	(76,094)
Allowance for impairment losses on fees and trade receivables reversed	3,175,675	3,447,185	3,170,249	3,445,350
Operational and marketing expenditure incurred under the government grant*	(337,308)	(389,520)	(377,308)	(287,120)
Audit fees	(91,230)	(66,380)	(45,730)	(22,800)
Rental of premises	(1,924,938)	(1,987,740)	(1,664,052)	(1,718,996)
Fees and trade receivable written off	(2,660,967)	(2,788,515)	(2,600,300)	(2,784,300)
Amount owing by subsidiary companies written off	-	-	(11,018)	(11,054)
Members' remuneration	(365,646)	(607,597)	(277,720)	(306,000)
Property Plant & Equipment Written Off	-	(231)	-	-
Contributions to Labuan FSA Staff Welfare Fund	(250,000)	(350,000)	(250,000)	(350,000)
Grant to a subsidiary**	-	-	(6,900,000)	(6,750,000)
Lease of machinery and equipment	(142,273)	(152,279)	(142,273)	(152,279)
Tuition fees paid to a subsidiary	-	-	(235,503)	(318,019)
Allowance for impairment losses on fees and trade receivables recognised	(3,267,515)	(3,729,607)	(3,201,422)	(3,715,566)
Net fair value gain/(loss) on other receivables	90,040	142,317	90,040	142,317

\*These included the following expenditures:

	THE GROUP		THE AUTHORITY	
	2018 RM	2017 RM	2018 RM	2017 RM
Infrastructure for school building	(377,308)	(287,119)	(377,308)	(287,119)

\*\*Grant from Labuan FSA to Pristine Era Sdn Bhd.





## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

### 7. STAFF COSTS

	THE GROUP		THE AUTHORITY	
	2018 RM	2017 RM	2018 RM	2017 RM
Staff costs*	32,430,500	34,553,062	24,921,362	26,407,201

\* These included the following staff costs:

	THE GROUP		THE AUTHORITY	
	2018 RM	2017 RM	2018 RM	2017 RM
Key management personnel:				
Salaries	7,099,457	7,609,915	4,454,778	5,106,305
Allowances	567,929	649,245	505,229	559,903
Employees Provident Fund	4,243,491	4,365,353	3,145,749	3,268,457

### 8. INCOME TAX CREDIT

	THE GROUP		THE AUTHORITY	
	2018 RM	2017 RM	2018 RM	2017 RM
<b>Statement of comprehensive income:</b>				
Deferred tax (Note 11):				
Relating to origination of temporary differences	(16,183)	(3,042)	-	-
Overprovision in prior year	2,897	266	-	-
	(13,286)	(2,776)	-	-

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 50% tax exemption on its statutory income under Section 127(3A) of the Income Tax Act 1967 for year of assessment 2018.

Income tax for other subsidiaries is calculated at the statutory tax rate of 24% (2017: 24%) of the estimated assessable profit for the year.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

### 8. INCOME TAX CREDIT (CONTINUED)

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 2018 and 2017 are as follows:

	THE GROUP		THE AUTHORITY	
	2018 RM	2017 RM	2018 RM	2017 RM
Surplus before tax	6,370,546	2,974,172	5,144,294	1,980,114
Taxation at Malaysian statutory tax rate of 24% (2017: 24%)	(1,528,931)	(713,802)	(1,234,631)	(475,227)
Effect of changes in tax rate	-	-	-	-
Effect of income not subject to tax	2,893,484	2,098,629	1,234,631	475,227
Effect of expenses not deductible for tax purposes	(1,751,174)	(1,669,740)	-	-
Reversal of temporary differences previously not recognised	378,098	282,146	-	-
Overprovision of deferred tax in prior year	(7,660)	266	-	-
Deferred tax assets not recognised	2,897	(275)	-	-
Tax credit for the year	(13,286)	(2,776)	-	-



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 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
<b>Cost</b>							
At 1 January 2017	442,000	84,506,001	1,272,711	7,074,804	10,830,336	18,529	104,144,381
Additions	-	-	-	353,254	565,687	2,860,904	3,779,845
Disposals	-	-	(1,900)	(2,169)	(2,940,460)	-	(2,944,529)
Write off	-	-	-	(28,636)	(180,831)	-	(209,467)
Reclassification	-	-	-	18,529	-	(18,529)	-
At 31 December 2017/ 1 January 2018	442,000	84,506,001	1,270,811	7,415,782	8,274,732	2,860,904	104,770,230
Additions	-	-	234,441	331,009	391,481	1,485,921	2,442,852
Disposals	-	-	(240,778)	(1,483,561)	(213,887)	-	(1,938,226)
Write off	-	-	-	(10,697)	-	-	(10,697)
Reclassification	-	-	-	3,094,256	-	(3,094,256)	-
At 31 December 2018	442,000	84,506,001	1,264,474	9,346,789	8,452,326	1,252,569	105,264,159
<b>Accumulated depreciation</b>							
At 1 January 2017	9,508	6,008,636	1,044,651	3,944,166	6,061,129	-	17,068,090
Charge for the year	700	1,690,120	175,137	1,600,637	1,218,248	-	4,684,842
Disposals	-	-	(1,900)	(2,169)	(2,820,715)	-	(2,824,784)
Write off	-	-	-	(28,406)	(180,830)	-	(209,236)
At 31 December 2017/ 1 January 2018	10,208	7,698,756	1,217,888	5,514,228	4,277,832	-	18,718,912
Charge for the year	700	1,690,120	94,573	2,182,164	1,261,396	-	5,228,953
Disposals	-	-	(240,778)	(1,483,534)	(188,938)	-	(1,913,250)
Write off	-	-	-	(6,904)	-	-	(6,904)
At 31 December 2018	10,908	9,388,876	1,071,683	6,205,954	5,350,290	-	22,027,711
<b>Carrying amounts</b>							
At 31 December 2017	431,792	76,807,245	52,923	1,901,554	3,996,900	2,860,904	86,051,318
At 31 December 2018	431,092	75,117,125	192,791	3,140,835	3,102,036	1,252,569	83,236,448



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

### 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
<b>Cost</b>							
At 1 January 2017	442,000	84,506,001	761,925	6,610,772	6,018,393	18,529	98,357,620
Additions	-	-	-	353,254	135,888	2,860,904	3,350,046
Disposals	-	-	-	-	(414,637)	-	(414,637)
Write off	-	-	-	(1,800)	(180,231)	-	(182,031)
Reclassification	-	-	-	18,529	-	(18,529)	-
At 31 December 2017/							
1 January 2018	442,000	84,506,001	761,925	6,980,755	5,559,413	2,860,904	101,110,998
Additions	-	-	140,899	322,324	92,611	1,485,921	2,041,755
Disposals	-	-	(240,778)	(1,457,643)	(213,887)	-	(1,912,308)
Write off	-	-	-	(8,198)	-	-	(8,198)
Reclassification	-	-	-	3,094,256	-	(3,094,256)	-
At 31 December 2018	442,000	84,506,001	662,046	8,931,494	5,438,137	1,252,569	101,232,247
<b>Accumulated depreciation</b>							
At 1 January 2017	9,508	6,008,636	608,740	3,499,853	1,892,607	-	12,019,344
Charge for the year	700	1,690,120	130,287	1,582,002	991,933	-	4,395,042
Disposals	-	-	-	-	(294,892)	-	(294,892)
Write off	-	-	-	(1,800)	(180,231)	-	(182,031)
At 31 December 2017/							
1 January 2018	10,208	7,698,756	739,027	5,080,055	2,409,417	-	15,937,463
Charge for the year	700	1,690,120	64,550	2,180,258	953,663	-	4,889,291
Disposals	-	-	(240,778)	(1,457,644)	(188,938)	-	(1,887,360)
Write off	-	-	-	(4,406)	-	-	(4,406)
At 31 December 2018	10,908	9,388,876	562,799	5,798,263	3,174,142	-	18,934,988
<b>Carrying amounts</b>							
At 31 December 2017	431,792	76,807,245	22,898	1,900,700	3,149,996	2,860,904	85,173,535
At 31 December 2018	431,092	75,117,125	99,247	3,133,231	2,263,995	1,252,569	82,297,259



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

10. INVESTMENTS IN SUBSIDIARY

			THE AUTHORITY	
			2018 RM	2017 RM
Unquoted shares, at cost			900,000	900,000
			Proportion (%) of ownership interest	
Name	Country of incorporation	Principal activities	2018	2017
<b>Held by the Authority:</b>				
LabuanFSA Incorporated Sdn. Bhd.*	Malaysia	Investment holding	100	100
<b>Held through LabuanFSA Incorporated Sdn. Bhd.:</b>				
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.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

### 11. DEFERRED TAX ASSETS

	THE GROUP		THE AUTHORITY	
	2018 RM	2017 RM	2018 RM	2017 RM
At beginning of year	6,405	9,181	-	-
Recognised in the statements of profit or loss	(512)	(2,776)	-	-
At end of year	5,893	6,405	-	-

The deferred tax assets are in respect of plant and equipment.

Deferred tax assets have not been recognised in respect of the following:

	THE GROUP		THE AUTHORITY	
	2018 RM	2017 RM	2018 RM	2017 RM
Unutilised tax losses	1,512	1,498,448	-	-
	1,512	1,498,448	-	-

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.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

### 12. FEES AND RECEIVABLES

	THE GROUP		THE AUTHORITY	
	2018 RM	2017 RM	2018 RM	2017 RM
<b>Current</b>				
Fees and trade receivables	15,958,782	15,230,854	15,883,668	15,128,504
Less: Allowance for impairment	(3,128,832)	(3,092,233)	(3,062,739)	(3,031,566)
Fees and trade receivables, net	12,829,950	12,138,621	12,820,929	12,096,938
Other receivables:				
Amount due from subsidiary	-	-	4,033,971	4,010,712
Staff housing loans	62,052	160,724	62,052	160,724
Staff vehicle loans	75,032	90,798	75,032	90,798
Staff advances/ sundry debtors	179,809	98,449	58,768	45,268
Refundable deposits	702,846	648,044	433,752	376,152
Interest receivable	1,984,511	1,924,465	1,984,511	1,924,465
Prepayments	101,989	33,494	101,019	27,769
Others	200	200	-	-
Less: Allowance for impairment	3,106,439	2,956,174	6,749,105	6,635,888
	-	-	-	-
	3,106,439	2,956,174	6,749,105	6,635,888
	15,936,389	15,094,795	19,570,034	18,732,826
<b>Non-current</b>				
Other receivables:				
Staff housing loans	590,765	1,102,377	590,765	1,102,377
Staff vehicle loans	162,611	291,238	162,611	291,238
	753,376	1,393,615	753,376	1,393,615
<b>Total fees and other receivables (current and non-current)</b>	<b>16,689,765</b>	<b>16,488,410</b>	<b>20,323,410</b>	<b>20,126,441</b>





## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

### 12. FEES AND RECEIVABLES (CONTINUED)

#### 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	
	2018 RM	2017 RM	2018 RM	2017 RM
Neither past due nor impaired	12,829,950	12,096,938	12,820,929	12,096,938
More than 31 days past due but not impaired	9,021	41,683	-	-
Impaired	3,128,832	3,092,233	3,062,739	3,031,566
	15,967,803	15,230,854	15,883,668	15,128,504

##### 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 RM9,021 (2017: RM41,683) that are past due at the reporting date but not impaired.

##### 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	
	2018 RM	2017 RM	2018 RM	2017 RM	2018 RM	2017 RM
<b>The Group</b>						
Fees and trade receivables - nominal amounts	1,365,982	1,419,584	1,762,850	1,672,649	3,128,832	3,092,233
Less: Allowance for impairment	(1,365,982)	(1,419,584)	(1,762,850)	(1,672,649)	(3,128,832)	(3,092,233)
	-	-	-	-	-	-
<b>The Authority</b>						
Fees and trade receivables - nominal amounts	1,299,889	1,358,917	1,762,850	1,672,649	3,062,739	3,031,566
Less: Allowance for impairment	(1,299,889)	(1,358,917)	(1,762,850)	(1,672,649)	(3,062,739)	(3,031,566)
	-	-	-	-	-	-



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

### 12. FEES AND RECEIVABLES (CONTINUED)

#### a) Fees and Trade Receivables (Continued)

Movement in allowance account

	THE GROUP		THE AUTHORITY	
	2018 RM	2017 RM	2018 RM	2017 RM
At 1 January	3,092,233	2,809,811	3,031,566	2,761,350
Impairment losses recognised	3,201,422	3,729,607	3,201,422	3,715,566
Impairment losses reversed	(3,170,249)	(3,447,185)	(3,170,249)	(3,445,350)
At 31 December	3,123,406	3,092,233	3,062,739	3,031,566

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 (2017: 30 years and 9 year respectively). The interest charged on these loans ranges from 2% to 3% (2017: 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	
	2018 RM	2017 RM	2018 RM	2017 RM
At cost:				
Books and stationeries	110,265	171,663	-	-
Uniforms, fabrics and t-shirts	208,511	73,592	-	-
Inventories written off	318,776	245,255	-	-
	-	-	-	-
	318,776	245,255	-	-

During the year, the amount of inventories recognised as an expense in the statements of profit or loss of the Group was RM318,776 (2017: RM245,255).



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

### 14. CASH AND BANK BALANCES

	THE GROUP		THE AUTHORITY	
	2018 RM	2017 RM	2018 RM	2017 RM
Cash on hand and at banks	14,341,268	8,967,574	4,495,305	4,082,152
Fixed deposits with licensed banks	59,000,000	59,000,000	56,000,000	59,000,000
Cash and bank balances	73,341,268	67,967,574	60,495,305	63,082,152

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 2018 for the Group and the Authority were 4.10% (2017: 4.00%) per annum with maturity period of 30 to 365 days (2017: 30 to 365 days).

Foreign currency exposure profile for cash and bank balances is as follows:

	THE GROUP		THE AUTHORITY	
	2018 RM	2017 RM	2018 RM	2017 RM
Cash at banks:				
United States Dollar	752,797	1,297,417	752,797	1,297,417
Hong Kong Dollar	-	126,439	-	-

### 15. DEFERRED INCOME

Deferred income comprises the followings:

		THE GROUP		THE AUTHORITY	
		2018 RM	2017 RM	2018 RM	2017 RM
Grant related to income	(a)	1,319,172	1,967,059	526,269	903,577
Grant related to assets	(b)	73,688,654	75,365,014	73,688,654	75,365,014
		75,007,826	77,332,073	74,214,923	76,268,591

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 RM 2,409,737 and RM 2,053,668 (2017: RM 2,065,880 and RM 1,963,480) respectively.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

### 15. DEFERRED INCOME (CONTINUED)

The expected utilisation of the grants as at 31 December 2018 are as follows:

	THE GROUP		THE AUTHORITY	
	2018 RM	2017 RM	2018 RM	2017 RM
Within 12 months	2,995,532	3,643,419	2,202,629	2,579,937
After 12 months	72,012,294	73,688,654	72,012,294	73,688,654
	75,007,826	77,332,073	74,214,923	76,268,591

#### 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	
	2018 RM	2017 RM	2018 RM	2017 RM
At 1 January	1,967,059	2,356,579	903,577	1,190,697
Received during the financial year	-	-	-	-
Less: Recognised in profit or loss	(647,887)	(389,520)	(377,308)	(287,120)
At 31 December	1,319,172	1,967,059	526,269	903,577



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

### 15. DEFERRED INCOME (CONTINUED)

#### b) Grant related to assets

	THE GROUP		THE AUTHORITY	
	2018 RM	2017 RM	2018 RM	2017 RM
<b>Grant related to assets:</b>				
At 1 January	82,753,798	82,753,798	82,753,798	82,753,798
Received during the financial year	-	-	-	-
At 31 December	82,753,798	82,753,798	82,753,798	82,753,798
<b>Cumulative credits:</b>				
At 1 January	(7,388,784)	(5,712,424)	(7,388,784)	(5,712,424)
Credited to statements of profit or loss during the year	(1,676,360)	(1,676,360)	(1,676,360)	(1,676,360)
At 31 December	(9,065,144)	(7,388,784)	(9,065,144)	(7,388,784)
<b>Net carrying amount:</b>				
Current	1,676,360	1,676,360	1,676,360	1,676,360
Non-current	72,012,294	73,688,654	72,012,294	73,688,654
	73,688,654	75,365,014	73,688,654	75,365,014

### 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	
	2018 RM	2017 RM
Within 12 months	2,000,000	1,500,000
After 12 months	2,000,000	4,000,000



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

### 17. OTHER PAYABLES

	THE GROUP		THE AUTHORITY	
	2018 RM	2017 RM	2018 RM	2017 RM
Amount due to a subsidiary	-	-	-	7,000,000
Fees received in advance	8,185,753	11,037,558	8,185,753	11,037,558
Refundable deposits	1,079,503	1,056,986	602,200	602,200
Retention payables	1,123,073	1,120,038	1,123,073	1,120,038
Accruals	1,760,234	1,814,873	1,388,518	1,471,542
Others	5,629,494	2,448,427	4,609,029	1,534,015
<b>Total other payables</b>	<b>17,778,057</b>	<b>17,477,882</b>	<b>15,908,573</b>	<b>22,765,353</b>

**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. 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	
	2018 RM	2017 RM
Financial year ended 31 December:		
2018	1,682,821	1,682,821
2019	1,660,334	-
	<b>3,343,155</b>	<b>1,682,821</b>



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

### 19. 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	
	2018 RM	2017 RM	2018 RM	2017 RM
Rental income received from a subsidiary	-	-	180,000	180,000
Tuition fees paid to a subsidiary	-	-	(235,503)	(318,019)
Contribution to Labuan Financial Services Authority Staff Welfare Fund	(250,000)	(350,000)	(250,000)	(350,000)
Marketing fees paid to a subsidiary	-	-	(7,500,000)	(7,500,000)
Grant to a subsidiary	-	-	(6,900,000)	(6,750,000)

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.

#### b) Transactions with key management personnel

	THE GROUP		THE AUTHORITY	
	2018 RM	2017 RM	2018 RM	2017 RM
Salaries	7,099,457	7,609,915	4,454,778	5,106,305
Allowances	567,929	649,245	505,229	559,903
Employee Provident Fund	1,110,930	1,335,731	878,444	1,027,097
	8,778,316	9,594,891	5,838,451	6,693,305
Outstanding staff loans owing by key management personnel:				
Staff housing loans	-	251,548	-	251,548
Staff vehicle loans	-	-	-	-
	-	251,548	-	251,548





## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

### 20. 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 2017 is minimal.

#### 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.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

### 20. FINANCIAL INSTRUMENTS (CONTINUED)

#### 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	
	2018 RM	2017 RM	2018 RM	2017 RM
United States Dollar	75,280	142,430	75,280	129,747
Hong Kong Dollar	-	12,644	-	12,644

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 2018

## 20. FINANCIAL INSTRUMENTS (CONTINUED)

THE GROUP				
	On demand or within one year RM	One year To five years RM	Over five years RM	Total RM
<b>2018</b>				
Non-derivative financial assets:				
Fees and other receivables	15,834,399	678,081	551,367	17,063,847
Cash and bank balances	76,311,589	-	-	76,311,589
Total undiscounted non-derivative financial assets	92,145,988	678,081	551,367	93,375,436
Non-derivative financial liabilities:				
Government loans	2,000,000	2,000,000	-	4,000,000
Other payables	8,510,026	-	-	8,510,026
Total undiscounted non-derivative financial liabilities	<b>10,510,026</b>	<b>2,000,000</b>	-	<b>12,510,026</b>
Total net undiscounted non-derivative financial assets/(liabilities)	<b>81,635,962</b>	<b>(1,321,919)</b>	<b>551,367</b>	<b>80,865,410</b>
<b>2017</b>				
Non-derivative financial assets:				
Fees and other receivables	15,061,301	1,180,120	1,409,110	17,650,531
Cash and bank balances	70,852,798	-	-	70,852,798
Total undiscounted non-derivative financial assets	85,914,099	1,180,120	1,409,110	88,503,329
Non-derivative financial liabilities:				
Government loans	1,500,000	4,000,000	-	5,500,000
Other payables	6,440,324	-	-	6,440,324
Total undiscounted non-derivative financial liabilities	<b>7,940,324</b>	<b>4,000,000</b>	-	<b>11,940,324</b>
Total net undiscounted non-derivative financial assets/(liabilities)	<b>77,973,775</b>	<b>(2,819,880)</b>	<b>1,409,110</b>	<b>76,563,005</b>



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

### 20. FINANCIAL INSTRUMENTS (CONTINUED)

	THE AUTHORITY			
	On demand or within one year RM	One year To five years RM	Over five years RM	Total RM
<b>2018</b>				
Non-derivative financial assets:				
Fees and other receivables	19,469,014	678,081	551,367	20,698,462
Cash and bank balances	62,945,365	-	-	62,945,365
Total undiscounted non- derivative financial assets	82,414,379	678,081	551,367	83,643,827
Non-derivative financial liabilities:				
Government loans	2,000,000	2,000,000	-	4,000,000
Other payables	7,722,820	-	-	7,722,820
Total undiscounted non- derivative financial liabilities	<b>9,722,820</b>	<b>2,000,000</b>	-	<b>11,722,820</b>
Total net undiscounted non-derivative financial assets/(liabilities)	<b>72,691,559</b>	<b>(1,321,919)</b>	<b>551,367</b>	<b>71,921,007</b>
<b>2017</b>				
Non-derivative financial assets:				
Fees and other receivables	18,705,057	1,180,120	1,409,110	21,294,287
Cash and bank balances	65,758,947	-	-	65,758,947
Total undiscounted non- derivative financial assets	84,464,004	1,180,120	1,409,110	87,053,234
Non-derivative financial liabilities:				
Government loans	1,500,000	4,000,000	-	5,500,000
Other payables	11,727,795	-	-	11,727,795
Total undiscounted non- derivative financial liabilities	<b>13,227,795</b>	<b>4,000,000</b>	-	<b>17,227,795</b>
Total net undiscounted non- derivative financial assets/(liabilities)	<b>71,236,209</b>	<b>(2,819,880)</b>	<b>1,409,110</b>	<b>69,825,439</b>



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

### 20. FINANCIAL INSTRUMENTS (CONTINUED)

#### d) Liquidity risk (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		
	2018 RM	2017 RM
Loans and receivables carried at fair value		
Staff housing and vehicle loans	890,460	1,645,137

##### *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	Level 4 RM
<b>2018</b>				
Staff housing and vehicle loans	-	890,460	-	890,460
<b>2017</b>				
Staff housing and vehicle loans	-	1,645,137	-	1,645,137

There were no movements in the Level 1 and Level 3 fair value measurements during the financial year.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

### 21. CASH AND CASH EQUIVALENTS

	THE GROUP		THE AUTHORITY	
	2018 RM	2017 RM	2018 RM	2017 RM
Cash on hand and at bank	14,341,268	8,967,574	4,495,305	4,082,152
Fixed deposits placed with licensed banks	59,000,000	59,000,000	56,000,000	59,000,000
	73,341,268	67,967,574	60,495,305	63,082,152
Less: Fixed deposits with maturity period of more than 3 months	(56,000,000)	(55,000,000)	(56,000,000)	(55,000,000)
Cash and cash equivalents for statements of cash flows purposes	14,341,268	12,967,574	4,495,305	8,082,152

### 22. AUTHORISATION OF FINANCIAL STATEMENTS FOR ISSUE

The financial statements were authorised for issue by the Members of the Authority on 15 April 2019.

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