Labuan FSA
Financial Services Authority

CONNECTING ASIA'S ECONOMIES

ANNUAL REPORT

2015

25 Years of Continuous Growth

LABUAN FINANCIAL SERVICES AUTHORITY

Annual Report **2015**

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CONNECTING ASIA'S ECONOMIES

Since its inception in 1990, Labuan IBFC has grown from strength to strength and has evolved into a financial centre that has facilitated the growth of Asian corporates and participated in Asia's rise into one of the most dynamic regions in the world.

As Labuan IBFC celebrates its 25th anniversary, the centre continues to expand its foot print in providing the business and financial interconnectivity in the region and maintains its position as a well-regulated and reputable IBFC for Asia.

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CORPORATE VALUES

INTEGRITY, COMMITMENT & PROFESSIONALISM

OPEN & HONEST COMMUNICATION

TEAMWORK

BUSINESS & STAKEHOLDER ORIENTED

CONTINUOUS LEARNING

MISSION STATEMENT

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

BANKING

OUR BUSINESS

THE DIVERSE SELECTION OF LABUAN IBFC'S FINANCIAL PRODUCTS AND SERVICES BRINGS TO INVESTORS A WEALTH OF BUSINESS OPPORTUNITIES, COVERING THE AREAS OF BANKING, INSURANCE, TRUST COMPANY BUSINESS, CAPITAL MARKET, WEALTH MANAGEMENT AND OTHER LABUAN FINANCIAL BUSINESSES

ISLAMIC FINANCE

OTHER LABUAN

FINANCIAL

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CHAIRMAN'S STATEMENT

IN 2015, THE GLOBAL ECONOMIC RECOVERY REMAINED MODEST. THE UNFOLDING DEVELOPMENTS GOING INTO 2016 INDICATE A CHALLENGING FINANCIAL AND ECONOMIC ENVIRONMENT. THE SLOWER ECONOMIC GROWTH PROSPECTS IN SEVERAL LARGE EMERGING MARKET ECONOMIES AND THE SUSTAINED LOW ENERGY AND COMMODITY PRICES ARE EXPECTED TO WEIGH ON THE GLOBAL GROWTH PROSPECTS IN 2016.

Confronted with these developments, the Asian economies have, however, demonstrated their abilities to weather the challenges, having benefitted from the earlier efforts to strengthen the economic foundations that were further reinforced with long term financial reforms, capacity building initiatives and the forging of greater regional economic and financial integration.

The year 2015 marked a key milestone in the ASEAN integration agenda with the establishment of the ASEAN Economic Community (AEC). ASEAN has emerged as an important growth centre in the global economy and has been recognised as one of the most dynamic regions in the world. The ASEAN economies have achieved significant progress during this challenging time, sustaining their long term average GDP growth of 5.3%, higher than the global growth average of 3.6%. ASEAN's combined GDP has nearly doubled since 2007, when the AEC Blueprint was first adopted to the current prevailing value of USD2.5 trillion. Additionally, the average GDP per capita has increased by almost 20% to more than USD10,000 in the same period.

TAN SRI DATO' SRI DR ZETI AKHTAR AZIZ

CHAIRMAN

CHAIRMAN'S STATEMENT

"The formulation of broad strategies and key initiatives under the CAP, which takes into account the evolving international financial landscape and greater cross-border flows, is to position the Labuan IBFC as a thriving midshore business and financial centre in the Asian region"

The rapid progress of regional economic integration in ASEAN has unlocked the further potential of the region to have a greater role in the greater Asia and the global economy, with widening access to the regional and international markets. While the environment of low commodity prices combined with volatility in the international financial markets have brought pressures to the regional currencies, the strengthening of cross-border trade and investments, the greater public spending and increased consumption power of the rising middle class from the 630 million population of the ASEAN region has sustained an economic growth estimated at 4.7% in 2015. This is expected to be sustained going forward into 2020. Leveraging on such growth prospects and the continued efforts to implement economic integration initiatives encapsulated under the AEC, this is expected to have significant positive influence on intra-regional trade and foreign direct investment, promoting overall economic growth in the region. The Labuan IBFC, which has a strong foot print in providing the interconnectivity to conduct business in the region, is well positioned to capitalise on and contribute to these exciting future prospects.

The year 2015 holds special significance for the Labuan IBFC as the centre celebrated its silver jubilee anniversary. During our 25-year journey, underpinned by its ASEAN strategy, the centre has not only persevered through many challenges, but remained steadfast in staying the course towards becoming a financial business centre. The centre now hosts more than 700 licensed institutions, an increase of more than thirteen fold, an average growth of about 10% annually. Importantly, this growth has not only been in terms of number of companies, but also in terms of its diversity. This includes banks, insurance and insurance-related companies, trust and leasing companies, with a special focus on niche wealth management vehicles such as foundations and trusts, that are beginning to make an increasingly significant imprint. The progress of the centre amidst Asia's growing prominence has also been reinforced by the extensive efforts to develop Labuan through the provision of extensive physical infrastructure and amenities, as well as incentive structures within the Labuan IBFC. Positive assessments by international regulatory bodies such as the IMF/World Bank, FATF, APG, OECD Peer Review Group have also served to further elevate the international confidence and recognition of the Labuan IBFC in meeting international standards and practices.

Key to the success of the Labuan IBFC lies in its agility. The increasingly liberalised marketplace combined with forces of globalisation and the international regulatory reforms have altered the business and financial landscape that the Labuan IBFC operates today. An important strategic shift was undertaken in 2008 with the repositioning of the Labuan IBFC, a bold step towards transforming the centre's position from a traditional offshore financial centre to become a vibrant international business and financial centre. To complement this, a holistic review of the legislation and the tax framework was undertaken during the same year to ensure that it could remain facilitative and flexible for business to be conducted out of the Labuan IBFC. New business services and products were also identified, with a focus on wealth management and financial solutions.

The 25-year journey for the Labuan IBFC also saw the review of the regulatory costs for Labuan entities to maintain competitiveness of the centre. An enhanced online company incorporation system was implemented to improve the efficiency for companies to incorporate and operate in Labuan. To maintain independence and clarity of roles, a separate marketing arm was established to undertake the promotion of the Labuan IBFC, while the Labuan FSA focuses on the regulatory and supervisory oversight of the Labuan financial institutions. Many enhancements were also made to the operational framework for the Labuan entities, including in the area of co-location, which have enabled entities to further maximise their presence in Labuan. These developments have strengthened the distinct value propositions and comparative advantages for the Labuan IBFC, enabling the centre to contribute more effectively in facilitating regional trade and investment activities.

For the year 2015, the Labuan FSA focused on the implementation of the strategic priorities outlined in its Corporate Action Plan (CAP) 2015-2017. The formulation of broad strategies and key initiatives under the CAP, which takes into account the evolving international financial landscape and greater cross-border flows, is to position the Labuan IBFC as a thriving midshore business and financial centre in the Asian region. The key focus areas for the Labuan IBFC are: (i) strengthening regional and international financial linkages; (ii) the continued internationalisation of Islamic finance; and (iii) building a strong regulatory and supervisory regime. The CAP also accords emphasis towards strengthening the capability and quality of service providers in the Labuan IBFC to support the growing demand of the various and differentiated investors. The implementation of initiatives under the CAP will further enhance the Labuan IBFC's contribution towards Malaysia's efforts in creating a strong, comprehensive and stable financial system with well-functioning financial institutions.

CHAIRMAN'S STATEMENT

The Labuan FSA remains vigilant in ensuring that its regulatory and supervisory regime is consistent with international standards and best practices. The Authority has taken significant steps towards strengthening anti-money laundering and counter terrorism (AML/CFT) standards to uphold the integrity of the Labuan IBFC. During the year under review, Malaysia, including the Labuan IBFC, was assessed favourably by the Asia Pacific Group on Money Laundering (APG). The Mutual Evaluation Exercise Report on Malaysia (including the Labuan IBFC), published in 2015, acknowledged Malaysia's well-developed legal and regulatory arrangements, as well as a high degree of technical compliance to Financial Action Task Force (FATF) standards. Based on our commitment towards strengthening the AML/CFT regime, Malaysia was granted full membership in the FATF in February 2016.

To further strengthen cross-border cooperation with other regulatory authorities, the Labuan FSA has also signed a further Memorandum of Understanding (MoU) on Co-operation and Mutual Assistance with the Cayman Islands Monetary Authority. The MoU covers important areas in the regulation and mutual exchange of information, enforcement, research and development, capacity building as well as cooperation on supervisory work. The Authority will continue to engage with more regulatory bodies to foster an enhanced relationship and cooperation in the area of supervision and enforcement.

As the businesses of the Labuan IBFC evolves to become more complex and diversified over the years, the Authority will continue to develop both the organisational and industry technical capabilities to ensure there are no mismatches in competencies and expertise in the Labuan financial industry. Towards this, the Authority will collaborate closely with the industry associations and professional training institutions to provide professional certification programmes to raise the competency level of the industry workforce in the Labuan IBFC.

The Authority will also continue in its corporate social responsibility programme for the Labuan community, particularly in relation to the progressive development of the Labuan International School (LIS). The completion of the new school building, which is equipped with state-of-the art educational facilities now provides the full spectrum of education system and learning experience for its students.

Looking ahead, 2016 will be a challenging year for the financial centre. The volatile and uncertain economic climate may result in moderating demand for financial products and services, particularly as individuals and corporates become more cautious in investments and business activities. Notwithstanding these challenges, the year will also see new opportunities, particularly with the development and advancement of the AEC, which will catalyse greater regional trade and investment activities in the region. In addition, the Trans-Pacific Partnership (TPP) will generate more economic activity among its participating markets that will, in turn, support more business activities and longer term demand for financial services.

The Labuan FSA is confident that the Labuan IBFC will continue to sustain its growth momentum. The Authority remains committed in providing a conducive and stable business environment and shall continue to adopt policies that are in the best interest to the Labuan IBFC. In this regard, the Labuan FSA will therefore focus on building and deepening the Labuan IBFC's business propositions, aimed at creating greater value for businesses.

“The Authority remains committed in providing a conducive and stable business environment and shall continue to adopt policies that are in the best interest to the Labuan IBFC”

Pivotal to the success of the Labuan IBFC is closer cooperation and the collective efforts of all stakeholders of the centre. The responsibility of achieving the ambitions of the Labuan IBFC is a shared responsibility between the regulators, government, industry players, and the market professionals and participants. With greater collaboration and engagement, we can look forward with confidence to a stronger performance of the Labuan IBFC.

On behalf of the Members of the Authority, I would like to acknowledge all stakeholders who have contributed significantly to the success and direction of the Labuan IBFC, including the present and previous Authority members of the Labuan FSA. The Labuan IBFC has benefited considerably from their wisdom and advice. I also wish to express my appreciation to Dato’ Siti Halimah Ismail, whose term of appointment concluded in 2015 and welcome Dato’ Zahrah Abd Wahab Fenner and Mrs. Khodijah Abdullah as new members of the Authority. In addition, my gratitude goes to the members of the International Advisory Panel, the Syariah Supervisory Council, the Financial Stability Committee and other government departments and agencies as well as the industry, for the invaluable support extended and contributions. I also extend my sincere appreciation to the management and staff of the Labuan FSA for the commitment and dedication towards the continued success of the Labuan IBFC. With continued support and commitment from all stakeholders, I am confident that the Labuan IBFC will continue to solidify its advancement as a financial and commercial gateway, serving the growing trade and investment needs of ASEAN, the greater Asia and beyond.

DATUK AHMAD HIZZAD BAHARUDDIN
DIRECTOR GENERAL

DIRECTOR GENERAL'S REPORT

The year 2015 marked the silver jubilee anniversary of the Labuan International Business and Financial Centre (Labuan IBFC). While the centre celebrated the 25th anniversary, the year also experienced slower economic growth momentum as result of financial market volatilities and low commodity prices. Despite the challenges, Labuan IBFC demonstrated its ability to persevere and continue its growth trajectory through its role in providing the interconnectivity for business and financial linkages in the Asia Pacific region.

The heightened global financial volatility during the year was mitigated by the various strategies and initiatives undertaken by Labuan FSA in building a strong foundation for the centre to grow. Business developmental strategies to leverage on the ASEAN region continue to present opportunities in wealth management, bolstered by the rise in middle income earners which also generated higher demand for financial services and products. As part of the 3-year strategic outlook plan, the regulatory and supervisory regime in Labuan IBFC continued to be enhanced to align with international standards to ensure Labuan remains as a well regulated centre. In this regard, significant strides were made to upscale the prudential regulations particularly in areas related to capital and liquidity to further strengthen the financial soundness of financial players. The first phase of the financial regulations of the Insurance Capital Adequacy Framework was rolled out in 2015.

DIRECTOR GENERAL'S REPORT

"Improved market surveillance mechanism, and pre-emptive actions were taken to deter and prevent potential vulnerabilities in the system. These surveillance efforts complement the regulatory compliance and enforcement activities in the overall oversight of Labuan IBFC"

As a financial centre engaging in international business and financial transactions, good corporate governance practices and investor confidence are vital for maintaining Labuan IBFC's competitiveness in the global market. Recognising the importance of good market conduct, the framework on corporate governance and market conduct was issued to ensure the Labuan trust companies continue to apply good governance and professional practices in their dealings with clients and investors.

In addition to upscaling the regulatory framework, actions were undertaken in supervisory and enforcement, particularly in areas of capital management, business conduct, anti-money laundering and counter terrorism financing, to ensure operational soundness of institutions in Labuan IBFC. Labuan FSA had refined its risk-based supervisory framework in reviewing the probability, severity and the effectiveness of risk control to assess financial stability on a macro-level and soundness of financial institutions on a micro-level. These efforts were complemented by strong enforcement measures against non-compliant institutions to safeguard the reputation and confidence in Labuan IBFC as an international financial centre.

Risk assessments through regular desk-top reviews and periodic on-site examinations and investigations, including joint investigation arrangements with other enforcement agencies had been carried out to ensure the integrity of the financial system of the centre. Labuan FSA is committed to and has exchanged information with its counterpart regulatory bodies to facilitate cross-border supervisory cooperation. Improved market surveillance mechanism, and pre-emptive actions were taken to deter and prevent potential vulnerabilities in the system. These surveillance efforts complement the regulatory compliance and enforcement activities in the overall oversight of Labuan IBFC.

As the international dimension of Labuan IBFC grows further with the presence of global financial institutions, Labuan FSA remains committed to ensure financial institutions comply with international standards, rules and best practices. There is a renewed focus on transparency with increasing internationally coordinated efforts especially to combat tax evasion and money laundering activities. In line with this, Labuan FSA continued to foster collaboration and cooperation with other regulatory bodies through the sharing and exchanging of information, as well as signing of new memorandum of understanding. Being a member of several international standard setting bodies, Labuan FSA actively participated in international regulatory fora on regulatory developments to keep abreast of global issues. In the area of AML/CFT, Labuan financial institutions are required to perform higher level of due diligence on customer identification and beneficial ownership as well as strengthen their internal controls in prevention of money laundering and terrorism financing.

While focuses on its key regulatory and supervisory functions, Labuan FSA's strategic plan encompasses providing a facilitative, vibrant and orderly development of the Labuan IBFC business eco system. Towards this goal, several business developmental initiatives were initiated in 2015. The objectives to promote the centre as a wealth management domicile for Asian high net-worth individuals (HNWIs) and families were expanded and diversified with the widening of wealth management products through issuance of new guidelines on the establishment of Labuan trust and Islamic trust. For the ultra rich HNWIs, the use of family office type of wealth management solutions through Labuan could be considered. There is a wide spectrum of wealth management structures, including trusts and foundations to cater to the growing number of ultra HNWIs population in the Asia Pacific region.

In the realm of Islamic wealth management, Labuan has introduced the international waqf guidelines placing Labuan as the first jurisdiction to facilitate the establishment of waqf. The Labuan international waqf foundation is a viable addition to the centre's wealth management products in the offering of Islamic wealth management products based on Shariah principles. The thriving Islamic finance ecosystem in Malaysia has facilitated Labuan IBFC to further promote and expand the growth of Islamic finance and business.

While the key financial sectors have continued to show resilience, Labuan FSA worked towards diversifying its growth sectors to sustain the development of Labuan IBFC. A masterplan for Labuan captive business is being developed to position Labuan IBFC as a preferred centre for captive solutions. Parallel to these developmental initiatives, the potential benefits for Labuan IBFC's business linkages in the context of the ASEAN Economic Community (AEC) are being identified. At the domestic front, efforts are being coordinated to enable Labuan IBFC to complement the Malaysia's Domestic Economic Corridors.

To further enhance the competitiveness of the centre, a review on Labuan IBFC's tax system was initiated in 2015. In addition, a broader legal enhancement on the Labuan laws is expected to be completed by end of 2016. Labuan FSA had also provided further clarity and guidance related to the implementation of the Government Services Tax and Foreign Account Tax Compliance Act. The increased transparency and need for economic substance has made Labuan IBFC an ideal jurisdiction to establish business.

DIRECTOR GENERAL'S REPORT

In 2015, the difficult economic and financial conditions had a marked negative effect on global business volumes and cross-border investments. Despite these adverse market dynamics, the overall business performance in Labuan IBFC remained stable, albeit at a slightly moderate growth rate for key business sectors.

The centre recorded a 7.2% annual growth in company incorporation. Though at a slower growth pace, the continued growth attested that Labuan IBFC remains a favourable destination for international companies looking to expand into the Asia Pacific markets. This is reflected in the Labuan company portfolio which showed a wide geographic spread in terms of representation of the origin of these companies. Companies originating from Asia continued to be the majority in Labuan IBFC.

The Labuan banking sector remained strong and stable with industry gross non-performing loan ratio further improving from 1.5% to 0.8% from 2014 to 2015. Total deposits increased by 17.9% compared to a negative growth in the preceding year. Total assets increased by 7% to USD47.4 billion and the total loans outstanding grew marginally to USD32.3 billion. The pre-tax profit of the Labuan banking sector jumped from USD461.1 million to USD620.6 million due to mainly improved quality of assets. Islamic financing also increased by 55.6% to USD1.8 billion from USD1.2 billion.

Notwithstanding the soft market conditions, the Labuan insurance industry continued to report another year of resilience with solvency ratio standing 5.7 times above the regulatory requirements. Slight growth was noted in the total gross premium written by the Labuan captive and retakaful business sectors while the general

"Labuan IBFC remains a favourable destination for international companies looking to expand into the Asia Pacific markets"

insurance sector recorded a decline in the total gross premium by 8.4% to USD1.3 billion compared to USD1.4 billion in 2014. The insurance sector recorded a lower profit-before tax of USD253.9 million compared to USD328.6 million in 2014.

The wealth in Asia Pacific and its expected growth had continued to spur the expansion of the wealth management sector. For Labuan foundations, the sector fared well in the year under review with 36 approvals granted, bringing the total number of Labuan foundation to 166. Due to the effects of the downturn in oil and gas and energy related industries, the leasing and commodity trading sectors in Labuan experienced slower growth. Both sectors registered a moderate growth of about 4.8% and 16.2% respectively, based on the number of approvals granted for the year.

As the evolution of business and regulatory landscape become more complex and given Labuan IBFC's interconnectedness with the rest of the world, the need for high standards of professionalism and competencies are critical to sustain growth. On its part, Labuan FSA will continue to invest in developing talents in the organisation to ensure its objectives and functions are effectively carried out. It is equally important to ensure that the quality of talent in the Labuan IBFC industry remains high to meet increasing sophisticated market needs. Towards this end, Labuan FSA will further intensify collaborative efforts with professional bodies to advance technical competency of the industry in raising the bar of professional standards of the financial industry to maintain the trust and confidence of the investors.

Moving ahead, the global growth prospects for 2016 remains moderate. Asia is expected to continue with its economic prominence globally in view of the growing cross-border business and investment flow within the region. The ASEAN economic integration agenda and the Trans-Pacific Partnership trade bloc is expected to further promote higher level of cross-border trade and investments. Labuan IBFC will also tap into the opportunities to be generated by China One Belt, One Road initiative to promote connectivity in infrastructure, resources development, industrial co-operation, financial integration and other fields along the Belt and Road countries into a cohesive economic area. The immense infrastructure spending estimated around USD8 trillion is expected to drive development and lead to greater regional economic integration, boost cross-border trade and financial flows between the Eurasian countries and the world. Labuan IBFC's strategic foothold in this region together with its conducive ecosystem and diversified products and services that it offers, will further enhance Labuan IBFC's role as the centre to connect trade and investments between countries in the Asia Pacific region.

On the financial performance of Labuan FSA, I am pleased to announce that for the year ended 31 December 2015, the Authority had recorded an increase in operating income of RM53.9 million as compared to RM52.7 million in 2014, while its total reserves in 2015 also increased to RM59.6 million.

In conclusion, I would like to express my appreciation to the Authority members of Labuan FSA for their invaluable support and guidance accorded to the management of Labuan FSA in pursuing our goals to make Labuan a sound, stable, reputable and dynamic IBFC. I would like to also thank all the staff of Labuan FSA, for their dedication and perseverance in discharging their responsibilities to fulfil their mandates in 2015.

LABUAN INTERNATIONAL BUSINESS AND FINANCIAL CENTRE: THE 25-YEAR JOURNEY OF CONTINUOUS GROWTH

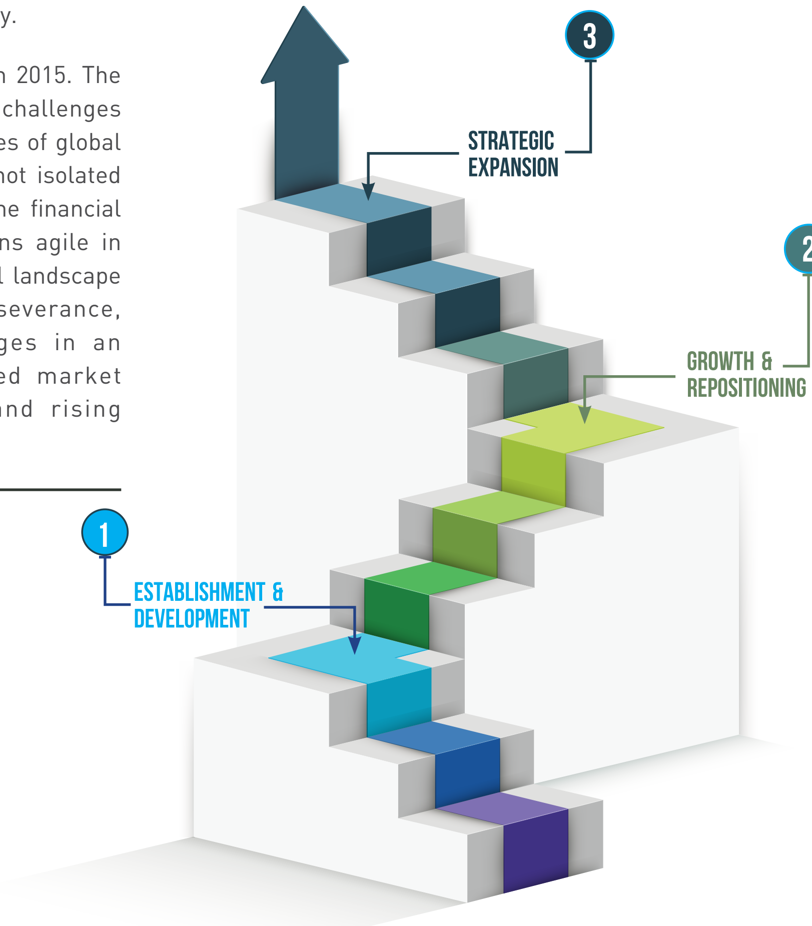
Labuan did not start out as a financial centre. In the early days, the economic activities were mainly on fishing, barter-trading and small scale business. The population size was small of less than fifty thousand people with a few coffee shops, food stalls and textile shops in the old Labuan town.

The transformation of Labuan began after the island became a Federal Territory in 1984. The growth of Labuan is further ignited when it was declared as an international business and financial centre (IBFC) [the then international offshore financial centre (IOFC)] on 1st October 1990. The establishment of the IBFC has helped to be the catalyst for the economic growth and development in Labuan. The Malaysian Government's strong support and commitment have been a major contributory factor in the success of the Labuan IBFC. This is manifested in the business incentives accorded, extensive infrastructure development and amenities upgrading to facilitate business connectivity.

Labuan IBFC celebrated its silver jubilee in 2015. The 25-year journey was marked with many challenges and the centre was confronted with episodes of global financial and economic difficulties. While not isolated from the international transformation of the financial market and system, Labuan IBFC remains agile in responding to the changing global financial landscape and regulatory environment. With perseverance, Labuan IBFC withstood the challenges in an environment of increasingly liberalised market landscape, intensified competition and rising international standards.

Strategic initiatives were undertaken to transform its financial system, previously dominated by banking and insurance, to expand the Labuan IBFC's offerings to include a wider array of financial products and services to meet increasing demands of sophisticated investors. The repositioning of Labuan IOFC to an IBFC in 2008 was a significant developmental strategy to enhance the competitive edge of Labuan. The strategic linkages with the Asian and the Pacific region have provided Labuan IBFC with continued impetus for growth while strong recognition by international regulatory bodies' assessments and cooperation with standard setting bodies have also contributed towards Labuan IBFC's reputation as a well-regulated financial centre.

Labuan IBFC is certainly more resilient and stronger today with a more solid legal underpinning, strengthened by regulatory and supervisory oversight and effective surveillance of financial stability risks. The strong foundation is set to grow the industry larger and to take Labuan IBFC to a new level of maturity.



ESTABLISHMENT & DEVELOPMENT

1990 2000

1990

Labuan was declared an International Offshore Financial Centre on 1 October.

The following five Acts were first enacted to govern the financial activities in Labuan IOFC:

- Offshore Banking Act 1990
- Offshore Insurance Act 1990
- Offshore Companies Act 1990
- Labuan Trust Companies Act 1990
- Labuan Offshore Business Activities and Tax Act 1990

3 banks

5 trust companies

1994

The Association of Labuan Banks and Association of Labuan Trust Companies were established as platforms to facilitate consultative discussions among members and the regulatory authorities.

1995

594 Labuan companies

43 banks

4 insurance companies

13 trust companies

1996

LOFSA Act 1996 was gazetted, enabling the establishment of Labuan Offshore Financial Services Authority (LOFSA) as a single regulatory authority to consolidate and streamline the functions previously handled by the Central Bank Malaysia, Securities Commission Malaysia and Companies Commission of Malaysia in the administration of the offshore financial activities in Labuan.

Financial Park Complex was opened, which marked the culmination of efforts to provide infrastructure for Labuan to operate as a premier IOFC.

The Labuan Offshore Trusts Act 1996 (LOTA) was gazetted to provide regulatory framework for the operation of trust business.

The Labuan Interbank Offered Rates (LABOR) was launched to attract corporate treasurers of large corporations to set up treasury operations in Labuan.

1997

Changes were made to the legislation to facilitate expansion and deepening of the offshore financial services.

The Offshore Banking (Amendment) Act 1997, Offshore Companies (Amendment) Act 1997 and Offshore Insurance (Amendment) Act 1997 were gazetted and became effective.

The major amendment to Offshore Banking Act 1990 (OBA) relates to the granting of new class of licences ie. investment banking as well as Islamic banking.

An important policy shift was to allow Malaysian to own offshore companies and certain offshore companies were permitted to invest in Malaysia to further boost the offshore activities in Labuan.

Guidelines on Capital Adequacy for Offshore Banks were issued to strengthen the regulation of offshore banking industry.

Operational guidelines were issued to facilitate the conduct of leasing and company management activities in Labuan IOFC.

First Islamic Murabaha financing was issued out of Labuan.

LOFSA's website was officially launched.

Labuan Offshore Limited Partnership Act 1997 (LOLPA) came into force to provide the establishment, regulation and dissolution of offshore limited partnership.

1998

LOFSA became a member of the International Association of Insurance Supervisors (IAIS).

Labuan Offshore Securities Industry Act 1998 (LOSIA) came into force to govern the mutual funds industry in Labuan. Guidelines on Establishment of Fund Management Companies and Mutual Funds in Labuan were also subsequently issued.

LOFSA kick-start the development of captive insurance in Labuan with several policies introduced, including reduction in capital requirement and amendment made to the Offshore Campaign Act 1990 (OCA).

Two acts were amended to keep up with the development and supervision of offshore activities across the globe. The LOFSA Act 1996 was amended to enhance the supervisory role of LOFSA to be in line with practices of other international financial centres. While LOBATA 1990 was amended to broaden the scope of offshore business that can enjoy the favourable tax regime.

Labuan International Insurance Association was established to promote and represent the common interests of the members.

1999

LOFSA became a member of the Group of International Financial Centre Supervisors (GIFCS).

LOFSA became a member of the Group of International Insurance Centre Supervisors (GIICS).

A blueprint for the strategic plan of Labuan IOFC was developed with concerted efforts of LOFSA and the three Associations of the Labuan IOFC industry.

The Labuan banking entry criteria was liberalised with objectives to expand the range, diversity of players and the offering of broader scope of financial services and products.

2000

LOFSA became a member of the Asia/Pacific Group of Money Laundering (APG).

The Labuan International Financial Exchange (LFX) was established to serve as a global exchange that provides listing and trading of financial instruments.

The Shariah Supervisory Council (the then Shariah Advisory Council) was established to review the compatibility of any proposed financial instruments to Shariah requirements and also advise on development of Islamic jurisprudence principles.

The launch of E-Commerce Gateway, a step towards ensuring Labuan IOFC is effectively connected by internet to the global market. It also acts as a means of financial portal for submission of statutory documents and statistical information to LOFSA.

2,721 Labuan companies
60 banks
68 insurance companies
20 trust companies
19 leasing companies

2001-2010

GROWTH & REPOSITIONING

2001

The Financial Sector Masterplan (FSMP) was launched to provide direction for the development of Malaysia's financial sector and also mapped out the strategic direction of Labuan IOFC from 2001-2010. Labuan is to grow as a centre that thrives on offshore financial services, and one, which is developed to support the development of the island, and plays an effective complementary role to the domestic financial market.

LOFSA collaborated with other federal agencies to promulgate the Anti-Money Laundering Act 2001, which came into force to strengthen efforts in combating money laundering and terrorist financing.

The APG on Money Laundering and the Offshore Group of Banking Supervisors conducted a joint evaluation on Labuan to look at various areas including the risk of money laundering and the legislative and regulatory framework. The evaluation report rated Labuan as a low risk jurisdiction for money laundering. The report had reinforced the image of Labuan as a well-regulated IOFC.

The inaugural listing on the LFX of a secondary listing of the USD250 million bonds issued by a Labuan company.

2002

LOFSA with other founding members formed the International Islamic Financial Market (IIFM), a standard-setting organisation for the Islamic financial services industry, focusing on standardisation of Islamic financial contracts and product templates relating to the capital and money market, corporate finance and trade finance segments of the industry.

A major legislative change in the Labuan Trust Companies Act 1990 where the legal entity of Labuan trust companies was changed from that of domestic companies to offshore companies. With this change, Labuan trust companies can diversity their businesses and expand their operations in line with global outlook of offshore business.

The world's first sovereign sukuk of USD600 million was issued out of Labuan by the Government of Malaysia. It has won accolades from international financial publications for its pioneering efforts, including Euromoney's *'Best Asian Sovereign Bond of the Year 2002'*, Institutional Investor's *'Deal of the Year 2002'* and Islamic Banker's *'Best Structured Islamic Financial Instrument 2002'*.

Labuan issued the world's first Shariah-compliant investment-linked takaful products, the Takaful Lil-Istithmar, enabling high net-worth individuals globally to diversify their investments through a wide variety of international Islamic funds.

The first primary listing on LFX took place with the listing of the USD150 million Serial Islamic Lease Sukuk.

2003

LOFSA has further enhanced its supervisory role by adopting the compliance requirements based on the CAMELS (Capital, Asset Quality, Management, Earnings, Liquidity and Sensitivity) and EMAS (Earnings, Management Asset Quality and Solvency) framework to supervise the Labuan banks and insurance companies, respectively.

The amendment of LOSIA 1998 came into effect, including provisions to allow fund managers to manage and administer foreign funds in Labuan. The amendment also empowered LFX to suspend trading, self-regulate the exchange and trading activities.

The Mutual Assistance in Criminal Matters Act 2002 came into force which provides LOFSA with additional avenues for cooperation with other supervisory and regulatory authorities to increase compliance and improve security for the offshore industry.

LOFSA became a member of International Organisation of Securities Commissions (IOSCO).

LOFSA became a member of Islamic Financial Services Board (IFSB).

The Guidelines on the Establishment of Marketing Office in Kuala Lumpur and Johor Bahru were issued to provide greater flexibility to Labuan companies.

2004

The International Advisory Panel was established as a consultative body to advise LOFSA on the strategic direction of Labuan IOFC's business and market development.

A web-based electronic document submission and processing system, *Mylofsa* was launched to facilitate online registration of Labuan companies.

LOFSA signed a MOU on Co-operation and Mutual Assistance with Securities Commission Malaysia.

The Offshore Insurance Act 1990 was amended to strengthen the prudential framework and enhance LOFSA's supervisory power, as well as improve consumer protection.

LOFSA embarked on an Enterprise Risk Management Framework to enhance its organisational efficiency and internal corporate governance.

2005

LOFSA signed a Framework for Working Arrangement with Bank Negara Malaysia.

A three-phase Corporate Action Plan was formulated to implement the thrusts to be undertaken by LOFSA under the Financial Sector Masterplan. Phase I to strengthen Labuan's capacity and develop strategic financial and business activities; Phase II to promote growth and depth of financial business and to enhance its reputation and credibility; and Phase III to develop Labuan IOFC in areas of comparative and competitive advantage with cost-efficient operating environment and international linkages.

5,152	Labuan companies
59	banks
112	insurance companies
20	trust Companies
69	leasing companies

2006

2006 marked the 10th anniversary of LOFSA as a one-stop regulatory authority. In its 10-year journey, it has maintained a high level of integrity, commitment and professionalism.

LOFSA's client charter was further improved to enhance its delivery system with one-day approval for company registration; three-week approval for application relating to leasing and fund management and one-month approval for applications of banking and insurance licences.

LOFSA introduced a framework to improve the supervision of trust companies under the Guidelines on Minimum Requirements of Trust Companies to provide the governance, obligations and responsibilities of trust companies in carrying out their duties.

2007

Labuan IOFC recognised as a low risk jurisdiction in money laundering by APG's assessment.

LOFSA undertook a repositioning study on Labuan IOFC with two key objectives ie. to identify the appropriate business model for Labuan and its value propositions; and to recommend amendments to its legislation to ensure the centre remains competitive and responsive to global trends.

2008

Various clusters of recommendations were implemented in relations to the repositioning study including holistic review of its legal and tax framework; marketing and rebranding of the IOFC; enhancement to information and communication technology and organisational change.

- Labuan was repositioned from an IOFC to an International Business and Financial Centre (IBFC).
- A separate marketing arm was established to promote Labuan IBFC.

For the first time, the insurance total gross premiums surpassed USD1.0 billion.

2009

Arising from the repositioning studies, four new Acts were introduced:

- Labuan Financial Services and Securities Act 2010
- Labuan Foundations Act 2010
- Labuan Limited Partnerships and Limited Liability Partnerships Act 2010
- Labuan Islamic Financial Services and Securities Act 2010

And four existing Acts with extensive amendments:

- Labuan Financial Services Authority Act 1996
- Labuan Companies Act 1990
- Labuan Trusts Act 1996
- Labuan Business Activity Tax Act 1990

The Labuan Offshore Financial Services Authority (LOFSA) was changed to Labuan Financial Services Authority (Labuan FSA).

The omnibus Labuan Financial Services and Securities Act 2010 consolidates the OBA 1990, OIA 1990, LTC 1990 and LOSIA 1990, into one comprehensive act. This act also streamlines procedures and administrative requirements to enable Labuan FSA to enhance its delivery system.

The Labuan Islamic Financial Services and Securities Act 2010 was introduced as a dedicated piece of omnibus legislation that caters to the specific requirements of Islamic finance industry covering banking, (re)takaful, sukuk issuance, trusts and fund management, an omnibus legislation to ensure compliance with Shariah principles in modern business times.

A new Labuan Foundations Act 2010 complements and enhances the wealth management industry in Labuan IBFC and to address the needs of clients from civil law jurisdictions.

Labuan FSA was accepted as signatory of Appendix B of the IOSCO.

Labuan FSA signed a MOU on Cooperation and Mutual Assistance with Companies Commission of Malaysia.

Labuan was launched as Malaysia's International Ship Registry.

MyLofsa2, the updated version of *MyLofsa* was launched to enhance the process of registration of Labuan companies.

2010

Malaysia, including Labuan IBFC was placed on the "White List" of the OECD.

Labuan FSA signed a MOU on Cooperation and Mutual Assistance with FSC Mauritius.

Labuan FSA received the award for *"Most Outstanding Contribution to Islamic Finance"* by Kuala Lumpur Islamic Forum 2010.

Issuance of the world's first Japanese corporate sukuk out of Labuan IBFC.

Labuan banks are allowed to co-locate their offices in any part of Malaysia as part of flexibilities accorded to the banks.

8,004 Labuan companies

61 banks

169 insurance companies

23 trust companies

176 leasing companies

2011-2015
STRATEGIC EXPANSION

2011

Labuan IBFC was given an important role under the Financial Sector Blueprint (FSPB 2011-2020) to support greater international financial linkages through trading and investment as well as cross-border cooperation in financial surveillance, regulation and supervision.

The establishment of the ASEAN Infrastructure Fund in Labuan reflects Labuan's strategic capabilities in facilitating cross-pollination of infrastructure investments in the region.

The Global Incentive for Trading Programme (GIFT) was launched to provide a set of incentives through the establishment of Labuan International Commodity Trading Company (LITC).

Co-location flexibility was also extended to Labuan insurance and takaful licensees.

2012

Malaysia and Labuan IBFC came out strong in the Phase 1 Peer Review of the OECD Global Forum.

Labuan IBFC was accepted as jurisdiction by the Stock Exchange of Hong Kong where Labuan companies can seek listing on the Stock Exchange.

Labuan FSA was accepted as a full signatory in Appendix A of the IOSCO Multilateral MOU.

Labuan FSA signed a MOU to foster cooperation on supervision and regulation with National Bank of Tajikistan.

Labuan FSA signed a MOU on Co-operation and Mutual Assistance with the Maldives Monetary Authority.

The Financial Stability Committee was established comprising cross-agency representatives from Labuan FSA, Bank Negara Malaysia and Securities Commission Malaysia, serving as a discursive platform on, among others, new prudential policies to ensure appropriateness and taking into account the onshore's experience and equivalent regulations.

Labuan FSA embarked on a review of its existing legislations to bring the legislation abreast with current developments.

Opening of Labuan International School's new campus, with state-of-the-art facilities.

2013

The total number of Labuan companies surpassed the 10,000th mark.

Upscaling of prudential regulation to complement the expanded legal framework. The focus areas include strengthen prudential regulations capital and financial foundations; enhancing corporate governance and improving market conduct.

Anti-money laundering guidelines were formulated for the key business sectors including banking, insurance, trust company, capital market.

Labuan FSA entered into 25 bi-lateral agreements with the central supervisory bodies for the financial markets of European Union-the European Securities and Markets Authority and the European Economic Area.

Labuan FSA sealed a MOU with Financial Supervisory Commission, R.O.C, Taiwan, on Co-operation and Mutual Assistance.

Labuan FSA signed a MOU on Co-operation and Mutual Assistance with Comite General des Assurances, Tunisia.

Labuan FSA signed a MOU on Co-operation and Mutual Assistance with Emirates Securities and Commodities Authority.

Labuan FSA signed a MOU with Iskandar Regional Development Authority to enhance business and investment opportunities.

Labuan FSA and Kuala Lumpur Regional Centre for Arbitration signed a MOU to promote an alternative resolution for commercial disputes settlement by arbitration in the Labuan IBFC.

Labuan FSA sealed a MOU with Universiti Malaysia Sabah to enhance scope of collaboration in capacity and capability development.

Labuan FSA was selected as the representative for the Pacific Region in the GIICS.

Launched Labuan IBFC Wealth Management Year 2013 to position the centre as the domicile of choice for wealth management.

2014

Labuan FSA signed a MOU on Co-operation and Mutual Assistance with Taiwan Financial Supervisory Commission, ROC.

Labuan FSA signed a MOU with with Jersey Financial Services Commission to foster supervisory cooperation.

A MOU on Co-operation and Mutual Assistance was signed with Gibraltar FSC.

Malaysia, including Labuan IBFC was accorded a "Largely Compliant" rating on the implementation of internationally agreed standards and best practices in the assessment by the Global Forum on Transparency and Exchange of Information.

Malaysia, including Labuan IBFC was one of the first few countries to be assessed by the APG Mutual Evaluation assessors based on new methodologies.

A consultative document on ICAF was issued and a conceptual plan for BCAF was also formulated to lay the ground for transition for Labuan insurance companies and banks to meet higher capital standards.

COR@L system was launched to further enhance the registration of companies and online lodgement of statutory documents.

2015

Labuan IBFC celebrated its silver jubilee, marked a journey of 25 years of sustained growth and prosperity.

Labuan IBFC launched its ASEAN Roadshow to leverage on the regional financial linkages to expand its businesses.

A MoU was signed with Cayman Islands Monetary Authority to foster supervisory cooperation.

Labuan FSA was re-elected as representative for the Pacific Region in the GIICS.

A holistic review was undertaken on Labuan's tax regime to accord tax certainty in order to retain competitiveness of Labuan IBFC, as well as to comply with internationally agreed tax standards.

The published APG Mutual Evaluation Exercise Report has positioned Malaysia, including Labuan IBFC as well-developed with strong legal and regulatory framework and exhibited high degree of compliance with Financial Action Task Force (FATF). Malaysia is accepted member of the FATF in February 2016.

The introduction of the international waqf guidelines placing Labuan IBFC as the first jurisdiction to facilitate the establishment of international waqf backed by a law.

Labuan IBFC is home to:

12,470	Labuan companies
54	banks
209	insurance companies
43	trust companies
374	leasing companies
166	foundations
43	Labuan international commodity trading companies

LINKING INVESTMENT

CORPORATE INFORMATION

CORPORATE INFORMATION

LABUAN FINANCIAL SERVICES AUTHORITY (LABUAN FSA) WAS ESTABLISHED ON 15 FEBRUARY 1996, IS THE STATUTORY BODY RESPONSIBLE FOR THE REGULATION, SUPERVISION AND DEVELOPMENT OF THE LABUAN INTERNATIONAL BUSINESS AND FINANCIAL CENTRE (IBFC).

OBJECTIVES OF LABUAN FSA

Labuan FSA was established:

- to promote and develop Labuan as a premier centre of high repute for international business, financial products and services; and
- 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.

In line with the objectives to develop Labuan into a vibrant and progressive IBFC, Labuan FSA has embarked on a two-pronged strategy:

I. to create an integrated international business and financial centre offering a wide range of international products and services, including Islamic finance; and

II. to provide a legal and regulatory and supervisory framework conducive for the development of a globally competitive international industry.

The ultimate aim is for Labuan to be a vibrant and progressive IBFC providing international financial products and services, including Islamic finance, under a conducive legal and regulatory and supervisory framework that facilitates international business.

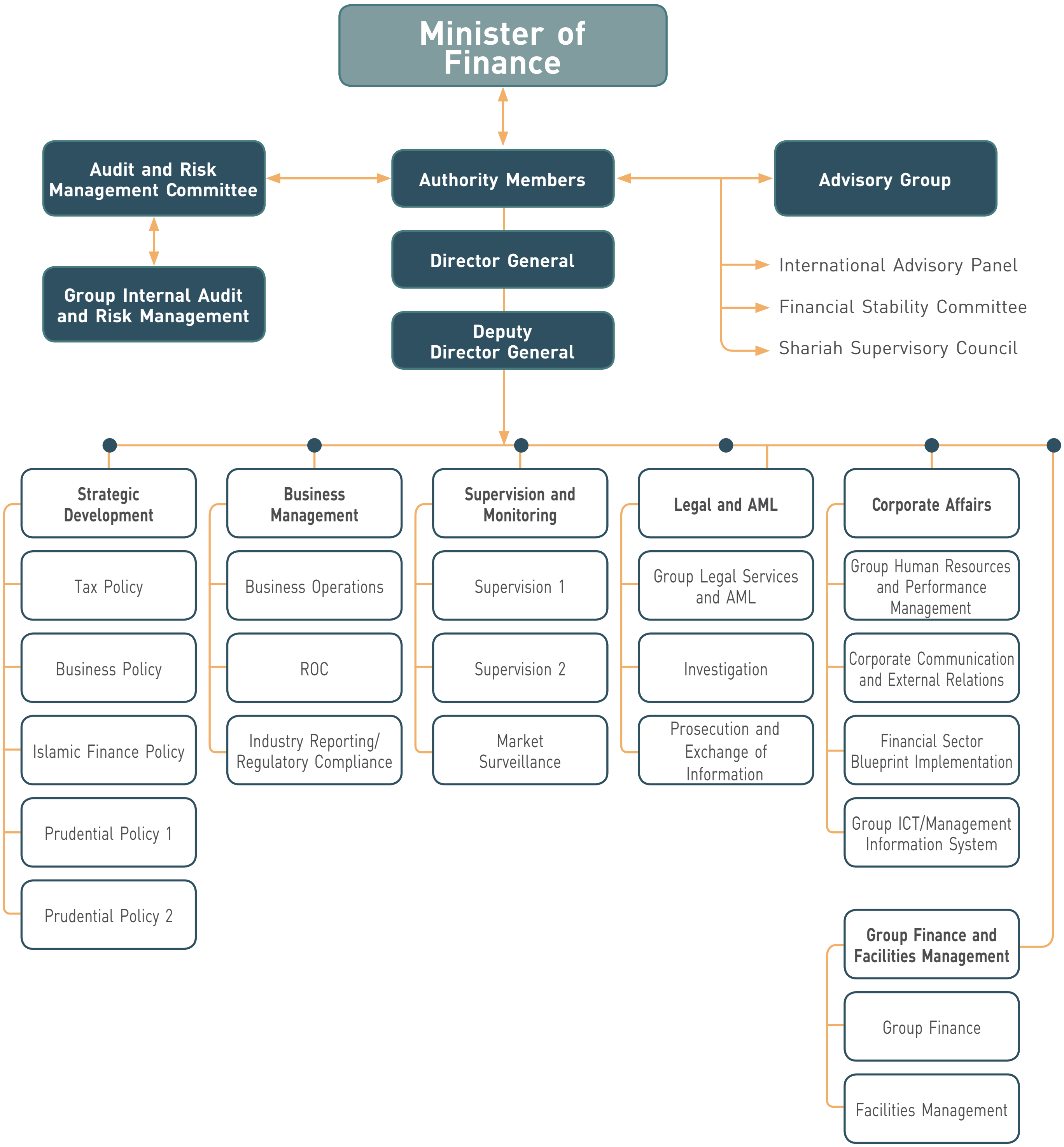
FUNCTIONS OF LABUAN FSA

Labuan FSA has been entrusted with the following 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 uphold the good repute and image of Labuan IBFC;
- To carry out research and commission studies to deepen and widen the scope of international financial services in Labuan;
- To make recommendations for 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.

ORGANISATION STRUCTURE

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



AUTHORITY SUBSIDIARIES

LABUAN FSA OWNS LABUANFSA INCORPORATED SDN. BHD., AN INVESTMENT HOLDING COMPANY THAT WAS ESTABLISHED IN DECEMBER 1999. PRISTINE ERA SDN. BHD. AND LABUAN IBFC INC. SDN. BHD. ARE SUBSIDIARIES OF LABUANFSA INCORPORATED SDN. BHD.

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

Labuan FSA
Financial Services Authority

100%

LABUANFSA INCORPORATED SDN. BHD.
(Established on 1 December 1999)

100%

PRISTINE ERA SDN. BHD.
(Established on 7 September 1995)

100%

LABUAN IBFC INC. SDN. BHD.
(Established on 14 May 2008)

INTERNATIONAL MEMBERSHIPS

Labuan FSA is a member of several international organisations that promote collaboration in attaining high level of regulatory standards amongst international financial centres, as well as cooperation in advancing the development of the centres. These organisations are:

A. INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS (IAIS)

IAIS was established in 1994 to represent the insurance regulators and supervisors from more than 200 jurisdictions. It works closely with financial sector standard setting bodies and international organisations to promote financial stability. The IAIS issues global insurance principles, standards and guidance papers, provides training and support on issues related to insurance supervision, and organises meetings and seminars for insurance supervisors. *(Member since 1998).*

B. GROUP OF INTERNATIONAL FINANCIAL CENTRE SUPERVISORS (GIFCS)

The GIFCS was formed in October 1980 to promote the adoption and compliance among its membership with international regulatory standards especially in the banking, fiduciary and AML/CFT arena. *(Member since 1999)*

C. GROUP OF INTERNATIONAL INSURANCE CENTRE SUPERVISORS (GIICS)

GIICS is a grouping of insurance regulators and supervisors from jurisdictions that provide international insurance services. The objectives of GIICS are to promote proper supervision of international insurance business and to provide mechanism and forum to discuss areas of mutual interest and formulate policies. *(Member since 1999)*

D. ASIA/PACIFIC GROUP ON MONEY LAUNDERING (APG)

APG is an autonomous and collaborative international organisation of more than 40 members founded in 1997. The organisation facilitates improvements for compliance with the Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) standards. It also assesses APG members' compliance with the global AML/CFT standards through mutual evaluation and conducts research into money laundering and terrorist financing methods, trends, risks and vulnerabilities. *(Member since 2000)*

E. INTERNATIONAL ISLAMIC FINANCIAL MARKET (IIFM)

IIFM is the global standardisation body for the Islamic Capital & Money Market segment of the Islamic financial system. IIFM acts as a market body in the development and maintenance of uniform standards to elevate the transparency and robustness of Islamic financial market. Its primary focus lies in the standardisation and Shariah harmonisation of Islamic products, documentation and related processes. IIFM also provides universal platform to market participants through various working groups and collaborative process for the development of Islamic capital and money market. *(Member since 2002)*

F. INTERNATIONAL ORGANISATION OF SECURITIES COMMISSIONS (IOSCO)

IOSCO is the worldwide association of national securities regulatory commissions. The role of the IOSCO is to assist its members to promote high standard of regulations and act as a forum for national regulators for international cooperation. Labuan FSA is currently a full signatory to IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information. *(Member since 2003)*

G. ISLAMIC FINANCIAL SERVICES BOARD (IFSB)

IFSB is an international standard-setting organisation that promotes and enhances the soundness and stability of the Islamic financial services industry. The IFSB also conducts research and coordinates initiatives on Islamic industry related issues as well as organises roundtables, seminars and conferences for regulators and industry stakeholders. *(Member since 2003)*

H. FINANCIAL ACTION TASK FORCE (FATF)

The FATF is an inter-governmental body established in 1989 with the objectives to set up standards and promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system. The FATF has developed a series of recommendations that are recognised as the international standards for combating of money laundering and the financing of terrorism and proliferation of weapons of mass destruction. The FATF monitors the progress of its members in implementing necessary measures, reviews money laundering and terrorist financing techniques and counter-measures, and promotes the adoption and implementation of appropriate measures globally. *(Malaysia is a member since February 2016 of which Labuan IBFC is included)*

I. INTERNATIONAL SCHOOLS ASSOCIATION (ISA)

The ISA was founded under Swiss Law in 1951 and is the most senior organisation in the world of international education. It is an international non-governmental organisation (NGO) and the first educational NGO to be granted consultative status at UNESCO. The objectives of ISA are to encourage the creation of new international schools and foster co-operation among international or internationally-minded schools through consultation on teaching and administrative questions; facilitate or undertake the study of educational matters of interest to such schools; to nurture interest in national schools of international matters as a means of improving international understanding; and to publicise the aims and principles of international schools and promote international understanding among national schools. *(Member since 2014)*

EVENT HIGHLIGHTS 2015

22 JANUARY

Labuan FSA in collaboration with the Economic Planning Unit hosted the Skim Latihan 1Malaysia (SLIM) programme in Labuan.

30 JANUARY

Bilateral meeting between Labuan FSA and Associations of Labuan Trust Companies.

27 FEBRUARY

Bilateral meeting between Labuan FSA and Labuan International Insurance Association.

17 MARCH

Bilateral meeting between Labuan FSA and Association of Labuan Banks.

26 MARCH

Bilateral meeting between Labuan FSA and Labuan Investment Bank Group.

30 MARCH

Study visit by lecturers from the Faculty of Business, Economics and Accountancy, University Malaysia Sabah.

15 APRIL

Briefing for a delegation from the Malaysian Income Tax Department was conducted.

20 APRIL

Bilateral meeting between Labuan FSA and Association of Labuan Trust Companies.

28 APRIL

Labuan FSA delivered a paper on "Labuan IBFC's International Waqf Foundation" at the Second Islamic Wealth Management Symposium, joint organised by. Labuan IBFC and BNP Paribas and INCEIF.

30 APRIL

Labuan FSA held a luncheon networking session with the Labuan press and media.

7 MAY

A masterclass on "Labuan for Lawyers" was organised for the Labuan IBFC industry to develop the know-how of wealth management structures and enhance compliance effectiveness of the industry.

19 MAY

Labuan FSA was invited to deliver a presentation to the Royal Malaysian Police.

26 MAY

Labuan FSA 2014 Annual Report was launched by Tan Sri Dato Sri Dr. Zeti Akhtar Aziz, Chairman of Labuan FSA.

1-2 JUNE

Labuan FSA convened its first International Advisory Panel meeting for 2015 in Manila.

A seminar was also organised in collaboration with LIBFC Inc. Sdn Bhd., to kick-off the ASEAN Roadshow in Manila.

5 JUNE

Bilateral meeting between Labuan FSA & Labuan International Insurance Association.

28 JULY

Labuan FSA signed a Memorandum of Understanding with the Cayman Islands Monetary Authority on Exchange of Information for Co-operation and Consultation.

3-4 AUGUST

Labuan FSA in collaboration with LIBFC Inc Sdn Bhd, organised a seminar in Jakarta, as part of the ASEAN Roadshow.

12 AUGUST

Labuan FSA in collaboration with LIBFC Inc Sdn Bhd, organised a forum on Global Incentive for Trading (GIFT).

13 AUGUST

A luncheon briefing was held for the Labuan government agencies to update these agencies on the latest development and achievements of Labuan IBFC.

15 SEPTEMBER

The Malaysia Mutual Evaluation Exercise Report published has positioned Malaysia, including Labuan IBFC as well-developed with strong legal and regulatory framework and exhibit the high degree implementation on FATF standards specifically in technical compliance.

6 OCTOBER

A briefing was conducted for the delegation from the Australian Customs Services.

6-7 OCTOBER

Labuan FSA in collaboration with the Asian Institute of Chartered Bankers organised the conference: *'Combating Financial Fraud: Fifty Shades of Crimes' for industry players and key stakeholders.*

15 OCTOBER

A briefing was conducted for a delegation from the Canton of Geneva, Switzerland and officers from the Embassy of Switzerland.

28 OCTOBER

Bilateral Meeting between Labuan FSA and Association of Labuan Banks.

29 OCTOBER

Bilateral meeting between Labuan FSA & Labuan International Insurance Association.

30 OCTOBER

In conjunction with Labuan IBFC's Silver Jubilee anniversary, Labuan FSA organised the "Labuan IBFC 25th Anniversary Conference" on two key topics – *"Uneven Global Growth Recovery: Asia's Key Developments That Will Shape The Global Economy and Prospects Moving Forward"* by Mr. Norman V. Loayza from The World Bank and "The Evolution of International Financial Centres" by Mr. John Harris from Jersey Financial Services Commission.

The Labuan IBFC 25th Anniversary Gala Dinner was organised to coincide with the celebration.

31 OCTOBER

Labuan FSA Day organised the Labuan FSA Day as part of its corporate social responsibility initiatives to foster closer ties with the Labuan community.

25-26 NOVEMBER

A Family Office masterclass was organised by Labuan FSA in collaboration with LIBFC Inc. Sdn Bhd for the Labuan IBFC industry.

27 NOVEMBER

Bilateral Meeting between Labuan FSA and Labuan Investment Banks Group.

10 DECEMBER

A briefing was conducted for the final year students from the University Malaysia Sabah.

INSTILLING CONFIDENCE

LEADERSHIP

LEADERSHIP
MEMBERS OF THE AUTHORITY

Members of the Authority are:
from left to right:

DATO' MOHD NADZRI BIN OSMAN

DATO' SERI RANJIT AJIT SINGH

DATO' MOHAMMED AZLAN HASHIM

DATUK AHMAD HIZZAD BAHARUDDIN
DIRECTOR GENERAL

TAN SRI DATO' SRI DR. ZETI AKHTAR AZIZ
CHAIRMAN

DATUK OH CHONG PENG

MRS. KHODIJAH BINTI ABDULLAH

DATO' ZAHRAH ABD WAHAB FENNER

DATUK ALI ABDUL KADIR

Labuan FSA is governed by a board known as the Authority. Its members are appointed by the Minister of Finance, for a term not exceeding three years and after which, they are eligible for reappointment. The current members comprise business leaders from the private sector as well as representatives from the Government and statutory bodies.

The roles and responsibilities of the Authority include setting the directions and policies relating to the conduct of business activities in the IBFC. The day-to-day administration of Labuan FSA ie entrusted to the Director-General.

LEADERSHIP
MEMBERS OF THE AUTHORITY

TAN SRI DATO' SRI DR. ZETI AKHTAR AZIZ
Chairman

Dr. Zeti Akhtar Aziz was appointed Governor of Bank Negara Malaysia in May 2000. At the Central Bank, Dr. Zeti had an important role in successfully managing the repair and resolution during the Asian financial crisis and the consequent strong recovery of the Malaysian economy. In the decade that followed, she also had an important role in the reform and transformation of the Malaysian financial system, including overseeing the modernisation and enactment of ten major pieces of legislation for the financial sector. This period also saw the progressive liberalisation of the Malaysian financial system.

In the Asian region, Dr. Zeti has been actively involved in strengthening cooperation and regional financial integration. In 2006, she chaired the Executives' Meeting of East Asia-Pacific Central Bank Taskforce on "Regional Cooperation among Central Banks in Asia" that prepared the report for future direction of central banks financial cooperation in the region, which continues today. A founding member of the Bank for International Settlements (BIS) Asian Consultative Group, she was also the first co-chair of the Financial Stability Board Regional Consultative Group for Asia. Dr. Zeti also participates extensively in international fora in many parts of the world, including acting as the voice of emerging economies in highlighting their role in the global economy. Dr. Zeti was a member of the Commission of Experts of the President of the United Nations General Assembly on Reform of the International Monetary and Financial System in 2009, a high-level task force established to examine reforms following the global financial crisis. She is currently the chair of the BIS Central Bank Governance Group, where she has been a member since 2001.

Dr. Zeti has had an influential role in the global development of Islamic finance, in particular in the establishment of the Islamic Financial Services Board and International Islamic Liquidity Management Corporation. She headed a taskforce that prepared a report identifying the building blocks that would further strengthen the institutional arrangements for financial stability in the Islamic financial system. Dr. Zeti also had a significant role in the development of talent in the Islamic financial services industry, including in the establishment of the International Centre for Education in Islamic Finance, the first global university dedicated to Islamic finance.

Dr. Zeti received her Bachelor of Economics from the University of Malaya and her PhD in Economics from the University of Pennsylvania.

LEADERSHIP
MEMBERS OF THE AUTHORITY

LEADERSHIP
MEMBERS OF THE AUTHORITY

DATO' SERI RANJIT AJIT SINGH

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

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

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

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

DATUK OH CHONG PENG

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

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

LEADERSHIP
MEMBERS OF THE AUTHORITY

DATO' MOHAMMED AZLAN BIN HASHIM

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

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

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

LEADERSHIP
MEMBERS OF THE AUTHORITY

DATUK ALI ABDUL KADIR

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

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

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

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

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

LEADERSHIP
MEMBERS OF THE AUTHORITY

DATUK AHMAD HIZZAD BAHARUDDIN

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

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

LEADERSHIP
MEMBERS OF THE AUTHORITY

DATO' MOHD NADZRI BIN OSMAN

Dato' Mohd Nadzri bin Osman is the Chief Executive Officer of Labuan Corporation since 1 September 2013. He started off his career in government with Ministry of Transport in 1984 and has since held various positions under the Ministry of Federal Territories and Urban Wellbeing from 2005. Prior to joining Labuan Corporation, Dato' Mohd Nadzri had also served in various ministries such as Ministry of Finance, Ministry of Natural Resources and Environment, Ministry of Housing and Local Government.

Dato' Mohd Nadzri holds a Masters Degree of Science (MSc) in Human Resources Development from University Putra Malaysia, a Bachelor of Arts (Honours) and Diploma in Public Administration from the University of Malaya and INTAN, Malaysia respectively.

LEADERSHIP
MEMBERS OF THE AUTHORITY

DATO' ZAHRAH ABD WAHAB FENNER

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

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

Dato' Zahrah was appointed as a board member for the Certification of Certified Integrity Officers which is an appointment of two (2) years commencing from March 2015 and is also a member of the Financial Reporting Foundation (FRF) by virtue of her position as CEO of SSM. Further, Dato' Zahrah is a member of the Labuan Financial Services Authority, member of the Board of Trustees, National Welfare Foundation of Malaysia and the Audit Oversight Board (AOB). She was also the chairperson of the SSM Cooperative between 2011 and 2014.

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

LEADERSHIP
MEMBERS OF THE AUTHORITY

MRS. KHODIJAH BINTI ABDULLAH

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

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

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

THE SHARIAH SUPERVISORY COUNCIL

The Shariah Supervisory Council (SSC), comprising renowned Malaysian and international Islamic finance scholars, reviews the compatibility of proposed financial instruments to Shariah requirements. It also advises Labuan FSA on the development of Islamic jurisprudence principles. The members of the SSC are appointed by the Authority.

Not Pictured:

MR. SHEIKH NIZAM YAGUBY

ASSOC. PROF. DR. SYED MUSA SYED JAAFAR AL-HABSHI

DATUK DR. MOHD DAUD BAKAR
CHAIRMAN

DR. ENGKU RABIAH ADAWIAH BINTI ENGKU ALI

DR. MOHAMED ALI ELGARI BINEID

ASSOC. PROF. DR. MOHAMAD AKRAM LALDIN

THE INTERNATIONAL
ADVISORY PANEL

The International Advisory Panel (IAP) is a consultative body that advises on the strategic direction of the IBFC relating to business and market development. The Authority appoints members of the IAP.






IAP members are:

1st row from left to right:

DATO' MOHAMMED AZLAN HASHIM
CHAIRMAN

MR. IQBAL KHAN

MR. MICHAEL TROTH

DATUK WIRA JALILAH BABA

MR. MARK LEA

2nd row from left to right:

MR. ANTHONY NEOH

TAN SRI DATO' MEGAT ZAHARUDDIN MEGAT MOHD NOR

DATUK SHIREEN ANN ZAHARAH MUHIUDEEN

DATO' MOHAMMAD FAIZ AZMI

MR. STEPHEN CATLIN

Not Pictured:

DATUK GEORGE RATILAL

BARON FREDERIK VAN TUYLL

THE FINANCIAL STABILITY COMMITTEE

The Financial Stability Committee (FSC) was set-up to assist the Authority in achieving the mandate of preserving the financial stability and integrity of the Labuan International Business and Financial Centre. The committee members are appointed by the Chairman of Labuan FSA and comprises of at least five members.



FSC members are:

from left to right:

DATUK AHMAD HIZZAD BAHARUDDIN (CHAIRMAN)

MR. DANIAL MAH ABDULLAH

MS. CHE ZAKIAH CHE DIN

MRS. MADELENA MOHAMED

MRS. SALMAH BEE MOHD MYDIN

SENIOR MANAGEMENT
OF LABUAN FSA

from left to right:

MR. DANIAL MAH ABDULLAH

DATUK AHMAD HIZZAD BAHARUDDIN
DIRECTOR GENERAL

MR. MOHD RIZLAN MOKHTAR

MR. ISKANDAR MOHD NULI

from left to right:

MR. AZUDDIN JASIN

MR. SYAHRUL IMRAN MAHADZIR

MRS. YON ZAHIMAH IBRAHIM

MR. WAN AHMAD SANUSI MAHMOOD

MR. JIMMY CHEN SIEW HANG

SENIOR MANAGEMENT
OF PRISTINE ERA SDN. BHD.

from left to right:

MR. WAN AHMAD SANUSI MAHMOOD

MRS. ZAINAB BATIN

SENIOR MANAGEMENT
OF LABUAN IBFC INC. SDN. BHD.

from left to right:

MRS. FARAH JAAFAR CROSBY

MR. DANIAL MAH ABDULLAH

MR. HIU CHEE FATT

MR. ADERI ADNAN

MRS. NORAZLIN ABD JALIL

Not Pictured:

MR. PETER HUYNH

MRS. AZWAH MOHAMAD NOOR

BRIDGING OPPORTUNITIES

STATEMENT OF CORPORATE GOVERNANCE

STATEMENT OF CORPORATE GOVERNANCE

Corporate governance refers to the way Labuan Financial Services Authority (Labuan FSA) is administered and includes the framework and administrative processes within which the Authority and the management functions to maintain integrity and sound business operations in congruent with relevant laws and regulations.

The Labuan FSA is a statutory body established under the Labuan Financial Services Authority Act 1996 (Act). The Act empowers Labuan FSA to issue guidelines, directives and advisories including obtaining relevant information from Labuan entities and other enforcement authorities for effective conduct of its mandated roles and responsibilities. As the statutory regulator for the Labuan IBFC, Labuan FSA strives to advocate high standards of corporate governance and best practices.

GOVERNANCE FRAMEWORK

The governance framework of Labuan FSA was instituted on recognised best practices and accepted governance principles broadly translated into organisational structures and processes, and explains how the organisation is directed, controlled and held to account.

In this regard, Labuan FSA operates within three core principles aimed at driving the performance and outcomes of Labuan IBFC.

- An ***accountability*** structure with a view of the Authority's impact on the expected performance of Labuan IBFC;
- Mechanisms that enhance the ***integrity*** of the organisation, its operation and the conduct of its staff and agents; and
- ***Transparency*** of the organisational conduct for the promotion of an efficient business and financial system under Labuan FSA's supervision.

The Minister of Finance may, from time to time, require the Authority to furnish information regarding its performance under the Act and other laws relating to Labuan financial services. The best practices and principles of effective governance have further reinforced the integration of the core principles to ensure coherent functioning of the organisational system within the Labuan FSA.

ACCOUNTABILITY

Accountability within Labuan FSA is ensured through its decision-making structures and usage of internal resources towards meeting the mandated objectives and interests of its stakeholders.

The Authority

In the hierarchy of Labuan FSA, the Authority is the highest decision-making body. It comprises nine prominent members from the public and private sectors including the Director General, who are appointed by the Minister of Finance under Section 5 of the Act. The Act provides that the Director General be directly responsible for the administration and day-to-day operations of Labuan FSA. In fulfilling its oversight and supervisory responsibilities, the Authority is assisted by the Audit and Risk Management Committee.

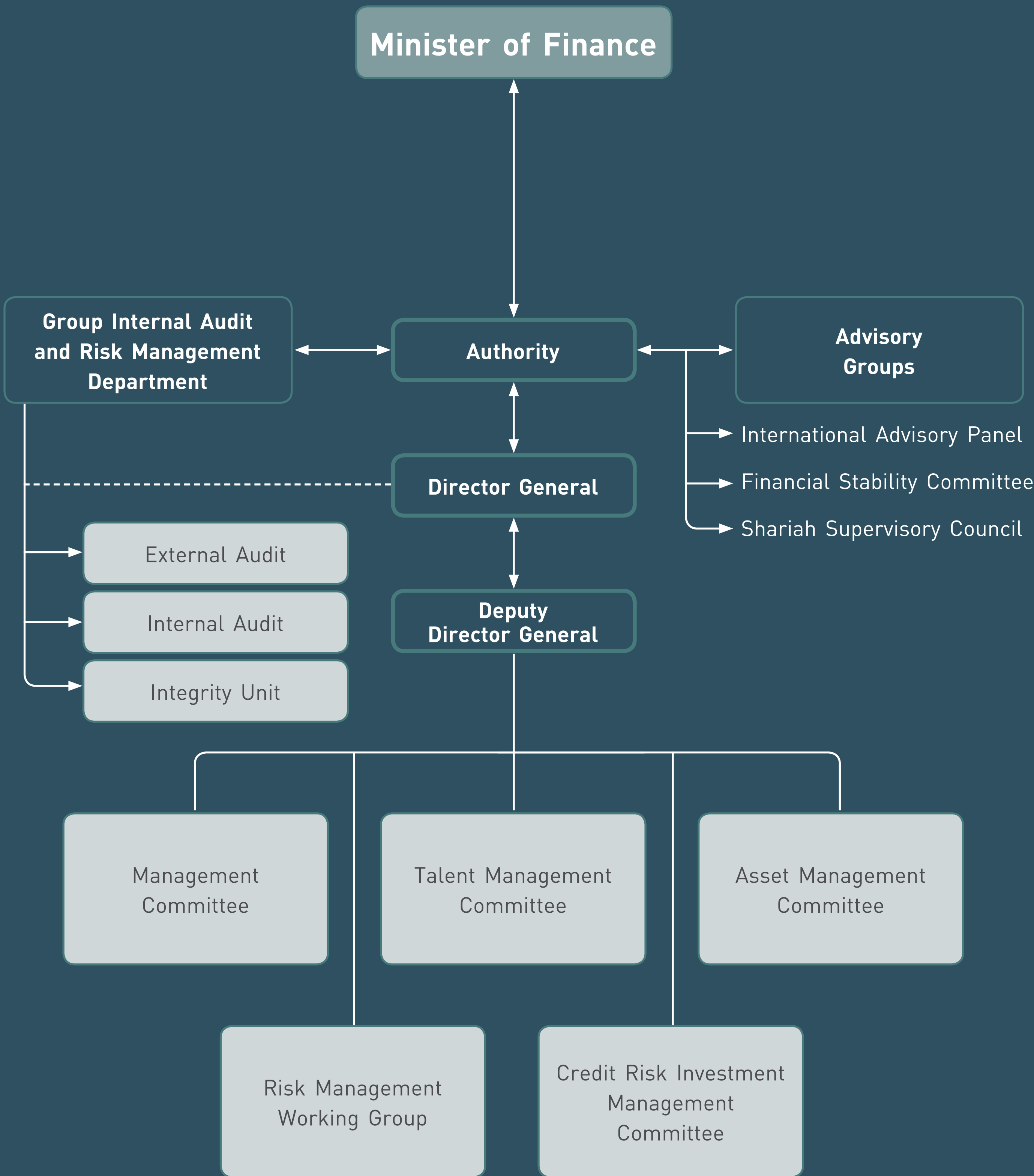
The Authority provides oversight on the management through the strategic directions of the business including review and approval of business policies and guidelines. It also advises the management to ensure that the internal resources are utilised in the most economical and efficient manner. The Authority is committed to ensure that the principles and spirit of the Malaysian Code of Corporate Governance as well as international standards and best practices are complied with.

The decision-making structure of Labuan FSA which encompasses the reporting relationships and division of responsibilities among different constituents within and outside the organisation, is intended to meet the interests of stakeholders in an objective and equitable manner. Towards this, the accountability of Labuan FSA is further strengthened through effective and timely implementation of regulatory and supervisory processes that are made transparent and enforceable and consistent with the law.

"The decision-making structure of Labuan FSA which encompasses the reporting relationships and division of responsibilities among different constituents within and outside the organisation, is intended to meet the interests of stakeholders in an objective and equitable manner"

STATEMENT OF CORPORATE GOVERNANCE

Governance Framework



The Authority convened six meetings in 2015 and the members' attendance record is as follows:

Authority Members	Attendance
Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz (Chairman)	6/6
Datuk Ahmad Hizzad Baharuddin	6/6
Datuk Seri Ranjit Ajit Singh	4/6
Datuk Oh Chong Peng	6/6
Dato' Mohammed Azlan Hashim	4/6
Datuk Ali Abdul Kadir	6/6
Dato' Mohd Nadzri bin Osman	6/6
Dato' Zahrah Abd Wahab Fenner (appointed on 1 April 2015)	3/4
Dato' Siti Halimah Ismail (retired on 26 June 2015)	1/3
Mrs. Khodijah Abdullah (appointed on 15 July 2015)	1/3

The Audit and Risk Management Committee

The Audit and Risk Management Committee (ARMC) was established in accordance with the oversight powers extended to the Authority by the Act. The ARMC convened six meetings in 2015 and the attendance record of the members is as follow:

Audit Committee	Attendance
Datuk Oh Chong Peng (Chairman)	6/6
Dato' Mohammed Azlan Hashim	4/6
Datuk Ali Abdul Kadir	5/6
Dato' Mohd Nadzri bin Osman	4/6
Dato' Siti Halimah Ismail (retired on 26 June 2015)	2/3
Dato' Zahrah Abd Wahab Fenner (appointed on 18 August 2015)	1/2

The ARMC assisted the Authority in fulfilling its oversight responsibilities to ensure a sound system of internal controls, risk management and corporate governance and aimed at safeguarding the interests of Labuan FSA. The ARMC also advises the Authority on the quality of financial reporting and compliance of Labuan FSA with acceptable accounting standards and relevant regulatory framework.

The ARMC had performed the following key activities:

- Reviewed the audit plan for 2015 and provide oversight on the work performed by the internal audit throughout the year;
- Reviewed the accounting and financial reports including other key issues raised by the internal and external auditors and Auditor-General's office;
- Reviewed the financial reports including quarterly and annual financial statements;
- Reviewed and advised the Authority on the 2016 budget proposal;
- Reviewed and advised on the status of risk issues and its management as they relate to the strategic, financial, operational, legal and reputational risks of Labuan FSA;
- Reviewed and advised the management on the Business Continuity Plan and its implementation; and
- Reviewed the development and activities of the Group Internal Audit (GIA) and Integrity Unit.

STATEMENT OF CORPORATE GOVERNANCE

Management

The organisation is headed by the Director General (DG) who is responsible for setting the strategy and direction, administration and day-to-day operations of Labuan FSA. Appropriate checks and balances have been instituted within Labuan FSA, through the establishment of appropriate reporting relationships

Operational divisions report directly to the DG, while the Group Internal Audit reports directly to the Board via the ARMC. The DG fulfils his responsibilities by providing leadership and direction. He ensures that Labuan FSA's organisational structure is adequately segregated by functions, and that there is proper assignment of authority and responsibilities. Delegation of Power instrument is another key control document that formally sets out the delegation of authorities.

The Management Committee (MC) that comprises the senior management assists the DG in discharging his responsibilities. The functions of the MC include providing direction on the overall business strategy and to facilitate the management and supervision of the operations of Labuan FSA. The MC conducts meetings once a week or more frequently when required and the decision by the MC shall be by consensus.

The Risk Management Working Group (RMWG) comprises the DG, senior management as well as the Head of Risk Management Unit, monitors the management of risks and provides support in the review of the Enterprise Risk Management Framework of Labuan FSA. The RMWG deliberates key areas of risks concerned and recommend remedial action.

The Talent Management Committee (TMC) manages the employee's development programmes in Labuan FSA. Its functions include providing guidance on the development and implementation of learning strategy and endorses suitable development programmes based on the learning needs analysis. All directors are members of the TMC as it provides the platform to discuss structured talent development capital plan for Labuan FSA.

Credit Risk & Investment Management Committee (CRIMCO) reviews and recommend to DG with regard to any applications, exemptions, revocations, registration etc. pursuant to relevant laws related to Labuan IBFC. The CRIMCO members consists of relevant head of units/departments within the organisation.

Asset Management Committee (AMC) oversees all aspects of asset management including purchases and disposals of asset in the best interest of Labuan FSA. It is chaired by the Deputy Director General and the decision by the AMC shall be by consensus.

Other management committees such as the Safety and Health Committee and Staff Welfare Fund Committee have been formed to provide input, insights and information on strategic or operational matters to departments responsible for specific business functions, as well as to assist the management in monitoring the development and implementation of various initiatives.

Employees of Labuan FSA

The staff of Labuan FSA have the responsibility to help maintain effective risk management and a sound system of internal controls. Hence, several programmes aimed to inculcate good values and improving the value practices have continuously been undertaken by the management. Programmes such as Team Building, Coaching, First Level Manager and Business Etiquette were organised to emphasise the importance of value practices in working environment.

The Management had undertaken organisational changes and review of Terms & Conditions of Service to ensure favourable working environment and to optimise staff strength and capabilities.

Programmes which are aimed at promoting working-togetherness, building up sense of belonging and improve staff overall relationship were organised through Kelab Rekreasi dan Kebajikan Labuan FSA (KRKL) such as Inter Directors Group Games, Staff Trip, Family Day and Annual Dinner.

External Auditors

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). In addition, the National Audit Department would undertake financial management audit of Labuan FSA to ascertain whether financial management were being managed according to prescribed laws and financial regulations as well as the effectiveness of the implementation of key policies and operational procedures. Key issues raised by the external auditors are addressed promptly by the Management.

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 customer oriented; and
- Continuous learning.

The Authority had instituted an enabling environment to support its operations together with a team of competent and professional staff, an effective set of internal controls and risk management framework to ensure the stability of the financial and business system.

Labuan FSA continues to hold itself to high standards of integrity and practices in the conduct of its business and activities. Labuan FSA complies with the requirement of the Malaysian Government to appoint an officer certified by Malaysian Anti-Corruption Commission (MACC) to implement integrity programs such as the corporate integrity pledge, integrity pact for procurements as well as awareness programmes. These are augmented by rules and principles on ethical behaviour which are contained in the Code of Conduct, ICT Policy, Gifts Policy as well as Whistle Blowing Policy. Staff of Labuan FSA have also pledged to comply with the Regulations of Discipline under the Discipline and Surcharge Act 2000.

To further create awareness on integrity among the staff of Labuan FSA at the organisation level, continuous awareness programmes will be conducted in the coming year. Labuan FSA's commitment to further enhance professionalism and competency as well as to inculcate a knowledge-based organisation is affirmed through the signing of an Organisational Pledge.

STATEMENT OF CORPORATE GOVERNANCE

Organisation Compliance

The Group Internal Audit (GIA) of Labuan FSA adopts a risk-based audit approach focusing on vulnerable and strategic risks. The enterprise wide risk management framework is one of the elements taken into consideration by the GIA to form the basis of annual audit plan. In 2015, the GIA had undertaken seven audit reviews on identified high risk areas within Labuan FSA to provide reasonable assurance that the risk management, internal control and governance processes continued to remain effective and relevant. Another seven significant risks areas had been identified and approved by the ARMC to be audited in 2016.

Recognising the need to instil clear accountability in every line of Labuan FSA's significant activities, the GIA had reviewed and provided advisory comments on the procedure manuals issued by departments within the organisation, aimed at enhancing efficient and effective key controls, simplify procedures and strengthen internal systems that support governance.

TRANSPARENCY AND ROLE OF DISCLOSURE

At the industry level, Labuan FSA continued to uphold transparency and maintain its consultative approach with the industry players on issues and developments relating to the Labuan IBFC businesses. Bilateral meetings were conducted with the council members of the Association of Labuan Banks, Labuan International Insurance Association, Association of Labuan Trust Companies and the Labuan Investment Banks Group on half yearly basis. Besides these, regular engagements, both formal and informal were also held to facilitate greater understanding of the business requirements, resolve operational issues as well as to serve as an effective platform for greater collaboration and good rapport between Labuan FSA and the industry players.

The number of bilateral meetings held with the Labuan IBFC associations are depicted in the following table:

Meeting with Industries	Date	Total number of meetings
Association of Labuan Banks	17 March 2015 28 October 2015	2
Association of Labuan Trust Companies	30 January 2015 20 April 2015 7 December 2015	3
Labuan International Insurance Association	5 June 2015 29 October 2015	2
Labuan Investment Bank Group	26 March 2015 27 November 2015	2

For the year under review, Labuan FSA had also participated in a retreat programme organised by Labuan International Insurance Association (LIIA) to formulate the roadmap for the insurance industry in Labuan IBFC. Several issues were discussed including GST and its impact to the Labuan players, enhancing the existing regulatory framework for insurance and LIIA to become a self-regulatory body. Arising from the retreat programme, Labuan IBFC is envisaged to become the centre of captive and reinsurance. Labuan FSA also conducted a dialogue session with LIIA members on the Guidelines on Valuation Basis for Liabilities of Labuan General & Life Insurance Business. A similar session was also conducted with the council members of the Association of Labuan Trust Companies on the Guidelines of Governance and Market Conduct Framework for Labuan Trust Companies.

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

In ensuring that effective regulatory and supervisory regime are in tandem with international standards and best practices, several guidelines were introduced for the Labuan entities to ensure that their activities are conducted in a safe manner and are in line with high standards of professionalism and prudent business practices. Prior to the issuance of guidelines, Labuan FSA had issued the Consultation Paper to the industry players, which formed part of the Authority's initiatives to be transparent and collaborative with its stakeholders.

On the international front, Labuan FSA continues to be an active member in international regulatory bodies such as the International Association of Insurance Supervisors, Group of International Financial Centre Supervisors, Group of International Insurance Centre Supervisors and Asia/Pacific Group on Money Laundering to share information and policy relating to the development of international financial centers.

"In ensuring that effective regulatory and supervisory regime are in tandem with international standards and best practices, several guidelines were introduced for the Labuan entities to ensure that their activities are conducted in a safe manner and are in line with high standards of professionalism and prudent business practices"

STATEMENT OF CORPORATE GOVERNANCE

ENTERPRISE RISK MANAGEMENT

Labuan FSA has an established Enterprise Risk Management (ERM) framework that provides the risk management policy and detailed risk management processes as guidance to the directors, senior management, functional line management and staff in managing risks affecting the businesses and operations of the organisation and its subsidiaries. The ERM framework facilitates the identification and assessment of risks, development and implementation of risk mitigation plans, monitoring the effectiveness of the mitigation plans, as well reporting and communicating the key risks throughout the organisation.

In 2015, Labuan FSA had completed a full cycle of the ERM process that included the review and enhancement of risk profiles. This process involved the participation of the Risk Management Unit (RMU), Head of Units/Departments, Risk Management Working Group (RMWG), Audit and Risk Management Committee (ARMC) and the Authority. The role of the RMU is to implement the ERM process whilst further enhancing the ERM framework and practices in Labuan FSA and its subsidiaries. The key actions of the annual ERM process are summarised in the following diagram.

Diagram 1: Key Actions under ERM Process

Unit/Department

- Obtain the latest status of risk profiles from risk owners
- Discuss with the risk owners on the risk controls and actions plans for existing and new risks
- Prepare risk assesssment report
- Present the ERM risk assessment report to Risk Management Working Group for endorsement

Risk Management Working Group

- Consolidate and analyse the ERM risk assessment report
- Identify key areas of risk concerned and remedial action taken or to be taken

Audit & Risk Management Committee

- Present the organisation ERM risk assessment report to the ARMC members for endorsement
- Identify further steps to manage and monitor risks

Authority Members

- Present the assessment reports to the Authority members for understanding and further guidance
- Present the status of significant risks of Labuan FSA and its subsidiaries within given risk appetite for information

The RMWG met three times during the year to deliberate and decide on various risk related matters, including the identification of new or emerging risks that may affect the achievement of the objectives and strategic goals of Labuan FSA and its subsidiaries. The emerging risks were identified through a top-down and bottom-up approach involving the senior management level and operational level. The key risks deliberated at RMWG were on management of enterprise risks and included transversal risks such as manpower, regulatory and data management.

In terms of risk management awareness, RMU had conducted 21 engagement sessions with the Head of Units/Departments of Labuan FSA and its subsidiaries. The engagement sessions played an effective role in educating and inculcating risk management in their day-to-day operations. In addition, RMU had undertaken initiatives to enhance the risk management culture of Labuan FSA through periodic issuance of risk management bilingual newsletters and articles on operational risk.

The approach to risk management in Labuan FSA focuses on addressing operational issues to ensure effective functioning of its operations, but the importance of strategic objectives and its related risks is gaining more prominence. Labuan FSA recognises the value of ERM framework not only in the traditional defensive role but from another viewpoint as a measure to create more value within the organisation, particularly in ensuring timely identification and mitigation of risks in relation to corporate and business strategies. Tying risk management to business strategy will be a key approach as Labuan FSA strives to create more value through effective risk management.

Significant Risks affecting Labuan FSA and its Subsidiaries

Labuan FSA's framework facilitates the assessment of the key risks affecting Labuan FSA and the subsidiaries in achieving the strategic goals as well as the development of initiatives to mitigate these risks. The main risk clusters for 2015 are categorised in the following diagram.

Diagram 2: Main Risk Clusters

STRATEGIC
- Regulatory
  - Reputation
    - Business
      - Stakeholder

OPERATIONAL
- Human Resource
  - Documentation

FINANCIAL
- Asset
  - Supplier/Vendor
    - Financial

SECURITY
- Safety

SYSTEM
- ICT System

STATEMENT OF CORPORATE GOVERNANCE

Key Risks

Regulatory

During the year under review, Labuan FSA continued to enhance its Anti-Money Laundering/Counter Terrorist Financing framework in line with the recommendations from the assessment on Labuan FSA by the Asia/Pacific Group on Money Laundering (APG). This was augmented by strengthening of the staff force in the three lines of defense ie. policy, supervision and legal as well as improving the knowledge and skills in understanding money laundering/ terrorist financing threats through enhanced training programmes. In addition, Labuan FSA continues to strengthen the regulatory environment of Labuan IBFC through initiatives to enhance the prudential and business guidelines. This is to ensure that the prudential and business policies and guidelines of Labuan IBFC continues to be business-friendly and adheres to international standards as well as best practices.

Human Resource

Human resource is the key enabler to operationalise Labuan FSA's 3-year Corporate Action Plan. Recognising the significance of retaining staff with the required skill sets, the 3-year learning roadmap was formulated to nurture strong individual and organisational performance; intensify talent and leadership development and to establish appropriate programmes to identify, attract and retain the required talent. Labuan FSA continued to focus on training and development as part of its continuous learning programmes. Under its succession planning programme, several potential successors have been identified in all critical positions to close the readiness gap in the organisation.

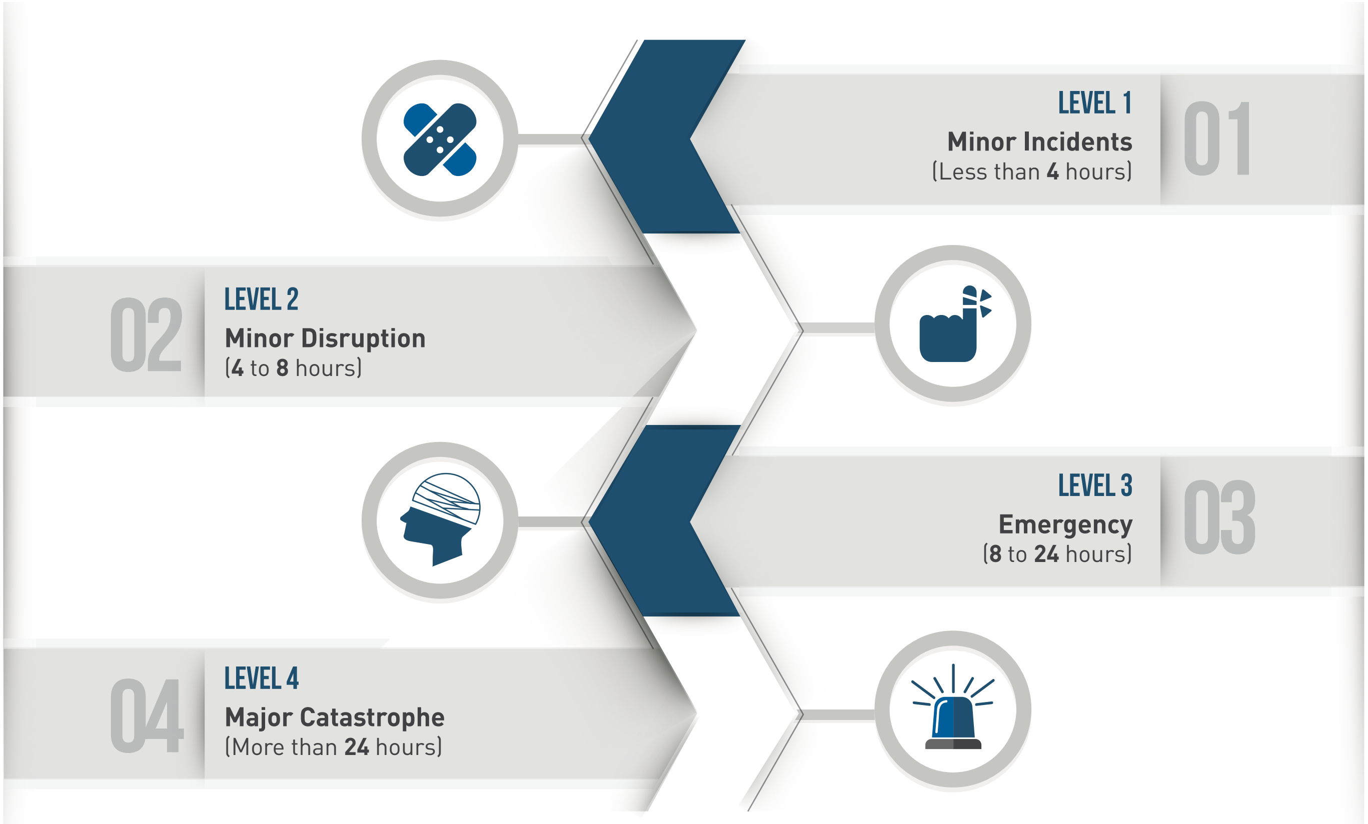
Document Management

The consolidation and enhancement of data management, particularly in relation to information technology (IT) systems, was an area of focus in 2015. Key IT projects that were initiated during the year included the consolidation of statutory data registry for the Registrar of Company system as well as enhancement of statistical data for Labuan licensed entities under the Statistical Management System. Additional manpower was recruited to facilitate the project teams and the timeframe to complete the process was reviewed to ensure the accuracy and integrity of data are not compromised.

Business Continuity Plan

The framework of Business Continuity Plan (BCP) provides the necessary processes to ensure that Labuan FSA is able to maintain or recover its critical services when facing adverse events such as natural disasters, technological failures, human errors or damage to its offices. The objectives of BCP include ensuring continuity of the critical services to the stakeholders, minimising financial loss, mitigating negative effects on the strategic plans, reputation and operations of Labuan FSA.

Diagram 3: Labuan FSA's Emergency Level



Whistle Blowing

The Guidelines on Whistle Blowing were issued to provide an avenue for all employees as well as members of the public to disclose any improper conduct committed within Labuan FSA and its subsidiaries. The main objective of the Guidelines is to maintain a high standard of corporate governance and business integrity, in order for Labuan FSA and its subsidiaries to serve its stakeholders effectively. The Guidelines provide effective measures to protect any person who reports any wrong doing without fear of reprisal, victimisation, harassment, subsequent discrimination or disadvantage.

FORTIFYING AFFLUENCE

INDUSTRY PERFORMANCE OF LABUAN IBFC

PI MARKET DEVELOPMENT

PII SECTOR DEVELOPMENT

INDUSTRY PERFORMANCE OF LABUAN IBFC

PART I
MARKET DEVELOPMENT

LABUAN BANKS

Increasing uncertainty in the Asia economic outlook has partly driven the slowing down of credit intermediation in the region. With the shrinking demand for large scale financing, especially those in relation to infrastructural projects, banking institutions are faced with a contraction of global cross border banking activities during the year under review.

On the back of the moderated economic climate, non-performing loans for the banking industry in emerging markets are expected to experience an upward trend from the corporates. The declining commodity prices, especially oil, since end-2014 has also impacted the economic performance of the region, particularly amongst the oil-exporting jurisdictions. The depressed commodity prices deteriorated the corporates' bottom line due to their reductions in revenue and higher funding costs. In addition, elevated risks emanating from external and foreign currency borrowings, coupled with the significant appreciation of the US dollar during the year lead to weakened debt service capacity of corporates in the emerging markets. This is largely due to their US dollar denominated debts in recent years.

In meeting the more prudent Basel III liquidity requirements, banking institutions globally may come under pressure as their source of funding will be constrained. With limited funding available, banks' lending ability may be impacted. With greater cost of compliance stemming from the ongoing enhancements to the capital requirements; banking institutions need to be more savvy by ensuring their business strategies and modality remain relevant to the changing environment.

"The Authority remains vigilant in its monitoring and continuously enhances its supervisory tools to pre-emptively and proactively address any concerns emanating from the industry"

The year 2015 also saw a slew of enforcement actions imposed on banking institutions that were non-compliant to regulatory requirements, especially in relation to money laundering offences. Sanctions taken include imposition of punitive settlements and fines and barring convicted bank employees from holding office in the sector. This signifies the commitment of supervisory authorities to address such infringements in a more effective manner via stringent supervisory approach and tighter vigilance.

For Labuan IBFC, international lending activities remained stable throughout the year amidst a modest growth observed towards the end of the year. Labuan banks had demonstrated improvements in terms of asset quality coupled with prudent provisioning. Notwithstanding this, the Authority remains vigilant in its monitoring and continuously enhances its supervisory tools to pre-emptively and proactively address any concerns emanating from the industry.

Banking Policy Developments

To ensure orderly developments and growth of the business in Labuan IBFC, the Authority had undertaken analytical assessment of the progress and business performance of the key sectors thus far. This exercise is intended to identify further avenues for the product and service offerings of banking, insurance and wealth management sectors to be refined, if not expanded further.

With the encouraging growth of high net-worth Individuals population in the region, which spurs on demand for cross-border banking transactions, prospects exist for Labuan banking sector to leverage on this positive trend. As part of Labuan banking sector developmental initiatives, in 2015, the Authority had undertaken an assessment of the overall banking sector to look into the current landscape and identify key growth areas towards upscaling banking services that can be offered to, not only, other Labuan entities but also prospective investors. Based on the assessment, as key financial institutions, Labuan banks have the potential to expand or upscale their commercial and investment banking facilities to complement the financial needs of other Labuan sectors.

In its commitment towards transitioning to higher Basel requirements, the Authority had initiated efforts to introduce the Banking Capital Adequacy Framework (BCAF) for the Labuan banks. BCAF is intended to provide a more risk sensitive definition for capital adequacy whilst incentivising banks to improve their risk management practices. To ensure orderly introduction of the new requirements, BCAF will be implemented in two stages with Phase I focusing on enhancing the components risk weighted capital ratio by incorporating requirements of Basel II and III. In turn, Phase II will extend the capital regulation to cover enhanced disclosure requirements and supervisory review process in respect of the banks' capital management and practices. As a preamble to Phase I, an exposure draft of the BCAF requirements was released for industry's consultation. Based on comments of and recommendations by the industry, the Authority will be finalising the requirements for the release of actual Guidelines in 2016.

Banking Supervisory Oversight

Labuan FSA supervises the banking sector to determine the financial conditions and level of compliance with applicable laws and regulations. Labuan FSA adopts a risk based supervisory (RBS) approach that evaluates the institutions' overall risk profiles through an assessment of inherent risks, quality of risk management control processes, capital and earnings. This also includes supervisory activities for offsite monitoring and onsite reviews. Institutions with supervisory concerns are subjected to closer monitoring and the Authority requires them to take necessary corrective actions on a timely basis.

For the year 2015, Labuan FSA focused on updating the understanding of the operational arrangements amongst its various sub-locations of the banks as well as the extent of activities being outsourced. A total of 21 supervisory visits were conducted to this effect. Initial work had also begun to eventually assign a Composite Risk Rating (CRR) for all banks except inactive ones. Only the large banks will be subjected to a full CRR assessment while the smaller ones will be subjected to a lighter supervisory regime.

INDUSTRY PERFORMANCE OF LABUAN IBFC

PART I – MARKET DEVELOPMENT

Arising from the supervisory activities conducted during the year, six investment banks were subjected to closer monitoring arising from concerns ranging from capital adequacy, imprudent investments and exposure to single customer exposure limit. As part of the supervisory approach, the supervisors engaged the internal and external auditors of the institutions to exchange views and obtain insights of work done by the respective parties. A total of 14 engagements were carried out with internal and external auditors during the year.

In 2015, Labuan FSA also participated in supervisory colleges hosted by home supervisors from the Central Bank of Malaysia and Financial Supervisory Commission, Taiwan, to discuss and exchange views on areas of mutual interests.

"To complement the traditional insurance, Asia has also seen a growing interest for captive insurance as a self-risk management solution"

LABUAN INSURANCE

The regional (re)insurance sector has reflected key market forces at play which provide the impetus for the industry to continuously improve and innovate to remain resilient in these challenging times.

For the non-life business, premium growth in Asia showed a subdued pace, influenced by the underlying economic slowdown and the softening of the global insurance market. Over the years, insurance growth in the region has always been a function of the economic expansion; and with the latter trending slower relative to the previous years, demand for protection has also shown similar moderated pattern. To preserve business sustainability and allow for modernisation, market liberalisation has been observed amongst the diverse economies in the region.

Premium detariffing is one such initiative that has been seen across the region, as a means to allow for the insurers to pursue competitive risk pricing that is attractive for policyholders but yet sufficiently sound for the players to underwrite the business. At the domestic scene, Malaysia continued with its detariffing efforts for the nation's motor and fire insurance market. Concurrently, at the Eastern regional end, China had implemented a fully liberalised premium mechanism for its life products and also initiated motor insurance detariffing in parts of the country.

Market liberalisation is also seen through greater efforts for the internationalisation of insurance business by the different Asian economies. At East Asia, Taiwanese domestic insurers are now permitted by their authorities to set up Offshore Insurance Units that enable them to tap on foreign clientele, particularly for investment-related products. Similar initiatives are observed with China's support for cross-border yuan-denominated reinsurance in its Free Trade Zones and India's drive to become a regional reinsurance hub via its Gujarat International Finance Tec-City.

To complement the traditional insurance, Asia has also seen a growing interest for captive insurance as a self-risk management solution. Captive markets which included Labuan IBFC and Singapore are now joined by Hong Kong; which offer tax incentives for the international business underwritten by the captive entities. With sufficiently conducive regulatory and ecosystem support, captives can augur well as a growth sector for the region as risk owners increasingly prefer to manage risks on their own; albeit in a systematic and professional manner akin to a commercial insurer's.

Some jurisdictions in the region have continued to enhance their capital and solvency requirements so as to be more risk-calibrated. One such instance is China's C-ROSS (China Risk Oriented Solvency System), which is intended to bring in greater risk sensitivity to the capital maintained by the nation's insurers. This regulatory wave is also seen in Labuan IBFC's insurance sector, would further augment the industry players' resilience and enable them to better weather any market adversities.

Influenced by the regional headwind on the horizon, Labuan IBFC's insurance sector has been experiencing a similar moderated performance trend. Coupled with the emergence of new international insurance centres and amidst soft market environment, Labuan (re)insurers are expected to become more agile in adapting to changing business landscape.

Enhanced capital regulations being introduced into Labuan insurance sector would also further strengthen the financial footing of the industry players so as to better weather any adverse business trends. With increasing demands for unique captive structures in the form of Protective Cell Companies (PCCs) which Labuan IBFC offers, the centre can leverage on this positive trend to propel itself as a captive market of choice for Asia in the near future.

Insurance Policy Developments

To facilitate Labuan IBFC to become the reinsurance hub in the region, the Authority had undertaken an overall assessment of the insurance industry's development and performance over the last 5 years, with the aim of identifying its growth potential. On the back of the encouraging sectoral trend with its increasing out-out business contribution, the industry can be nurtured to become a key engine of growth for the centre. This includes for the sector to be able to play complementary roles to other business sectors within Labuan IBFC. On the regional front, there are also opportunities to see ways in which the sector can better complement both Asia's and the national insurance needs particularly for reinsurance support.

In addition, the growth of captives in Labuan IBFC is precipitated by the increasing demand from the Malaysian risks owners who seek cost-effective and flexible solutions to manage their own risks. Growing interest for captive solutions has also been seen from amongst the larger Asian economies in tandem with the increasing demands from their own nation's insurance needs. Coupled with the unique protective cell company structures offered by the centre, Labuan insurance captives can be a catalytic, niche sector that sets Labuan IBFC apart from other insurance markets within the region. A macro planning is therefore needed to pace the growth development of the Labuan captive sector vis-à-vis the expanding demand for structured, self-insurance vehicles.

Guidelines on Valuation Basis for Liabilities of Labuan General Insurance Business and Life Insurance Business

As part of the Insurance Capital Adequacy Framework (ICAF) Phase I, the Guidelines on Valuation Basis for Liabilities of Labuan General and Life Insurance Business were issued on 1 September 2015. These Guidelines are foundation for the establishment of risk based capital requirements for the Labuan insurance sector. Specifically, these Guidelines provide:

(i) harmonised approach for insurance liabilities valuation that are actuarially certified;

(ii) adequate reserving buffer to address any insufficiency in valuation of insurance liabilities as a result of any possible business fluctuations; and

(iii) standardised valuation reporting.

The Guidelines will come into effect from financial year beginning on or after 1 July 2016.

Insurance Supervisory Oversight

Labuan FSA adopts a risk-based supervisory approach for the supervision of the insurance industry. (Re)insurers are subjected to a risk and financial condition assessments akin to the banks while intermediaries are under market and business conduct supervision.

For the 2015, initial work begun on gathering information and financial analysis for insurers and reinsurers. The aim is to eventually assign a Composite Risk Rating (CRR) similar to banks. The CRR is an overall rating of an institution's risk profiles and financial conditions. Given the relative small size of the insurance companies, less than half of the total number will be subjected to full risk assessment. During the year, offsite reviews begun for insurers and reinsurers to update the understanding and information of the business operations and institutional arrangements.

A total of 16 insurance entities with capital concerns were engaged and remedial actions sought ranging from capital injections to capital restoration plans. Six insurance brokers with capital shortfalls subsequently surrendered their licences.

During the year, seven onsite examinations were conducted on intermediaries focusing on operational models, governance and compliance with Labuan FSA guidelines.

INDUSTRY PERFORMANCE OF LABUAN IBFC

PART I – MARKET DEVELOPMENT

WEALTH MANAGEMENT

Asia Pacific's wealth management industry continues to grow in tandem with the increase in high net worth individuals population and wealth size. In terms of asset portfolio spread, investments are predominantly in cash and deposits, followed by equities. With the fairly liquid asset holding, more diverse and sophisticated investment opportunities exist. Leveraging on the demand potential, more vibrant wealth management solutions are being offered across different markets.

The need to preserve family wealth across different generations has also translated into higher demand for dynastic wealth management vehicles particularly for foundations and trusts. Such trend actually arose in tandem with the growing wealth of thriving family businesses as observed around the Asia region.

In view of vast opportunities in the region, Labuan IBFC's wealth management industry had shown encouraging trend in past years and this growth momentum is expected to continue.

Wealth Management Policy Developments

In the wealth management sector, Labuan foundations continued to fare well in the midst of challenging global economy backdrop. The Labuan foundations offered by the centre provide a wealth management solution with legal certainty to cater for the growing demands of high net worth individuals in the region. During the year, the Authority had undertaken a sectoral assessment of the Labuan foundations, particularly in terms of its performance and developments, thus far. From this exercise, initiatives were identified aimed at enhancing the ecosystem as well as overall planning to spur the sector's development further. These include the review of the current requirements to ensure there are sufficient clarity and conformity to international best practices, as well as identifying developmental areas needed for the furtherance of the sector.

"The need to preserve family wealth across different generations has also translated into higher demand for dynastic wealth management vehicles particularly for foundations and trusts"

Guidelines on the Establishment of Labuan Trust and Islamic Trust

As part of Labuan IBFC's efforts to expand the choice of the wealth management vehicles that it offers, the Guidelines on the Establishment of Labuan Trust and Islamic Trust were issued in March 2015. The Guidelines which supersedes the earlier requirements issued in 2008, were to specify on the procedures for the creation and establishment of Labuan trusts – both conventional and Islamic trusts. The Guidelines builds on various pertinent areas in the Labuan IBFC's legislations which includes the treatment of beneficiaries, trustees and property of the trust.

The Guidelines came into effect from 1 August 2015.

Guidelines on the Establishment of Labuan International Waqf Foundation

In line with the promotion of Islamic Finance and to complement the Labuan foundations which are offered by the Labuan IBFC, the Guidelines on the Establishment of Labuan International Waqf Foundation were developed and issued on 6 February 2015. The Guidelines outline specific requirements for the establishment of an international waqf foundation in Labuan IBFC. This is to ensure that the governance, management and operations of the waqf foundation are in accordance with the Shariah principles on waqf i.e. endowment in Islam. In addition, the Guidelines promote best practices in managing waqf assets in the best interest of the beneficiaries and desired intentions of the founder. The Guidelines include a sample charter (waqfiyyah) which serves as a guide to founders intending to establish a waqf foundation in Labuan IBFC.

The Guidelines came into effect from 1 March 2015.

Supervisory Oversight on Capital Market Intermediaries

Labuan Capital market remained largely the same as prior year with limited activities and is predominately dominated by private funds. From the complaints received, Labuan FSA has conducted several investigations resulting in one case of enforcement action taken against illicit fund solicitation.

LABUAN TRUST COMPANIES

With an evolving regulatory landscape, the introduction of new regulations continued to have significant impact on the trust and corporate service providers in managing their clients. The consolidation amongst the global industry players continues unabated as a means for them to expand their business and better serve across different markets. For Labuan IBFC, the current service providers will continue with their efforts to upscale the range of professional services offered, as well as enhance the competency of their trust officers and the supporting workforce.

Trust Company Policy Development

Governance and Market Conduct Framework for Labuan Trust Companies

With the recent enhancements to international standards for trust company services, there are higher expectations for trust companies to provide quality, professional services to their clients. Taking cognisant of this key development, the Authority had issued the revised Governance and Market Conduct Framework for Labuan Trust Companies (LTCs) on 21 August 2015. The revised Guidelines were developed in view of the need for a conducive governance structure which is suited for smaller-sized intermediaries as opposed to full-fledged corporate governance framework expected of larger financial institutions such as banks and (re)insurers. The guidelines provide:

(i) Prescriptive requirements that require mandatory compliance by all LTCs; and

(ii) Best practices which LTCs have the discretion to adopt. This provide the Authority's expectations on the need for LTCs to continuously enhance their governance practices over time as they grow in maturity.

The revised Guidelines will come into effect on 1 July 2016.

Trust Company Supervisory Oversight

During the year, profiling of trust companies was carried out to update the understanding of each trust company to enable an appropriate risk based supervision to be carried in the coming year focusing on areas and trust companies of higher risk. In addition to the profiling, trust companies were also monitored through complaints and discussion with trust company association.

INDUSTRY PERFORMANCE OF LABUAN IBFC

PART I – MARKET DEVELOPMENT

OTHER LABUAN BUSINESS

Leasing

Global leasing activities are affected by various economic and market development. The oil and gas sector activities have been vulnerable, characterised partly by the fall in offshore field activities and compounded by supply-demand imbalances in the offshore support services leading to lower utilisation rates which have impact on the lessors' activities.

For aviation sector, the current environment remains favourable for the lessors as demand for both used and next-generation aircraft is expected to increase. Given the lower oil prices in the market, the airlines would be able to reduce costs and achieve lower travelling cost experience for passengers. This will drive the growth in international and domestic travel. This emerging trend will spur airlines to continue to add capacity following higher asset utilisation which further require more extension to the existing leases and new lease transactions.

Labuan International Commodity Trading Company

Since 2011, the Labuan International Commodity Trading Company (LITCs) has grown in numbers in tandem with the growth in oil and gas (O&G) sector in the region. Their business focus is mainly related to storage, refining and trading petroleum and petroleum-related products. Nonetheless, with the growing interest in non O&G related ventures which are licensed under the Global Incentive for Trading (GIFT) programme, particularly for agriculture and chemical-based products, the LITC sector can expand further by diversifying beyond its O&G focus.

Policy Developments

After the sector's 5-year experience, it was timely for an assessment be made on the overall performance and business footing of the LITC sector, as one of the niche sectors in Labuan IBFC. Since the inception of the GIFT programme, LITCs have shown very encouraging growth and performance. Nonetheless, there are certain improvement areas that have been identified and initiatives entailing collaboration with other relevant agencies and authorities. The said initiatives include:

(i) Increasing the availability of financing facilities offered for commodity trading;

(ii) Facilitating LITCs in addressing issues faced in their operations and that hinder their business expansion; and

(iii) Ensuring the GIFT policy requirements remained continuously relevant and facilitative to the segment's growth.

Plans have been made for these initiatives to be undertaken in the next three years so as to maintain, if not increase, the growth momentum of the LITCs further.

Circular on submission of audited financial statements by Labuan International Commodity Trading Company (LITCs)

The circular was issued in April 2015 to allow the submission of the audited financial statements by the LITCs to be made within six months after the end of their financial year, instead of three months previously. With this flexibility, LITCs would have sufficient preparatory period to finalise their financials and provide timely submission to the Authority.

GENERAL POLICY DEVELOPMENT

Guidelines and Clarification Note on Work Permit Application in Labuan IBFC for Licensed Entity and Non-Licensed Entity

The revised Guidelines and Clarification Note on work permit applications for licensed and non-licensed entities were issued in February 2015 and March 2015, respectively. The revisions were made to the eligibility criteria, application requirements as well as the operational requirements. With the issuance of these requirements, the Authority expects better compliance by Labuan entities and for any potential abuse of the work permit applications to be mitigated.

Tax Policy Developments

In line with Malaysia's efforts to continuously conform with the tax transparency initiatives and international standards, two legal provisions were inserted to Labuan Business Activity Tax Act 1990 and these were gazetted on 30 December 2015. This demonstrates Malaysia's commitment to adopt the Common Reporting Standard – Automatic Exchange of Information (CRS-AEI). Malaysia has committed to implement the CRS-AEI in 2018. These provisions allow disclosure and sharing of information including tax examinations by local tax authorities and automatic exchange of information with tax authorities of other countries. Generally, the CRS-AEI sets out the financial accounts information to be exchanged, the financial institutions that need to report, the different types of accounts and tax payers covered, as well as common due diligence procedures to be followed by financial institutions.

Anti-Money Laundering/Combating Financing of Terrorism (AML/CFT)

In September 2015, the Financial Action Task Force (FATF) has adopted and published the Malaysia Mutual Evaluation Report (Report) after the country went through the Mutual Evaluation Exercise (MEE) conducted by the Asia/Pacific Group on Money Laundering (APG). Among the objectives of the MEE is to ensure the adoption, implementation and enforcement of internationally accepted standards against money laundering and the financing of terrorism, in particular the Forty Recommendations of FATF, by Malaysia.

The Report viewed Malaysia as well developed with strong legal and regulatory frameworks for preventive measures and exhibits the high degree implementation on FATF standards specifically in technical compliance. Malaysia's robust policy framework for AML/CFT manifested through the strong political commitment and well-functioning coordination structure for AML/CFT and combating proliferation financing. The significant allocation of resources has made the existing coordination to effectively support the implementation of activities and accomplish the national's policy objectives. Through the Report, Malaysia was observed to have the overall good level of compliance reflected through its latest and well-developed policies, institutional arrangements and implementation mechanism and these statutory instruments have hold as key strength to indicate the effectiveness in AML/CFT measures.

INDUSTRY PERFORMANCE OF LABUAN IBFC

PART I – MARKET DEVELOPMENT

Nonetheless, it was also reported that there are a few areas that Malaysia needs to improve, among others the followings, primarily to enhance effectiveness in combating ML/CFT threats:

- Malaysia's understanding of AML/CFT risks is sound but improvements are needed in the assessment of Terrorist Financing risks to include more details for the private sector and to deepen the assessment of ML risks from foreign sourced threats. Malaysia has integrated the outcomes of risk assessment into its policies and priorities and has reached out to reporting institutions with finding on risks, although the processes for disseminating risk findings should continue to be strengthened;

- Financial Intelligence has been developed and disseminated in good quality in Malaysia. However, improvements are required to ensure financial intelligence is used to target investigations for at least all the high-risk crime types by Law Enforcement Agencies (LEAs);

- Malaysia's frameworks for ML investigations and prosecutions are generally sound but have produced minimal outcomes. Malaysia should take necessary actions to effectively targeting high-risk offences or foreign sources threats in its prosecution of ML. Action should also be taken to impose proportionate and dissuasive sanctions on ML cases; and

- Confiscation to combat tax evasion and goods smuggling has been very successful through administrative recoveries by the Special Taskforce which has achieved excellent results including an evident reduction in the related crimes. However, confiscation has been very low in other high-risk areas like fraud, drugs and corruption which need further improvement to maximise effectiveness.

For Labuan IBFC, it is reported that the relevant industry players have increasingly gained good awareness of their obligations in relation to the risk exposures in terms of terrorism financing (TF) and proliferation financing (PF) as they have adopted vigilant measures to mitigate the risks. Labuan FSA had also conducted engagement sessions with the relevant industry players to educate them on the general risks related to TF and PF.

Arising from the Report, Labuan FSA, together with other agencies and ministries under Malaysia National Coordination Committee to Counter Money Laundering (NCC), have come up with the National Strategic Action Plans (NSAP) which structured and detailed up relevant action plans for implementation by all NCC members to address and resolve Malaysia's various issues raised in the Report including those highlighted above. The implementation of NSAP is based on recommendations suggested in the Report in order to strengthen Malaysia's effectiveness in combating ML/FT threats.

As part of the agencies assigned under the NSAP, Labuan FSA has already played active roles in charting and finalising the action plans among others:

- Enhancement of understanding of ML/TF/PF risks by strengthening the National Risks Assessment methodologies and scopes including risks assessment on Labuan's business activities and entities;

- Implementation and refinement of sectoral risk-based supervisory frameworks;

- Review and implementation of comprehensive enforcement and penalty frameworks;

- Establishment of specialised AML units within Labuan FSA to support general supervisors in AML/CFT supervision. The primary task of the unit is to increase awareness and compliance of AML/CFT requirements and also to intensify the monitoring of reporting institutions through on-site and off-site inspections; and

- Proposed amendment to the Labuan Companies Act 1990 and enhance the relevant provisions on sharing of information. The amendment would also include provisions to require trust company to keep and update accurate information on beneficial owners.

The drawn up NSAP had significantly expedited Malaysia's mission to be accepted as a member of FATF effective February 2016.

PART II

SECTOR DEVELOPMENT

DESPITE THE CHALLENGING GLOBAL FINANCIAL MARKET DEVELOPMENTS IN THE REGION, LABUAN FINANCIAL SECTOR RECORDED MODERATED GROWTH ACROSS ITS KEY BUSINESS SECTORS.

LABUAN BANKS

The Labuan banking sector continued to grow, particularly in Islamic banking business. The sector also remained resilient with good capital buffers, quality of assets and earnings performance. In 2015, Labuan FSA approved one full-fledged bank and one investment bank, originating from Malaysia and China, respectively. Three foreign banks surrendered their licences due to strategic decision taken at the banks' head office level for rationalisation of their banking operations in the Asian region and the rest of the world. Additionally, approvals previously granted to two investment banks were withdrawn by the Authority due to the banks' inability to fulfil and satisfy the licensing conditions. This brought the total number of approved banks to 54 as at 31 December 2015 (2014: 57), comprising 41 banks and 13 investment banks. Out of 54 banks, 19 banks were Malaysian owned and 35 banks were foreign owned.

Table 1: Total Assets and Number of Operating Labuan Banks

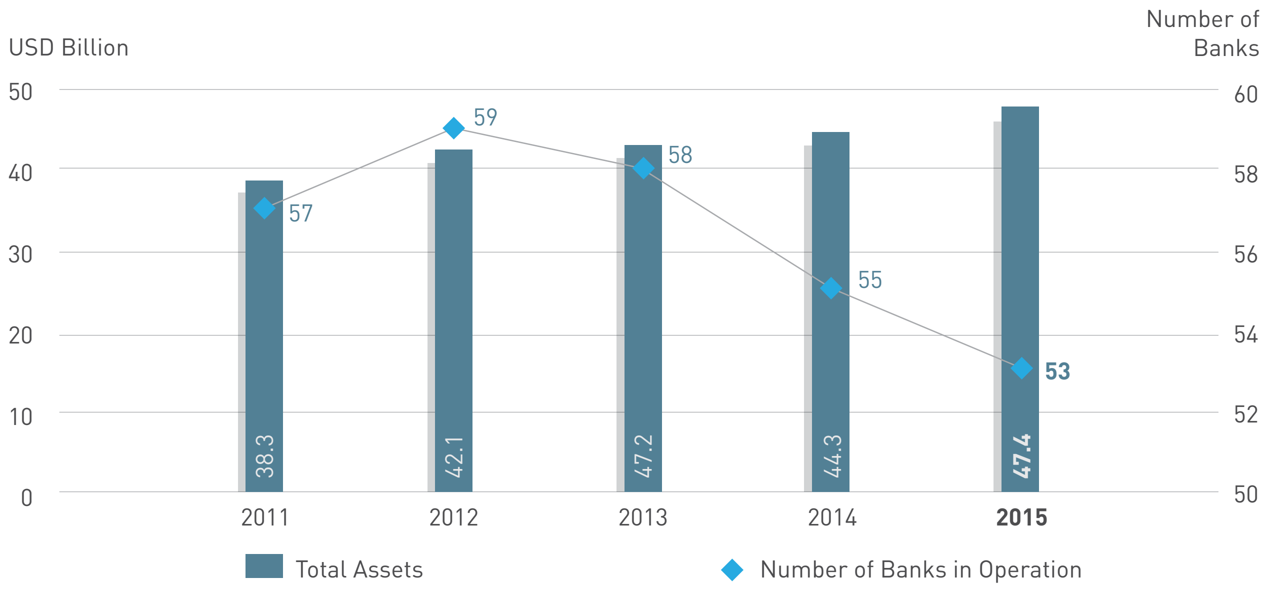
	2011	2012	2013	2014*	2015	2015 Change (%)
Number of Banks in Operation	57	59	58	55	**53**	**(3.6)**
	USD Million					
Total Assets	38,343.6	42,113.3	42,690.1	44,281.8	**47,392.0**	**7.0**

** Restated data*

INDUSTRY PERFORMANCE OF LABUAN IBFC

PART II – SECTOR DEVELOPMENT

Chart 1: Total Assets and Number of Banks in Operation



The total assets of the Labuan banks continued to grow by 7% to USD47.4 billion (2014: USD44.3 billion), primarily due to higher interbank placements and investments in associate companies. Nonetheless, the loans and advances activities remained the majority of the total industry's assets. The total loans outstanding increased slightly by 1.1% to USD32.3 billion in 2015 (2014: USD31.9 billion) partly due to higher loan facilities granted to non-residents which accounted for 60% of the total loans outstanding (2014: 55.2%). The total deposits also increased by 17.9% to USD10.8 billion (2014: USD9.1 billion) due to new deposit placements made by corporate resident clients. Deposits from residents accounted for 51.9% or USD5.6 billion of the overall total deposits (2014: 30.2% or USD2.7 billion). The growth is a reflection of greater confidence by investors to place their funds in Labuan IBFC.

The main source of funding for the Labuan banks continued to be borrowing from head offices and financial institutions, comprising 68.6% or USD32.5 billion (2014: USD31 billion) of the total resources. These resources were mainly utilised for loans and advances, accounting for 68.2% or USD32.3 billion in 2015 (2014: USD32 billion) of the total funds.

Table 2: Sources and Uses of Funds

	2011	2012	2013	2014	2015	2015	
	USD Million					change (%)	share (%)
Sources:							
Deposits	9,468.7	10,406.9	10,743.6	9,137.2	**10,773.2**	**17.9**	**22.7**
Amount due to Financial Institution/Interbank Borrowing	25,138.9	27,322.2	27,820.1	31,020.1	**32,495.1**	**4.8**	**68.6**
Others	3,736.0	4,384.2	4,126.3	4,124.4	**4,123.7**	**0.0**	**8.7**
Total	**38,343.6**	**42,113.3**	**42,690.1**	**44,281.8**	**47,392.0**	**7.0**	**100.0**
Uses:							
Cash and Short-term Funds	1,781.6	1,598.7	1,192.3	1,922.1	**1,680.0**	**(12.6)**	**3.5**
Balances due from Head Office and Branches Outside Malaysia	6,999.0	7,884.9	7,428.8	3,432.0	**5,290.3**	**54.1**	**11.2**
Investments	3,002.0	4,100.7	4,430.1	4,118.5	**3,806.5**	**(7.6)**	**8.0**
Loans and Advances	24,686.8	26,203.7	27,742.4	31,971.0	**32,318.2**	**1.1**	**68.2**
Fixed Assets	6.2	7.7	7.5	4.1	**3.8**	**(5.6)**	**0.0**
Others	1,868.0	2,317.6	1,889.0	28,434.2	**4,293.3**	**51.5**	**9.1**
Total	**38,343.6**	**42,113.3**	**42,690.1**	**44,281.8**	**47,392.0**	**7.0**	**100.0**

The financing, insurance and business services sector as well as mining and quarrying sector and transport, storage and communication sectors remained as the three major business lines funded by the Labuan banks for the year 2015.

INDUSTRY PERFORMANCE OF LABUAN IBFC

PART II – SECTOR DEVELOPMENT

Table 3: Direction of Lending by Sectors

Loans by Sectors	2011	2012	2013	2014	2015
	USD Million				
Agriculture, Hunting, Forestry and Fishing	1,670.0	2,333.8	2,321.0	2,417.4	**2,419.1**
Mining and Quarrying	2,379.7	3,058.7	4,455.8	4,590.5	**4,464.1**
Manufacturing	2,514.4	2,168.1	2,400.2	2,817.0	**2,857.7**
Electricity, Gas and Water	1,665.5	1,997.4	1,925.7	3,894.2	**2,927.9**
Property of which:					
Real Estate	1,016.5	1,519.5	1,639.2	1,728.3	**1,674.2**
Construction	642.6	642.2	765.6	445.2	**843.8**
Housing	134.9	113.5	89.5	1.1	**0.1**
Wholesale and Retail Trade and Restaurants and Hotels	363.0	845.0	843.4	1,312.5	**1,108.1**
Transport, Storage and Communications	5,055.3	4,480.0	5,107.1	5,357.9	**4,408.3**
Financing, Insurance and Business Services	6,089.5	5,651.6	5,115.8	5,547.0	**6,707.8**
Other Services	113.8	87.8	134.6	280.2	**253.7**
Miscellaneous	3,041.7	3,306.1	2,944.5	3,579.5	**4,653.6**
Total	**24,686.8**	**26,203.8**	**27,742.4**	**31,971.0**	**32,318.2**

Note: Figures may not necessarily add up due to rounding

Chart 2: Direction of Lending by Sectors

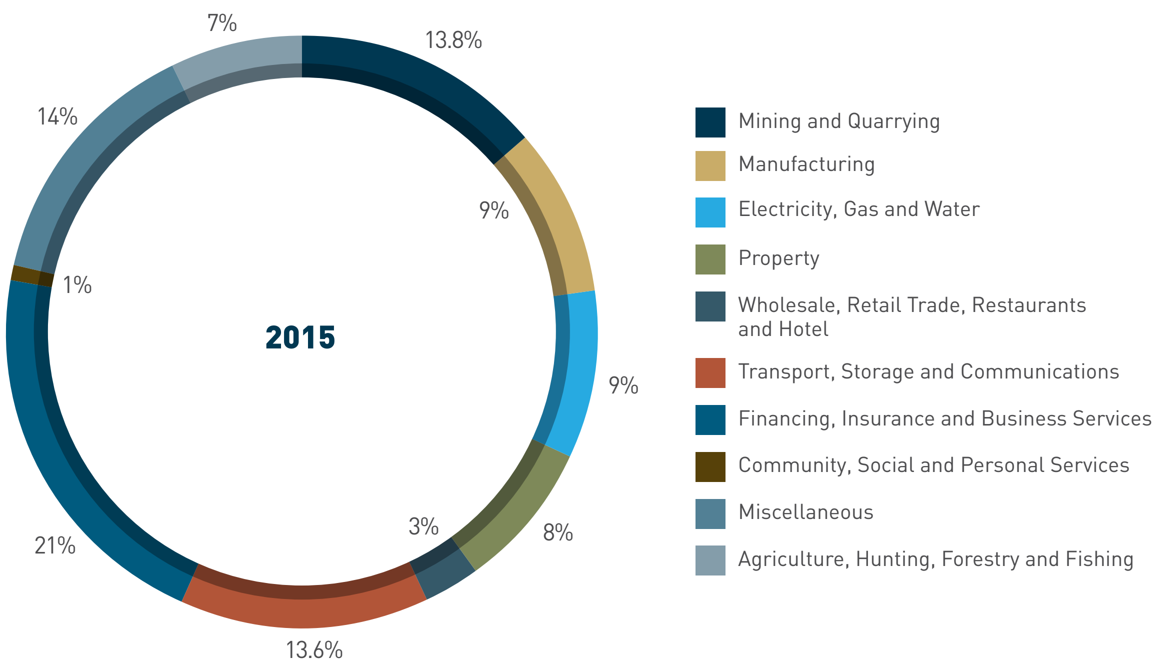
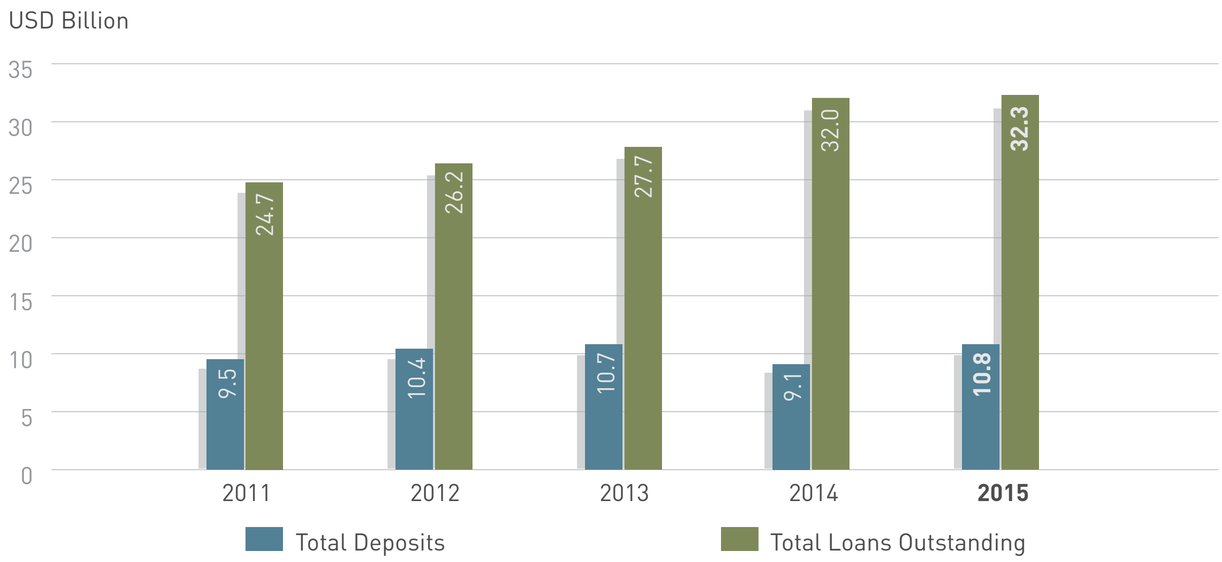


Table 4: Deposits and Loans Outstanding of Non-Bank Customers

	2011	2012	2013	2014	2015	2015 change (%)
	USD Million					
Total Deposits	**9,468.7**	**10,406.9**	**10,743.6**	**9,137.2**	**10,773.2**	**17.9**
Residents	2,932.1	4,159.1	3,883.4	2,758.4	**5,590.6**	**102.7**
% share	*31.0*	*40.0*	*36.1*	*30.2*	***51.9***	**–**
Non-Residents	6,536.6	6,247.8	6,860.3	6,378.9	**5,182.5**	**(18.8)**
% share	*69.0*	*60.0*	*63.9*	*69.8*	***48.1***	**–**
Total Loans Outstanding	**24,686.8**	**26,203.7**	**27,742.4**	**31,971.0**	**32,318.2**	**1.1**
Residents	8,938.7	10,327.9	11,050.6	14,315.2	**12,923.5**	**(9.7)**
% share	*36.2*	*39.4*	*39.8*	*44.8*	***40.0***	**–**
Non-Residents	15,748.1	15,875.8	16,691.7	17,655.8	**19,394.7**	**9.8**
% share	*63.8*	*60.6*	*60.2*	*55.2*	***60.0***	**–**

Chart 3: Deposits and Loans Outstanding



INDUSTRY PERFORMANCE OF LABUAN IBFC

PART II – SECTOR DEVELOPMENT

The Islamic banking in Labuan IBFC was represented by three full-fledged Islamic banks, two full-fledged Islamic investment banks and ten Islamic windows of conventional banks. The total Islamic financing increased significantly by 55.6% to USD1.8 billion (2014: USD1.2 billion), representing 5.6% share of the total loans and advances of the industry. Similar to conventional banks, the non-residents dominated 77.3% of the total Islamic financing. The increase had resulted in a growth in market share of the Islamic assets in the total industry to 4.6% or USD2.2 billion (2014: USD1.6 billion). The total Islamic deposits generated by the Labuan Islamic banks, including the conventional banks with Islamic windows, accounted for 1.4% share against the total deposits of the industry while non-residents remained as the majority depositors that made up 97.1% of the total Islamic deposits (2014: 94.4%).

Table 5: Islamic Business Assets, Financing and Deposits

Year	2011	2012	2013	2014*	2015	2015 change (%)
	USD Million					
Total Deposits	**179.6**	**169.0**	**222.7**	**162.8**	**155.6**	**(4.4)**
Residents	8.1	9.8	8.5	9.1	**4.6**	
Non-Residents	171.5	159.2	214.2	153.7	**151.0**	
market share (%)	1.9	1.6	2.1	1.8	**1.7**	
Total Financing	**294.6**	**528.5**	**775.6**	**1,161.8**	**1,807.7**	**55.6**
Residents	44.0	136.6	236.8	442.7	**411.2**	
Non-Residents	250.7	391.9	538.8	719.2	**1,396.5**	
market share (%)	1.2	2.0	2.8	3.6	**5.6**	
Total Islamic Assets	**1,161.9**	**1,526.3**	**1,470.6**	**1,576.4**	**2,185.3**	**38.6**
Total Assets Banking	38,343.6	42,113.3	42,690.1	44,281.8	**47,392.0**	
market share (%)	3.0	3.6	3.4	3.6	**4.6**	

** Restated*

"The Islamic banking in Labuan IBFC was represented by three full-fledged Islamic banks, two full-fledged Islamic investment banks and ten Islamic windows of conventional banks. The total Islamic financing increased significantly by 55.6% to USD1.8 billion (2014: USD1.2 billion), representing 5.6% share of the total loans and advances of the industry"

Overall, the Labuan banking sector continued to enhance its balance sheet position. The asset quality improved predominantly due to higher loan recoveries, bringing the gross Non-Performing Loan (NPL) ratio to 0.8% (2014: 1.5%). This is mainly attributable to the low interest rate environment, which encouraged the banks' borrowers to repay their loans and interest charges on a timely manner. The stability of the ratio was also an evidence to low credit risk exposures of the Labuan banks.

The profit before tax recorded a positive growth of 34.6% bringing the total to USD620.6 million (2014: USD461.1 million). The increase was mainly driven by a higher reduction in loan provisions and allowances, which resulted in a larger non sustainable income to the banks.

The profitability ratios for Labuan banks also experienced modest improvement in 2015, where the Return of Assets (ROA) and Return of Equity (ROE) increased to 1.3% and 23.6% from 1% and 18.4% in 2014, respectively. With the adequate level of liquidity and strong capital buffer, the Labuan banks are in strong position to support their business operations and expansion going forward.

Table 6: Key Data

Year	2011	2012	2013	2014*	2015
Profit/(Loss) Before Tax (USD mil)	463.7	653.8	575.0	461.1	**620.6**
Shareholders' Funds (USD mil)	2,277.7	2,505.4	2,743.9	2,509.5	**2,625.2**
Total Assets (USD mil)	38,343.6	42,113.3	42,690.1	44,281.8	**47,392.0**
RWCR (%)*	23.8	21.0	23.1	31.6	**31.9**
Gross NPL Industry (%)	1.5	1.3	1.5	1.5	**0.8**
ROE (%)*	20.4	26.1	21.0	18.4	**23.6**
ROA (%)	1.2	1.6	1.3	1.0	**1.3**

** Restated data*

INDUSTRY PERFORMANCE OF LABUAN IBFC

PART II – SECTOR DEVELOPMENT

LABUAN INSURANCE AND INSURANCE-RELATED

The geographical appeal of Labuan as an insurance domicile continued to attract demands from various insurance prospects from countries in the Asia Pacific region, Europe Middle East, Americas and Caribbean to establish business in the centre. The low operational start-up costs, stable political regime and the availability of human capital continued to be the driving factors for their presence in Labuan IBFC.

For the year under review, Labuan FSA approved 16 licences comprising six insurance brokers, two underwriting managers, two general (re)insurers, two life (re)insurer, three captive insurers and one retakaful operator. During the year, we saw insurance entities from Qatar, Switzerland and United Arab Emirates established their branches to carry on insurance/ takaful business in Labuan. Under the Protected Cell Company (PCC) structures, five cells were approved to carry on captive insurance business.

Due to revocation and surrendering of licences, the total number of approved Labuan insurance and insurance-related entities as at 31 December 2015 remained at 209. Out of the 209 entities, there are one takaful operators, seven retakaful operator, one captive takaful, 20 windows for insurer and reinsurer and 16 retakaful windows for general insurance brokers.

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

Type of Licence	2011	2012	2013	2014	2015
Life	3	4	5	5	**7**
General	9	11	14	13	**13**
Composite	2	2	2	2	**2**
Reinsurance	38	41	46	46	**46**
Captive	34	41	41	40	**40**
Insurance Manager	6	5	4	3	**3**
Underwriting Manager	19	21	20	21	**20**
Broker	70	78	81	79	**78**
Total	**181**	**203**	**213**	**209**	**209**

Chart 1: Number of Labuan Insurance Licences

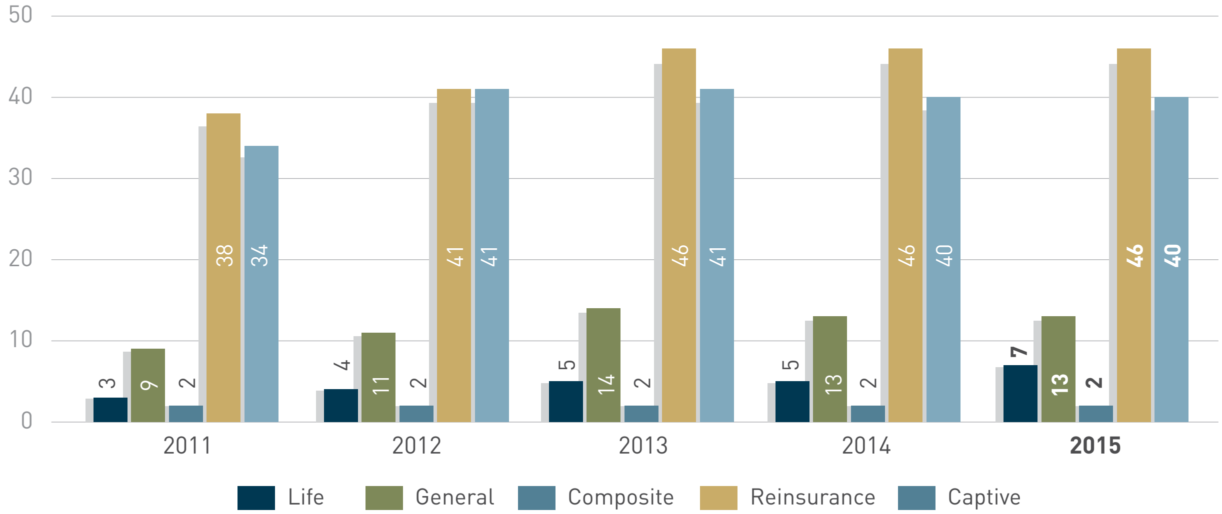
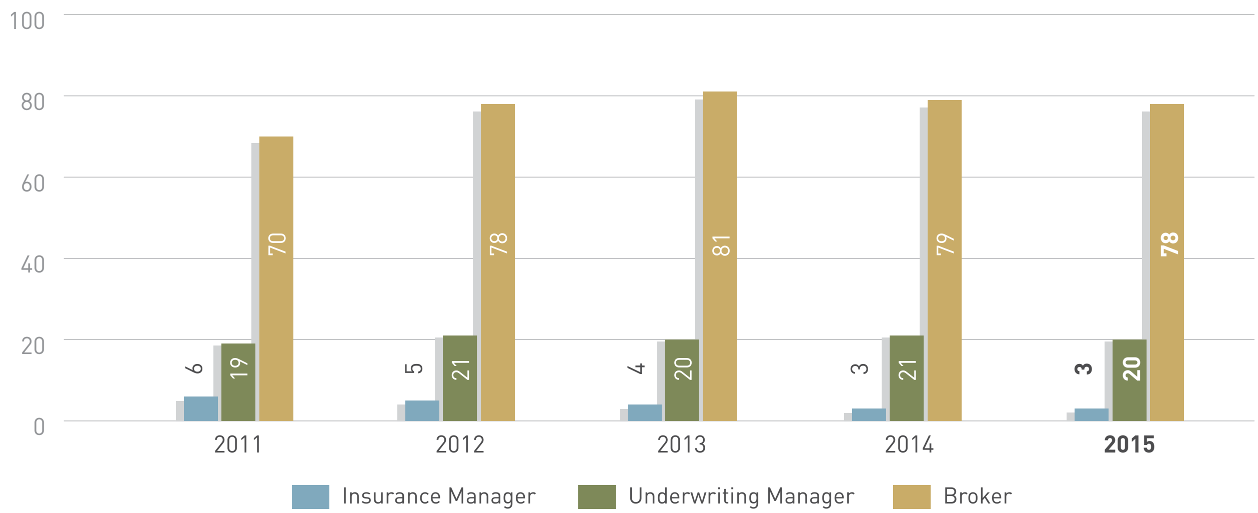


Chart 2: Number of Labuan Insurance-Related Licences



The capitalisation of the Labuan insurance industry had increased by 6.3% to USD832.3 million in 2015 (2014: USD783.3 million), where 74% (2014: 73.6%) remained dominated by foreign entities.

Table 2: Total Capitalisation

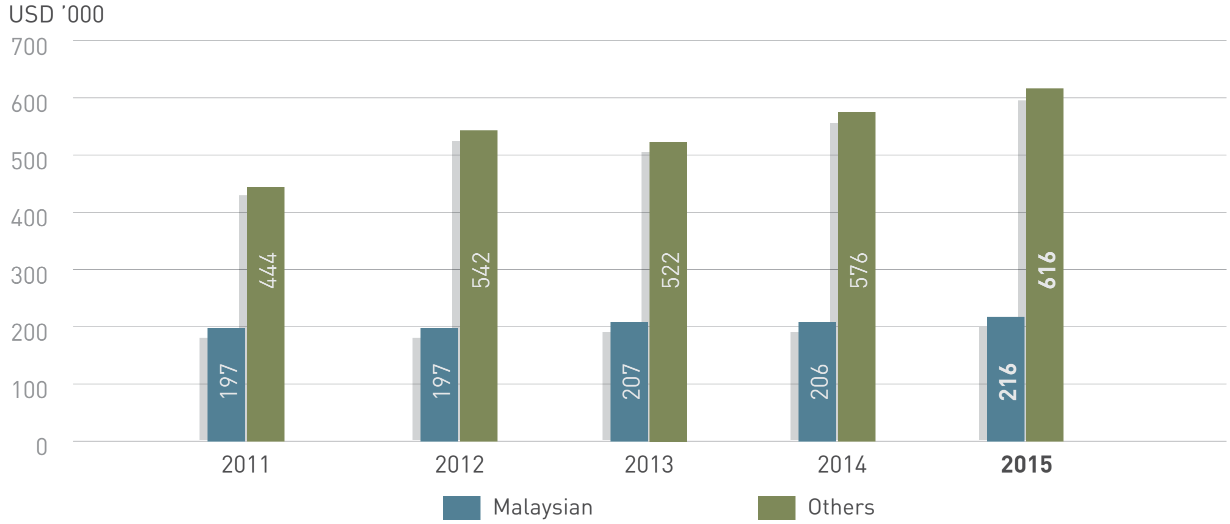
Held By	2011		2012		2013*		2014		2015	
	USD'000	share (%)	USD'000	share (%)	USD'000	share (%)	USD'000	share (%)	USD'000	share (%)
Malaysian	197,099	30.8	196,907	26.6	207,296	28.4	206,928	26.4	**216,399**	**26.0**
Others	443,753	69.2	542,132	73.4	521,597	71.6	576,353	73.6	**615,929**	**74.0**
Total	**640,852**	**100.0**	**739,039**	**100.0**	**728,893**	**100.0**	**783,281**	**100.0**	**832,328**	**100.0**

* *Restated*

INDUSTRY PERFORMANCE OF LABUAN IBFC

PART II – SECTOR DEVELOPMENT

Chart 3: Total Capitalisation

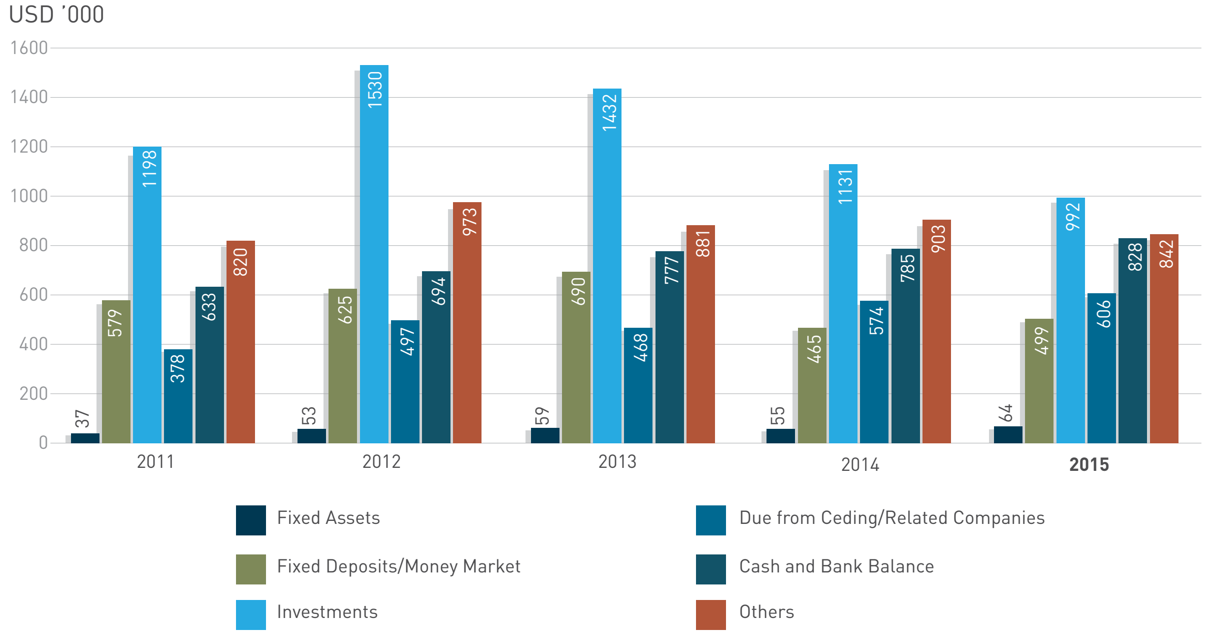


As at end 2015, the total assets recorded for the industry decreased slightly by 2.3% to USD3.8 billion (2014: USD3.9 billion) mainly in the placement of fixed deposits and money market instruments. Nevertheless, fixed deposits and money market instruments remained as the largest portion representing 25.9% or USD992.1 million (USD1.1 billion) of the total assets.

Table 3: Total Assets

Assets	2011		2012		2013		2014		2015	
	USD'000	share (%)	USD'000	share (%)	USD'000	share (%)	USD'000	share (%)	USD'000	share (%)
Fixed Assets	36,631	1.0	53,090	1.2	59,341	1.4	55,234	1.4	**63,641**	**1.7**
Due from Ceding/Related Companies	579,227	15.9	669,006	15.3	720,278	16.7	489,418	12.5	**502,289**	**13.1**
Fixed Deposits/Money Market	1,198,300	32.9	1,530,408	34.9	1,431,202	33.2	1,131,852	28.8	**992,065**	**25.9**
Cash and Bank Balances	378,356	10.4	499,883	11.4	470,821	10.9	578,021	14.7	**605,901**	**15.8**
Investments	632,740	17.4	694,363	15.8	777,020	18.0	784,809	20.0	**827,850**	**21.6**
Others	820,494	22.5	934,456	22.2	854,457	19.8	903,029	22.5	**842,543**	**22.0**
Total	**3,645,749**	**100.0**	**4,381,205**	**100.0**	**4,314,119**	**100.0**	**3,923,210**	**100.0**	**3,834,291**	**100.0**

Chart 4: Total Assets



Consistent with the decreasing trend of the industry assets, the gross premiums underwritten recorded a decline of 8.4% to USD1.3 billion (2014: USD1.4 billion). Non-resident business contributed a higher share of 51.3% (2014: 51.1%) of the industry premiums. The fire sector remained as the key business class, contributing the highest market share of 35.6% or USD464 million of the total gross premiums (2014: 36.9% of USD527 million).

For (re)takaful sector, the total gross contribution generated increased by 46.9% to USD55.9 million (2014: USD38 million). Motor sector contributed the highest markets share of USD25.2 million (2014: USD35 million).

"For (re)takaful sector, the total gross contribution generated increased by 46.9% to USD55.9 million (2014: USD38 million). Motor sector contributed the highest markets share of USD25.2 million (2014: USD35 million)"

INDUSTRY PERFORMANCE OF LABUAN IBFC

PART II – SECTOR DEVELOPMENT

Table 4: Distribution of Gross Premiums

Year	Total		Fire	Marine	Engineering	Motor	Other Classes	Total
	Malaysian	Others	USD'000					
2011	807,687	767,298	561,476	204,623	310,398	190,954	307,534	**1,574,985**
2012	801,300	937,229	671,552	200,582	309,263	164,136	392,996	**1,738,529**
2013	766,913	853,184	582,483	159,978	392,782	110,595	374,260	**1,620,098**
2014*	698,770	730,721	527,058	142,558	263,173	131,872	364,830	**1,429,491**
2015	**637,527**	**672,427**	**465,952**	**115,683**	**283,118**	**93,128**	**352,075**	**1,309,955**
				change (%)				
2011	42.4	20.4	9.4	40.4	31.7	99.1	43.5	**30.7**
2012	(0.8)	22.1	19.6	(2.0)	(0.4)	(14.0)	27.8	**10.4**
2013	(4.3)	(9.0)	(13.3)	(20.2)	27.0	(32.6)	(4.8)	**(6.8)**
2014	(8.9)	(14.4)	(9.5)	(10.9)	(33.0)	19.2	(2.5)	**(11.8)**
2015	**(8.8)**	**(8.0)**	**(11.6)**	**(18.9)**	**7.6**	**(29.4)**	**(3.5)**	**(8.4)**
				share (%)				
2011	51.3	48.7	35.6	13.0	19.7	12.1	19.5	**100.0**
2012	46.1	53.9	38.6	11.5	17.8	9.4	22.6	**100.0**
2013	47.3	52.7	36.0	9.9	24.2	6.8	23.1	**100.0**
2014	48.9	51.1	36.9	10.0	18.4	9.2	25.5	**100.0**
2015	**48.7**	**51.3**	**35.6**	**8.8**	**21.6**	**7.1**	**26.9**	**100.0**

** Restated*

Table 5: Distribution of Gross Contributions

Year	Total		Fire	Marine	Engineering	Motor	Other Classes	Total
	Malaysian	Others	USD'000					
2011	138,697	320,754	172,357	45,597	40,823	119,842	80,831	**459,450**
2012	94,910	295,231	142,142	31,840	30,341	73,149	112,667	**390,140**
2013	17,232	119,627	64,534	14,088	14,902	6,253	37,082	**136,859**
2014	53,991	(15,957)	13,241	(3,990)	(2,069)	34,998	(4,146)	**38,034**
2015	**45,125**	**10,730**	**21,455**	**1,818**	**3,218**	**25,202**	**4,161**	**55,854**
				change (%)				
2011	156.3	31.9	23.8	35.7	39.6	325.4	20.5	**54.6**
2012	(31.6)	(8.0)	(17.5)	(30.2)	(25.7)	(39.0)	39.4	**(15.1)**
2013	(81.8)	(59.5)	(54.6)	(55.8)	(50.9)	(91.5)	(67.1)	**(64.9)**
2014	213.3	(113.3)	(79.5)	(128.3)	(113.9)	459.7	(111.2)	**(72.2)**
2015	**(16.4)**	**(167.2)**	**62.0**	**(145.6)**	**(255.6)**	**(28.0)**	**(200.3)**	**46.9**
				share (%)				
2011	30.2	69.8	37.5	9.9	8.9	26.1	17.6	**100.0**
2012	24.3	75.7	36.4	8.2	7.8	18.7	28.9	**100.0**
2013	12.6	87.4	47.2	10.3	10.9	4.6	27.1	**100.0**
2014	142.0	(42.0)	34.8	(10.5)	(5.4)	92.0	(10.9)	**100.0**
2015	**80.8**	**19.2**	**38.4**	**3.3**	**5.8**	**45.1**	**7.4**	**100.0**

The overall net retention ratio for the industry reduced to 65.1% (2014: 67.4%) with motor sector remained as the highest net retention of 91.8% for the year 2015.

Table 6: Net Retention Ratio (%)

Year	Malaysian	Others	Fire	Marine	Engineering	Motor	Other Classes	Total
2011	66.2	76.9	75.3	80.4	41.5	98.8	71.5	**71.4**
2012	60.7	79.1	73.9	73.7	40.4	98.3	75.6	**70.6**
2013	53.4	76.3	68.6	68.6	42.3	97.3	73.9	**65.4**
2014	57.3	77.0	70.5	61.3	43.9	96.5	71.7	**67.4**
2015	**57.0**	**72.7**	**64.6**	**69.6**	**38.7**	**91.8**	**78.4**	**65.1**

INDUSTRY PERFORMANCE OF LABUAN IBFC

PART II – SECTOR DEVELOPMENT

In line with the moderated growth in total gross premiums, the sector's earned premium income also registered a decline of 5.4%. The net claims incurred ratio improved from 45.5% in 2014 to 41% in 2015. Due to the better claims experience during the year, the underwriting margin improved to 34.3% (2014: 28.6%).

Table 7: Underwriting Experience

Year	Earned Premium Income	Net Claims Incurred		Commission		Management Expenses		Underwriting Margin	
	USD'000	USD'000	ratio (%)	USD'000	ratio (%)	USD'000	ratio (%)	USD'000	ratio (%)
2011	**1,114,904**	758,212	68.0	286,253	25.7	43,721	3.9	26,717	2.4
2012	**1,262,813**	719,461	57.0	302,481	24.0	48,193	3.8	192,678	15.3
2013	**1,085,450**	513,125	47.3	234,944	21.6	60,928	5.6	276,454	25.5
2014*	**999,661**	454,614	45.5	191,403	19.1	67,883	6.8	285,761	28.6
2015	**946,044**	**388,020**	**41.0**	**173,423**	**18.3**	**60,017**	**6.3**	**324,584**	**34.3**

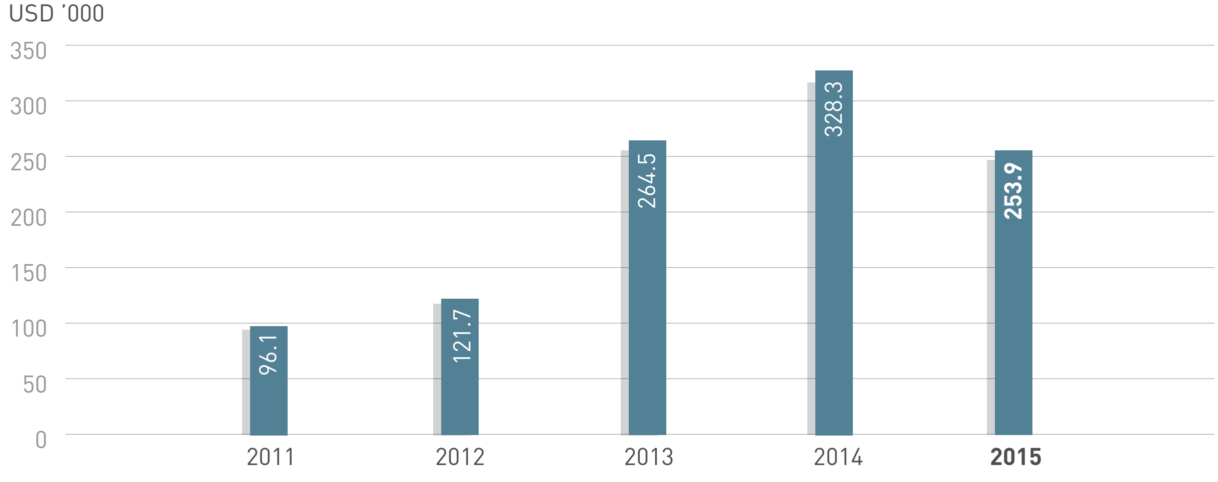
** Restated*

For the year under review, the profit before tax decreased by 22.7% to USD253.9 million (2014: USD328.6 million).

Table 8: Profit Before Tax

	2011	2012	2013	2014	2015	2011	2012	2013	2014	2015
	USD'000					change (%)				
Total PBT	96,145	121,831	264,920	328,600	253,938	(48.9%)	26.7%	117.5%	24.0%	(22.7%)

Chart 5: Profit Before Tax



A total of 149 new investment-linked policies were issued in 2015 (2014: 184). In terms of top line performance, the premiums underwritten was USD5.3 million (2014: USD5.4 million).

Table 9: Statistics on Investment-Linked Policies

Year		New Policies			Policies in Force		
		Malaysian	Others	Total	Malaysian	Others	Total
2011	No. of Policies	157	15	**172**	992	72	**1,064**
		USD'000					
	Sum Insured	4,205	400	**4,605**	17,384	1,316	**18,701**
	Single Premiums	4,068	434	**4,502**	17,338	1,470	**18,808**
2012	No. of Policies	155	11	**166**	970	45	**1,015**
		USD'000					
	Sum Insured	11,590	256	**11,846**	21,648	1,560	**23,208**
	Single Premiums	2,746	142	**2,888**	19,062	1,482	**20,544**
2013	No. of Policies	183	12	**195**	652	53	**705**
		USD'000					
	Sum Insured	4,658	609	**5,267**	20,858	2,209	**23,067**
	Single Premiums	3,383	288	**3,671**	19,606	1,676	**21,282**
2014	No. of Policies	182	2	**184**	781	49	**830**
		USD'000					
	Sum Insured	8,339	519	**8,858**	31,436	2,185	**343,718**
	Single Premiums	4,854	533	**5,387**	16,579	1,513	**18,093**
2015	No. of Policies	**144**	**5**	**149**	**875**	**49**	**924**
		USD'000					
	Sum Insured	**4,384**	**168**	**4,552**	**30,933**	**1,400**	**32,333**
	Single Premiums	**5,166**	**175**	**5,340**	**19,877**	**1,589**	**21,466**

The gross premiums for captive insurance business increased by 4.3% to USD354 million (2014: USD339.3 million). Engineering sector continued to be a key business class, contributing the highest market share of 59.3% of the total gross premiums (2014: USD164.3 million).

INDUSTRY PERFORMANCE OF LABUAN IBFC

PART II – SECTOR DEVELOPMENT

Table 10: Labuan Insurance – Distribution of Gross Premiums for Captive Business

Year	Malaysian	Others	Fire	Marine	Engineering	Motors	Other Classes	Total
2011	**259,231**	**54,038**	21,136	19,652	196,514	488	75,479	**313,269**
2012	**231,603**	**95,464**	34,173	24,210	185,088	–	83,595	**327,066**
2013	**287,804**	**146,551**	36,497	21,171	274,718	36	101,934	**434,356**
2014*	**206,377**	**135,278**	40,646	22,929	164,350	631	113,100	**341,656**
2015	**213,726**	**142,254**	**28,607**	**14,500**	**209,830**	**216**	**102,827**	**355,980**
				change (%)				
2011	**46.1**	**(0.7)**	39.9	(7.3)	29.2	0.0	73.8	**35.1**
2012	**(10.7)**	**76.7**	61.7	23.2	(5.8)	(100.0)	10.8	**4.4**
2013	**24.3**	**53.5**	6.8	(12.6)	48.4	0.0	21.9	**32.8**
2014*	**(28.3)**	**(7.7)**	11.4	8.3	(40.2)	1,648.0	11.0	**(21.3)**
2015	**3.6**	**5.2**	**(29.6)**	**(36.8)**	**27.7**	**(65.8)**	**(9.1)**	**4.2**
				share (%)				
2011	**82.8**	**17.2**	6.7	6.3	62.7	0.2	24.1	**100.0**
2012	**70.8**	**29.2**	10.4	7.4	56.6	0.0	25.6	**100.0**
2013	**66.3**	**33.7**	8.4	4.9	63.2	0.0	23.5	**100.0**
2014*	**60.4**	**39.6**	11.9	6.7	48.1	0.2	33.1	**100.0**
2015	**60.0**	**40.0**	**8.0**	**4.1**	**58.9**	**0.1**	**28.9**	**100.0**

** Restated*

The total premium processed by the Labuan insurance brokers decreased by 5.3% to USD888 million (2014: USD937.5 million), of which majority 86.5% was derived from general insurance business. The general premiums were mainly brokered from international market with 56.1% of the total placement. For life insurance broking business, nearly all of the premiums were derived from direct businesses placed with overseas insurers.

Table 11: Premiums Placement by Insurance Brokers

Year	2011	2012*	2013*	2014*	2015	2015 Change	Market Share
General Business			**USD'000**			**%**	
Labuan	140,074	134,142	138,223	111,228	**104,205**	(6.3)	11.7
Malaysia	294,452	323,337	317,097	338,748	**268,851**	(20.6)	30.3
Others	331,864	345,264	394,048	360,786	**394,695**	9.4	44.4
Sub Total	**766,390**	**802,743**	**849,368**	**810,762**	**767,751**	**(5.3)**	**86.5**
Life Business			**USD'000**			**%**	
Labuan	1,403	2,309	4,901	1,595	**2,249**	41.0	0.3
Malaysia	–	741	–	–	–	–	–
Others	129,086	114,726	117,328	125,192	**118,040**	(5.7)	13.3
Sub Total	**130,489**	**117,776**	**122,229**	**126,787**	**120,289**	**(5.1)**	**13.5**
Grand Total	**896,879**	**920,519**	**971,597**	**937,549**	**888,040**	**(5.3)**	**100.0**

The brokerage fees generated by the general business contributed 77.7% of the total industry figure or USD40.3 million.

Table 12: Brokerage Fee Earned by Insurance Brokers

Year	2011	2012	2013	2014	2015	2015 Change	Market Share
General Business			**USD'000**			**%**	
Labuan	5,945	6,088	6,641	5,524	**4,832**	(12.5)	9.3
Malaysia	12,362	14,045	12,710	13,119	**9,896**	(24.6)	19.1
Others	51,391	37,853	45,041	36,200	**25,532**	(29.5)	49.3
Sub Total	**69,697**	**57,986**	**64,392**	**54,844**	**40,260**	**(26.6)**	**77.7**
Life Business			**USD'000**			**%**	
Labuan	146	473	324	135	**454**	236.2	0.9
Malaysia	–	16	–	2	**3**	43.5	0.0
Lain-lain	12,356	10,188	10,465	11,221	**11,109**	(1.0)	21.4
Sub Total	**12,502**	**10,678**	**10,789**	**11,358**	**11,566**	**1.8**	**22.3**
Grand Total	**82,199**	**68,663**	**75,181**	**66,201**	**51,826**	**(21.7)**	**100.0**

* *Restated*

INDUSTRY PERFORMANCE OF LABUAN IBFC

PART II – SECTOR DEVELOPMENT

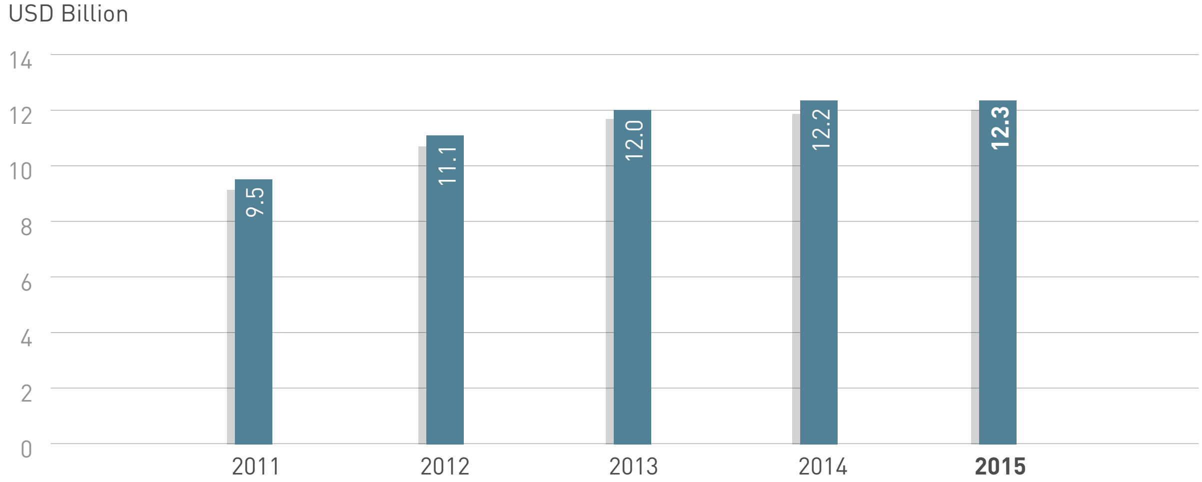
CAPITAL MARKET

Year 2015 also witnessed continuing growth of the capital market sector in terms of private fund size. Four notifications were submitted to Labuan FSA for registration of private funds, bringing the total number to 65 in 2015 (2014: 61). Total cumulative fund size increased slightly by 0.9% to USD12.3 billion (2014: USD12.2 billion). In geographical distribution, 58.5% (38) of the private funds originated from ASEAN and Asia Pacific region; 21.5% (14) from Far East region; 15.4% (10) from Middle East and the America and Caribbean region; and 4.6% (3) from Europe region.

Table 1: Mutual Funds - Cumulative Approved Fund Size

Year	2011	2012	2013	2014	2015	2015 change (%)
	USD Million					
Private Fund	9,369	10,974	12,048	12,153	**12,265**	**0.9**
Public Fund	130	100	0	0	**0**	**0.0**
Total	**9,499**	**11,074**	**12,048**	**12,153**	**12,265**	**0.9**

Chart 1: Mutual Funds - Approved Fund Size (Cumulative)



In 2015, three new companies were approved to carry on fund management business. Nevertheless, two fund management companies surrendered their licences due to their business decision, bringing the total number of approval to 11 (2014: 9).

Table 2: Number of Approved Fund Management Companies and Securities Licensee

	2011	2012	2013	2014	2015
Fund Manager	11	12	8	9	10
Securities Licensee	–	–	4	5	6
Total	**11**	**12**	**12**	**14**	**16**

One company was granted approval to conduct securities licensee business in Labuan during the year, bringing the total number of approved Labuan securities licensee to six (2014: 5).

LABUAN INTERNATIONAL FINANCIAL EXCHANGE

In 2015, six new instruments were listed on the Labuan International Financial Exchange (LFX) and eight instruments were de-listed due to maturity, bringing the total number of active listings to 33 (2014: 35). A total of USD3.4 billion was raised on the LFX during the year. As a result, the market capitalisation of LFX grew by 14% to USD27.3 billion (2014: USD23.9 billion) with Islamic instruments making up of 34.6% or USD9.4 billion of the total market capitalisation (2014: USD7.6 billion).

Table 1: Listings and Market Capitalisation

Market Capitalisation and Number of Active Listings	**2011**	**2012**	**2013**	**2014**	**2015**	**change (%)**
Market Capitalisation (USD bil)	19.0	19.7	23.5	23.9	**27.3**	14.04
Number of Active Listings	30	32	32	35	**33**	(5.7)
Islamic Market Capitalisation and Number of Listings (Cumulative)	**2011**	**2012**	**2013**	**2014**	**2015**	**change (%)**
Islamic Market Capitalisation (USD bil)	8.6	6.8	6.8	7.6	**9.4**	24.8
Number of Listings	11	9	9	11	**11**	0.0
Market share (%)	45.3	34.7	28.8	31.6	**34.6**	–

INDUSTRY PERFORMANCE OF LABUAN IBFC

PART II – SECTOR DEVELOPMENT

Chart 1: Market Capitalisation and Number of Listings (Cumulative)

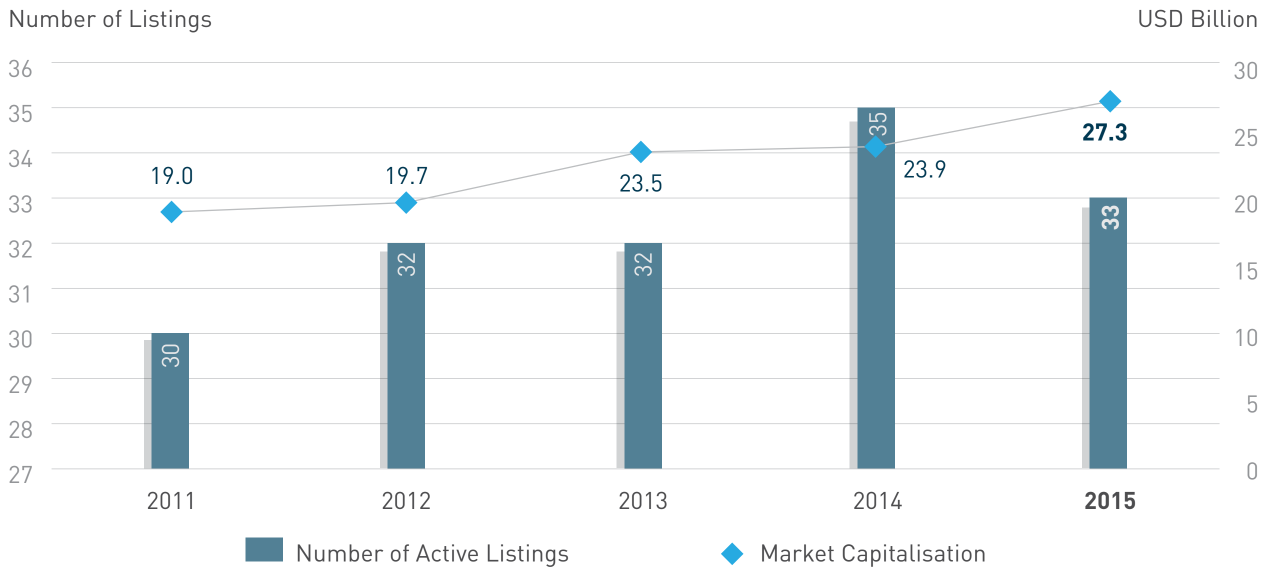
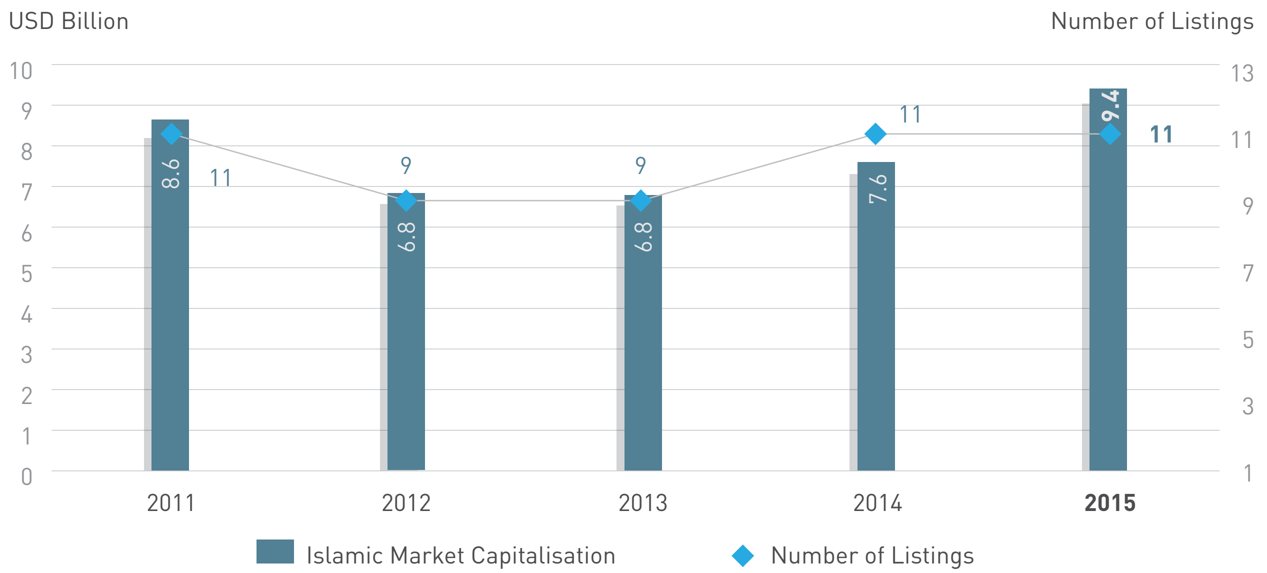


Chart 2: Islamic Market Capitalisation and Total Number of Listings (Cumulative)



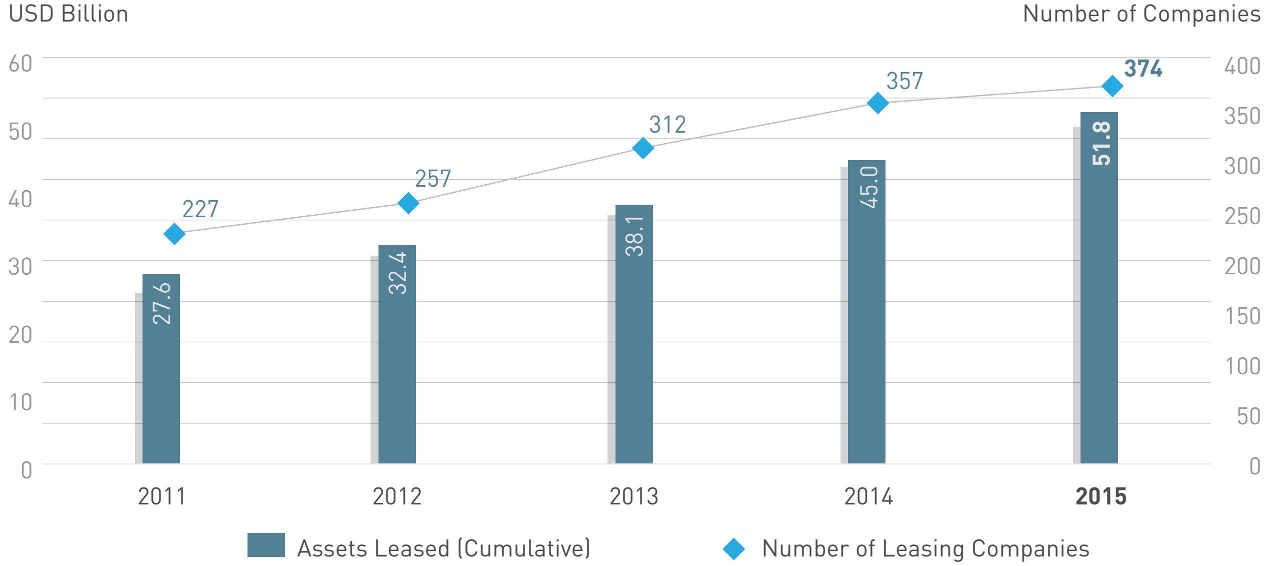
LABUAN LEASING

The leasing sector continued to grow for the year with a total of 45 new companies approved. Twenty-eight leasing companies ceased their operations due to completion of leasing arrangements. In addition, an approval granted to a leasing company was deemed null and void as the transaction was aborted. As a result, the total number of leasing companies in 2015 increased to 374 (2014: 357). In addition, 60 approvals were granted for subsequent leasing transactions.

The assets leased showed a positive growth of 15.1% to USD51.8 billion (2014: USD45 billion). The oil and gas and aviation sectors remained as the majority sectors, contributing 73% and 25.2% of the total assets leased, respectively.

The leasing companies originated from Southeast Asia and the Pacific region continued to dominate the market share of the industry, which accounted for 71.1% and followed by Europe. The remaining are Americas and the Caribbean region, Far East and Middle East and Africa regions with 12.3%, 1.9% and 1.6%, respectively.

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



** Restated*

Table 1: Breakdown of Origin by Region

	2011		2012		2013		2014		2015	
	No. of Leasing	share (%)	No. of Leasing	share (%)	No. of Leasing	share (%)	No. of Leasing	share (%)	No. of Leasing	share (%)
Americas and the Caribbean	49	21.6	53	20.6	52	16.7	49	13.7	**46**	**12.3**
Southeast Asia and the Pacific	129	56.8	150	58.4	201	64.4	246	68.9	**266**	**71.1**
Europe	36	15.9	40	15.6	48	15.4	51	14.3	**49**	**13.1**
Far East	6	2.6	6	2.3	6	1.9	6	1.7	**7**	**1.9**
Middle East and Africa	7	3.1	8	3.1	5	1.6	5	1.4	**6**	**1.6**
Total	**227**	**100.0**	**257**	**100.0**	**312**	**100.0**	**357**	**100.0**	**374**	**100.0**

INDUSTRY PERFORMANCE OF LABUAN IBFC

PART II – SECTOR DEVELOPMENT

LABUAN INTERNATIONAL COMMODITY TRADING COMPANY

Eight Labuan International Commodity Trading Companies (LITCs) were approved in 2015 to carry on Labuan international commodity trading business under the Global Incentives for Trading Programme. Notwithstanding, one LITC licence was revoked due to non-compliance to the Labuan Financial Services and Securities Act 2010, while one approval granted was deemed null and void due to its inability to comply with licensing requirements. This brings the total number of LITCs approved to 43 (2014: 37).

Of the above, more than half of the companies were involved in the trading of petroleum and petroleum-related products. This was followed by agriculture products which represent 16.3% or seven companies, chemicals products of 14% or six companies and the remaining were involved in trading of base minerals and refined raw materials products. About 79.1% of LITCs originated from Southeast Asia and the remaining from Middle East and Africa, Europe and Far East region.

LABUAN TRUST COMPANIES

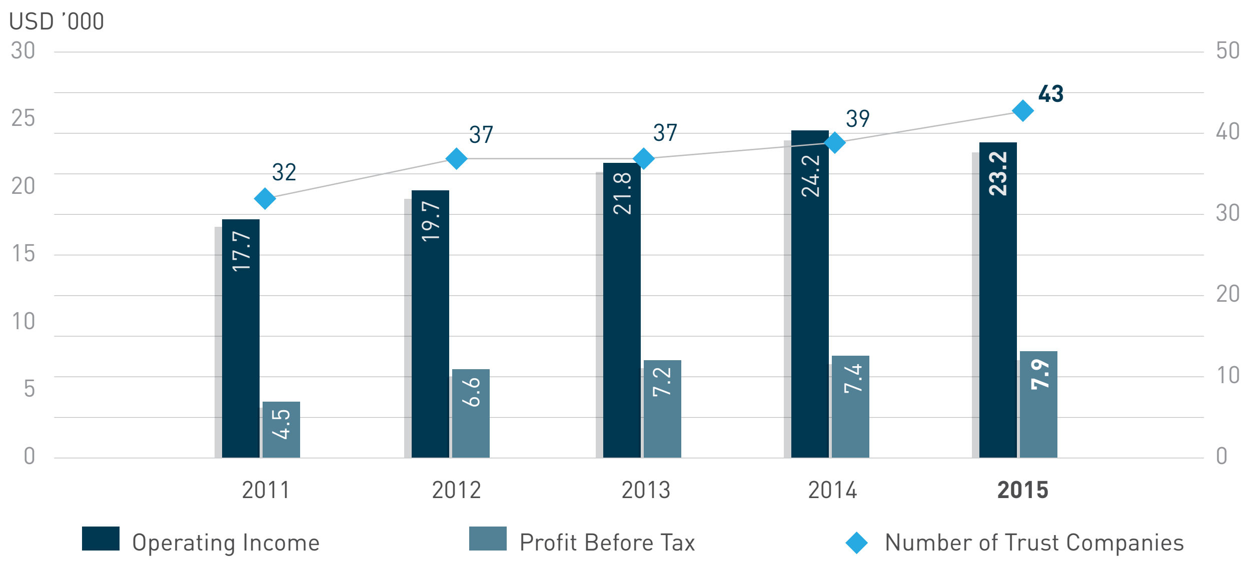
In year 2015, four trust companies were approved comprising two full-fledged trust companies, one managed trust company and one private trust company. This brings the total number of trust companies to 43 (2014: 39), comprising 32 full-fledged trust companies, nine managed trust companies and two private trust companies.

The total operating income of the industry decreased by 4.1% to USD23.2 million (2014: USD24.2 million), derived mainly from secretarial fees. The profit before tax increased by 5.7% to USD7.9 million (2014: USD7.4 million).

Table 1: Key Data

	2011	2012	2013	2014	2015	2015 change
Number of Trust Companies	**32**	**37**	**37**	**39**	**43**	
	USD'000					(%)
Total Income	17,554	19,672	21,762	24,204	23,221	(4.1)
Profit Before Tax	4,245	6,571	7,204	7,432	7,854	5.7

Chart 1: Key Data



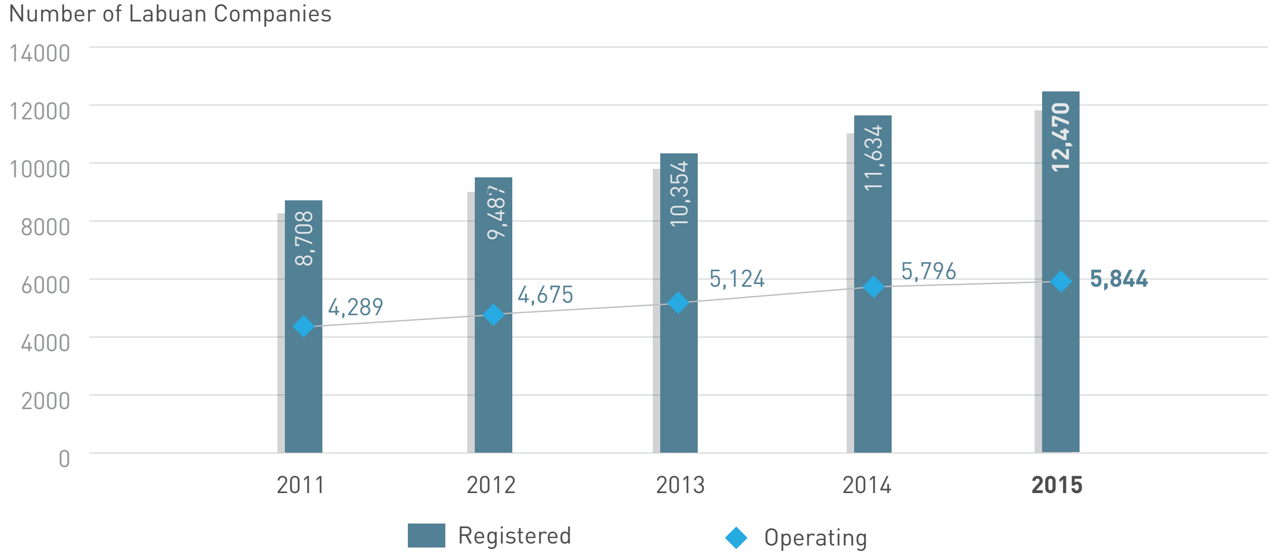
INDUSTRY PERFORMANCE OF LABUAN IBFC

PART II – SECTOR DEVELOPMENT

LABUAN COMPANIES

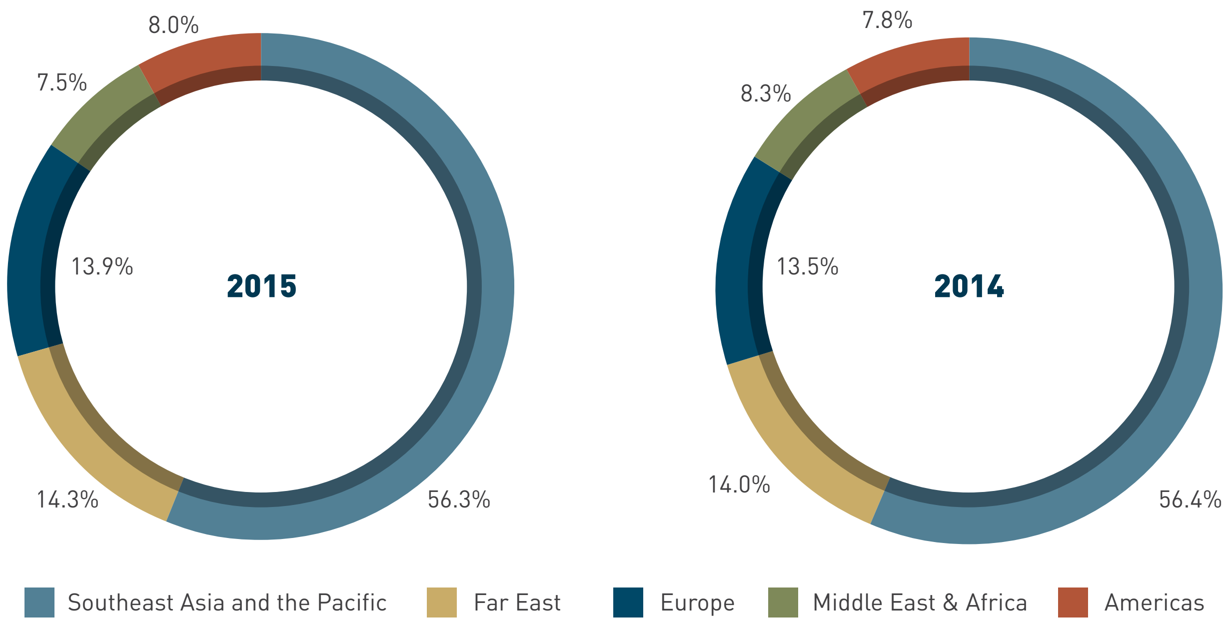
The year 2015 proved to be a challenging year for new company registration in Labuan IBFC. Notwithstanding this, 836 new companies (2014: 1,280) were registered; 826 limited by shares, seven limited by guarantee and three foreign companies. This brings the total number of Labuan companies to 12,470 or 7.2% annual growth from 11,634 of the previous year.

Chart 1: Number of Registered and Operating Companies



The Labuan companies originated from more than 100 countries. In terms of regional representation, 56.3% (2014: 56.4%) were from Asia and The Pacific region, largely from Malaysia, Indonesia, Singapore, Australia and Thailand. This was followed by Far East region of 14.3% (2014: 14%), mainly from Hong Kong, Taiwan and Japan. European region contributed 13.9% (2014: 13.5%) whereby the investors were mainly from United Kingdom, Netherlands, Germany, Ireland and France. The remaining comprised the Americas; and the Middle East and Africa combined with 8.0% (2014: 7.8%) and 7.5% (2014: 8.3%), respectively.

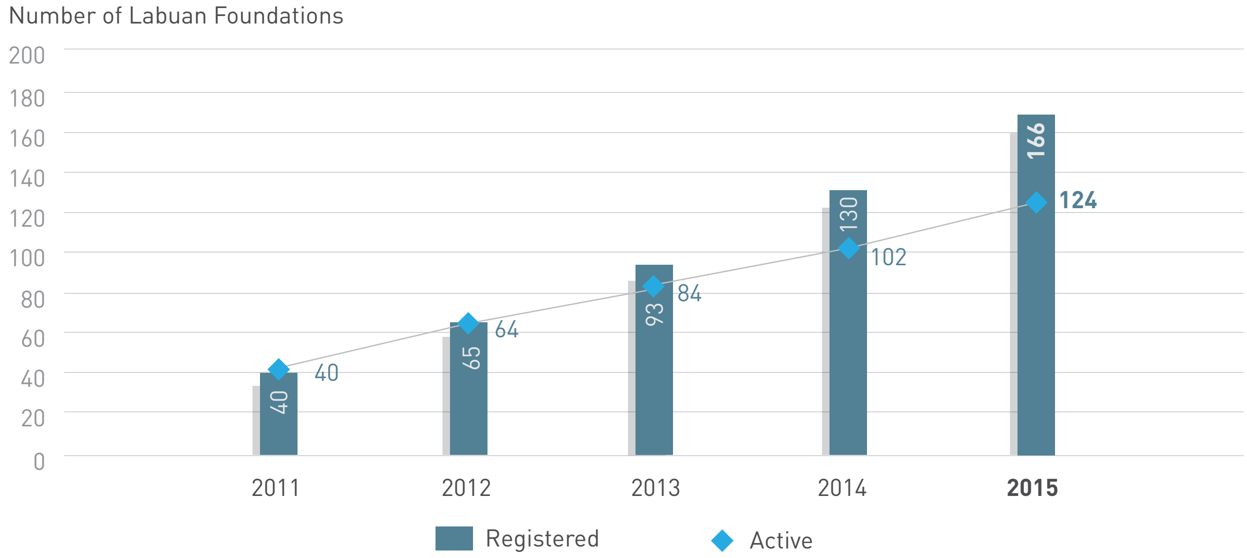
Chart 2: Operating Labuan Companies Breakdown of Origin by Region



LABUAN FOUNDATIONS

The increasing efforts taken to create awareness of Labuan IBFC's wealth management products especially in the areas of trust, foundation and private funds, had enhanced Labuan IBFC's attractiveness as a wealth management hub for high net-worth individuals, corporations and families. There has been a steady growth in the Labuan foundations since its introduction in 2010. For the year under review, a total of 36 (2014: 37) foundations were registered, bringing the total number to 166 (2014: 130) or an annual growth of 27.6%. All newly registered foundations in 2015 were conventional, of which six were established for charitable purposes.

Chart 1: Number of Labuan Foundations

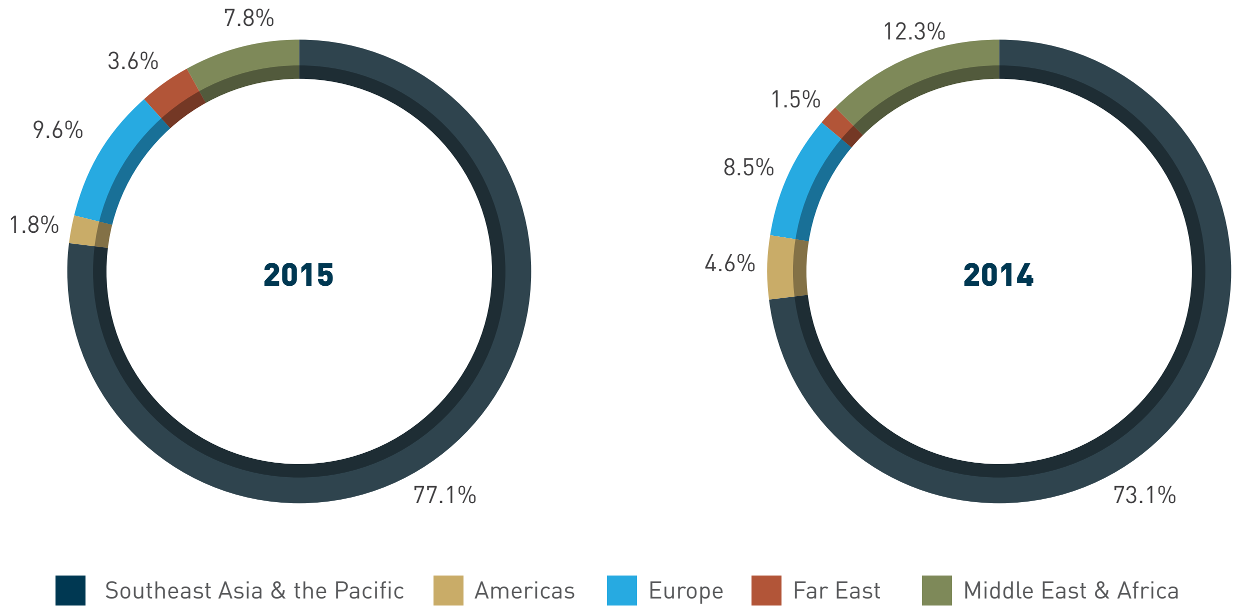


INDUSTRY PERFORMANCE OF LABUAN IBFC

PART II – SECTOR DEVELOPMENT

The Labuan foundations registered in Labuan IBFC originated from 24 countries. In term of regional segregation, 77.1% (2014: 73.1%) originated from Asia and the Pacific region, mainly from Malaysia, Australia, India and New Zealand. This was followed by Middle East and Africa with 9.6% (2014: 12.3%) which originated from Seychelles and Lebanon. Labuan foundations from the European region accounted for 7.8% (2014: 8.5%). The remainder were from the regions of the Americas with 3.6% (2014: 4.6%) and the Far East with 1.8% (2014: 1.5%).

Chart 2: Labuan Foundations Breakdown by Region

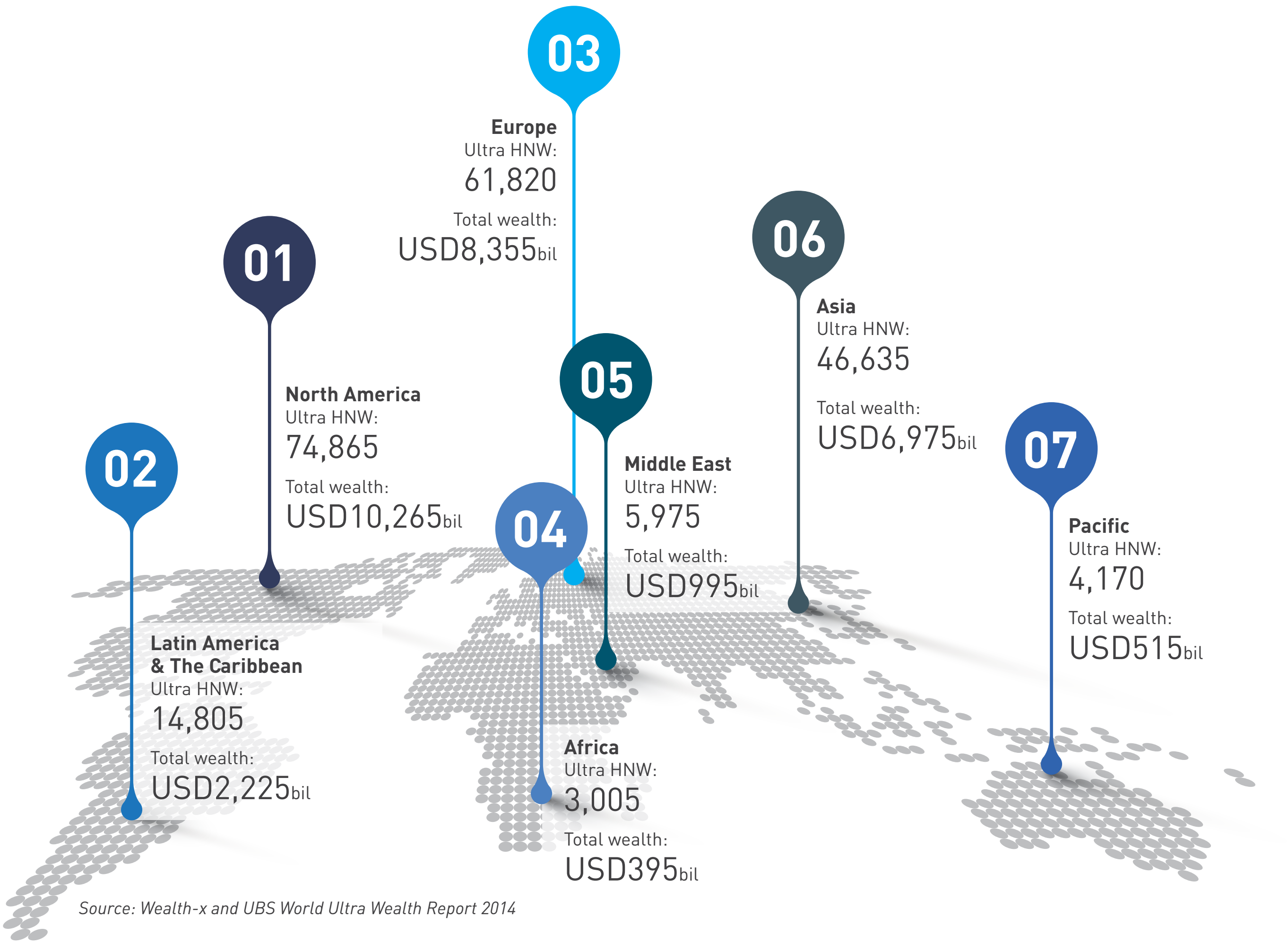


LABUAN FAMILY OFFICE:
WEALTH MANAGEMENT SOLUTIONS FOR THE AFFLUENTS

OVERVIEW

A Family Office (FO) is essentially a private wealth management office that is established to organise and integrate the execution of activities and interests of an affluent family. The demand for FOs has become more prevalent in tandem with the growth of private wealth globally in the recent decades as depicted from the wealth spread in ***Diagram 1***.

Diagram 1: World's Ultra High Net Worth (HNW) Population



Source: Wealth-x and UBS World Ultra Wealth Report 2014

For the year 2015, "The Forbes World's Billionaires" listing recorded a total of 1,826 billionaires with an aggregate net worth of USD7.1 trillion, a hike from USD6.4 trillion a year ago. Against this backdrop, it is estimated that 7,000 to 11,000 FOs world-wide are collectively managing over USD2.5 trillion of assets. This reflects the untapped potential of FOs as approximately 60% of the global wealth is still currently not under the administrative ambit of such structures.

ORIGIN AND EVOLUTION OF FAMILY OFFICE

The existence of FOs began in mid-19th century in Pittsburgh, United States of America when John Davison Rockefeller, the country's prominent philanthropist then, engaged his trusted advisors to administer his family's wealth. The objectives of the FO was to manage, grow and preserve the family's wealth. Most of the FOs that were established were Single Family Office (SFO) where they only served one family. SFO normally caters to HNW families with a minimum investable asset of USD100 million and with relatively high operational costs of about 1% of such family's wealth.

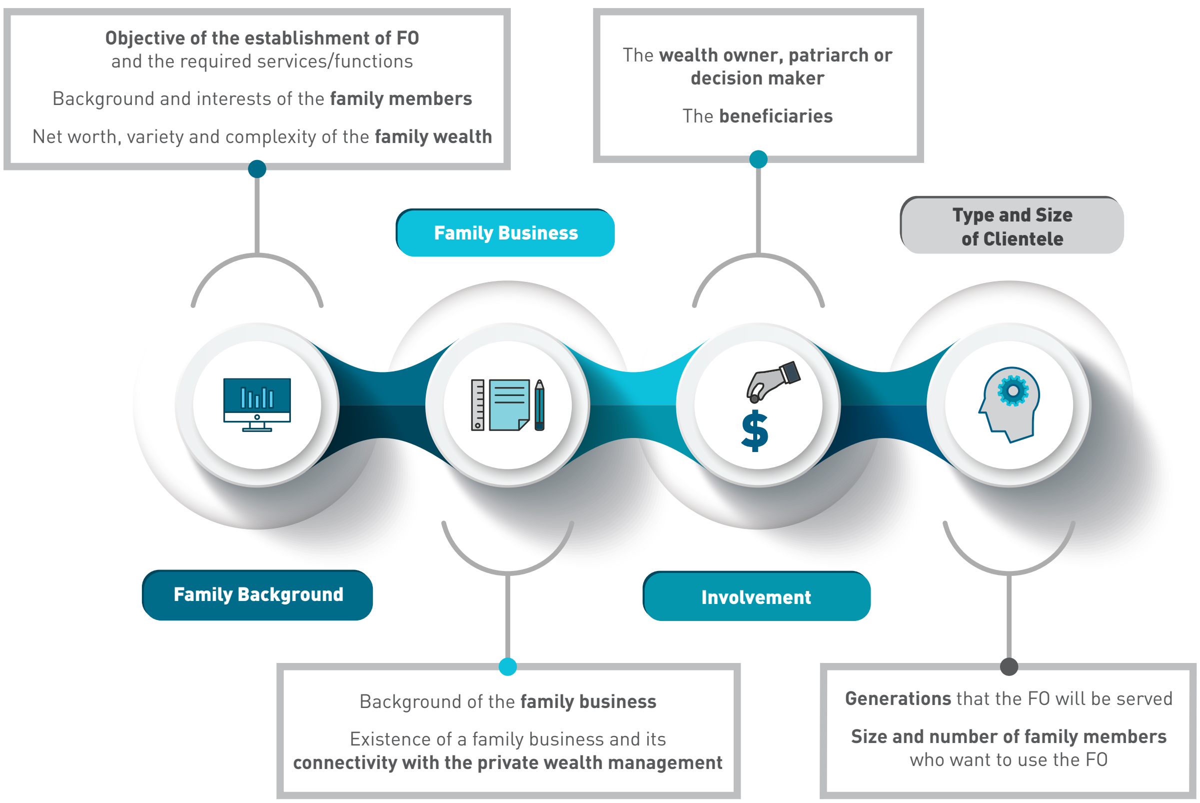
The second FO structure is the Multi-Family Office (MFO) where the office provides services to multiple HNW families with the operational cost being shared between the families. The MFO structure also appeals to HNW families who only require a limited set of services rather than the entire suite of services provided by FOs. As the needs and demands of families are unique and differ from one another, it is important to ensure that the wealth management expectations are considered, agreed and communicated with the affected families and family members prior to drawing up the mandate of the FO.

ESTABLISHING A FAMILY OFFICE

From regional experience, FOs usually originated from the accumulated wealth of a family, typically contributed by a member who becomes wealthy through successful entrepreneurial ventures. Subsequently, a vehicle is needed to allow for these wealth to be transferred to the next of kin or successive generations in a clear and structured manner. For this purpose, FO can serve as an ideal structure to facilitate such transfer across family generations.

The following ***Diagram 2*** depicts four basic parameters that typically to be considered in establishing a FO:

Diagram 2: Parameters of Structuring a FO



Specifically, a FO allows the wealthy family to have control over its wealth and retain the ultimate decision making on its management within the family itself. The FO, therefore, provides a focal point for the integration and coordination of the family's investment, estate, tax, business, philanthropic and personal affairs as well as serving as the central repository of information on the family's wealth.

At the outset, stakeholder analysis will be the principal element to understand the requisite information and profile of the family. This can be done via interviews whereby the information obtained is consolidated into a family register. The idea is to have in depth understanding of the family profile including its business.

I. Family Background

The background of the family will shape the objectives and mandates of the FO. This will affect the required services and functions expected out of the FO. These are established after taking into consideration the background and interest of the family members and the total net worth of the family wealth which is determined by the variety and complexity of total family's assets.

II. Family Business

The demarcation area between the family business and its private wealth management activities needs to be identified so that there is a clear boundary between business and private wealth. The scope of the FO will then also be dependent on this demarcated areas. The office can facilitate the needed separation of family affairs from the family business' interests as it is managed by a dedicated team of professionals that are well versed with the intrinsic family risk profiling and investment appetite to better meet their needs.

III. Involvement

The third important area is the extent of the involvement of the wealth owner, patriarch or decision makers in the family which are usually being represented in the Board of Directors and the beneficiaries of the family' wealth.

It is not uncommon for family disputes to occur in matters relating to wealth transfer, particularly when different family members, or even generations, may have different and conflicting priorities In this regard, the formulation of family governance rules via an FO would allow prioritisation of the differing demands of the family members. The office therefore provides a set of structured rules that can serve as a basis to resolve disagreements within a family that, otherwise, can be disruptive for their wealth planning and succession.

IV. Type and Size of Clientele

The final consideration is the type and size of "clientele". This refers to the successive generations that the FO will be serving and also the size and number of family members who wish to be under the scope of the services of the FO. The required structure, mandate and lifespan of the FO would depend very much on the profiling and generational extent of the clientele.

With the recent global challenges such as the global economic crisis as well as the increasing regulation and investment malpractices, the following areas have to be thoroughly considered to ensure the sustainability of the FO:

- ***Conducive regulatory environment***

  Facilitative rules and regulations are required to ensure that FOs operate in a transparent and sound manner in the interest of its client families.

- ***Appropriate Investment strategies and risk management***

  Suitable investment parameters must be established to ensure that the investment strategies match the family's needs and objectives as well as commensurate to the FO's overall risk appetite.

- ***Well-defined governance and staffing***

  Effective governance structure with sufficient competent manpower is needed to ensure proper operations of the FO in effecting the mandate conferred by the family it is serving.

LABUAN FAMILY OFFICE SOLUTIONS

Labuan IBFC offers a multitude of options available for affluent families to consider in structuring their wealth management and succession. Labuan private trust company, a Labuan foundation or even capital market service providers are some of the possible FO solutions that are offered in the centre. The choice of these establishments will depend on the pecuniary preference and requirements of the prospective families. The following Labuan wealth management solutions have the needed features that made them suitable as a FO or part of its setup:

I. Labuan Private Trust Company (LPTC)

A LPTC is a legal entity established via the Labuan Financial Services and Securities Act 2010 (LFSSA) and registered with Labuan Financial Services Authority (Labuan FSA). In terms of the permitted activities, the LPTC may provide all trust company services accorded under the LFSSA but limited to a group of connected persons as depicted in ***Diagram 3***. As the LPTC is both statutorily recognised and permitted to offer a suite of trust and administrative services to a closed-end group, LPTC can be deemed to be a natural FO setup.

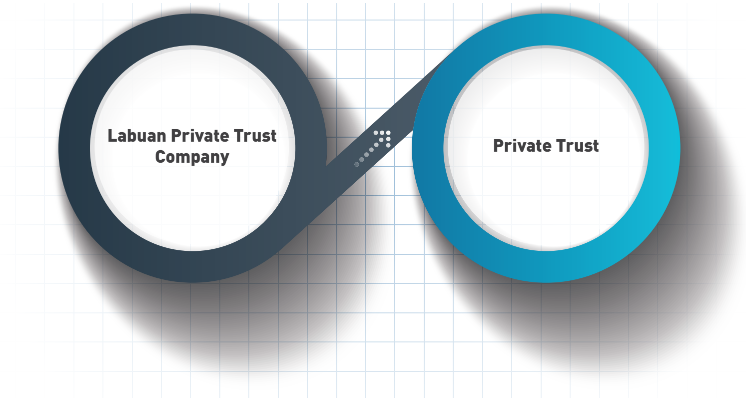
II. Labuan Foundation

A Labuan foundation is another dynastic succession vehicle that has increasingly becoming a preferred choice by potential investors of the centre. A Labuan foundation is established by the founder to hold and manage the endowed assets for the intended beneficiaries on a contractual basis. Governed by the Labuan Foundations Act 2010[1], there is a strong statutory firewall that protects the foundation and provides clarity in its functioning. As a separate legal entity by itself; the foundation is distinctive from its founder, its officers and its council; which makes this ideal as a FO. ***Diagram 4*** depicts the key components and typical operations of a Labuan foundation.

The benefits of establishing a FO via the LPTC or Labuan foundation (referred to as "the Labuan structures") are numerous which include the following:

(i) The Labuan structures allow the settlor/founder and the family to retain sufficient control over the affairs of the entities without compromising the validity of the trusts/foundation. The settlor/founder may decide to form the board of directors/council comprising members of his family as well as the family's trusted advisors. This allows the Labuan structures to be privy to the requisite knowledge of the family affairs, as well as be more emphatic to the needs of the intended beneficiaries;

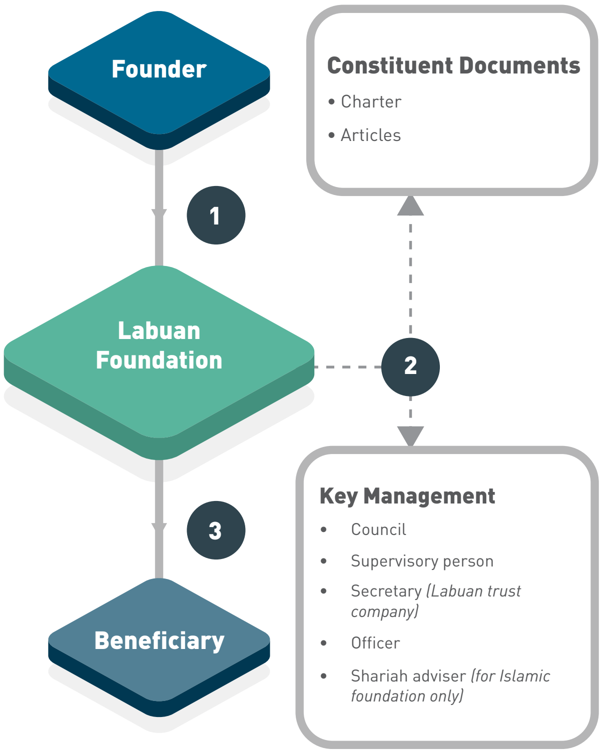
Diagram 3: LPTC structure and its permitted activities



PERMITTED ACTIVITIES FOR THE PURPOSE OF A PRIVATE TRUST CREATED BY A SETTLOR OR INDIVIDUALS **CONNECTED** TO THE SETTLOR

- Secretarial duties of the private trust
- Trustee services including review of trust instrument and the type of assets funding the trust, trust management and accounting services
- Being an agent, executor or administrator pursuant to the objective of the Labuan private trust company

Diagram 4: Operational Model of Labuan Foundation



1 Any **property endowed** to a Labuan foundation will cease to be the property of the founder and belong to that foundation thereafter

2 **Constituent documents** set out the parameters within which the foundation should be governed/managed. **Key management** refers to the officers that run the foundation

3 **Income** derived from the management of the property by the foundation will be distributed to beneficiary

1 For Labuan Islamic Foundation, these are governed by Labuan Islamic Financial Services and Securities Act 2010

(ii) Efficient decision making on closely-held family owned assets by involving multiple trusted advisors in which the need for advice could be obtained in a more timely manner; and

(iii) The Labuan structures provide the continuity that enables the FO to undertake wealth succession with great certainty:

(a) In respect of a LPTC, having it as the trustee of the family trusts will avoid the need for future changes in the trusteeship. The LPTC being the permanent trustee can adapt to the changing family circumstances over time without discontinuity concerns as opposed to the family having to rely on an independent trustee; and

(b) Similarly, Labuan foundation, as a body corporate recognised by law, is not bound to its founder(s) once it is established. In this regard, the foundation can be used as a perpetual vehicle to manage and transfer the family's wealth to the beneficiaries.

THE WAY FORWARD

Located strategically in the Asia Pacific region, Labuan IBFC is well positioned to serve the FO demands arising from the region, including China and India, particularly as the number of HNW individuals in the region is expected to increase more than half in the next five years. In addition, in view of the advances of the Islamic finance eco-system and infrastructure that Labuan and Malaysia can offer, Labuan IBFC would also be able to fulfil the demands arising from Middle Eastern affluent families for shariah compliant FO.

With the strategic geographical factor coupled with Labuan IBFC's plethora of business structures as well as the ongoing promotional efforts on the centre's wealth management, the future looks promising for Labuan IBFC to become the catalyst for the growing prominence of FOs in Southeast Asia and possibly a regional FO centre given time.

LABUAN IBFC'S INTERNATIONAL WAQF FOUNDATION:

INTEGRATING WAQF WITH INTERNATIONALLY RECOGNISED FOUNDATION LAWS

Labuan International Business and Financial Centre (Labuan IBFC) is the only midshore jurisdiction in Asia that offers conventional and Islamic wealth management solutions. Capitalising on this strength, in 2015, Labuan IBFC expanded further its wealth management product suite to incorporate the concept of "Waqf" (endowment in Islam) in a private foundation with the launch of the Labuan International Waqf Foundation (LIWF).

In essence, LIWF is an Islamic private foundation which holds and manages properties for identified beneficiaries based on the Shariah principles on waqf. It adopts the legal form of a foundation provided by the Labuan Foundations Act 2010. In this regard, Labuan IBFC is the first jurisdiction to revive the concept of waqf in wealth preservation and management using internationally recognised foundation laws. The distinct advantage of establishing a waqf using a foundation as its legal structure, is that it offers the founder (Waqif) legal certainty, thus allowing for proper control and management of the waqf in accordance with his wishes following the Shariah principles on waqf. In addition, it gives the founder flexibility and exclusive control over how to structure and wisely manage his waqf foundation, as well as how to distribute the benefits and preserve the assets over a long-term period.

LIWF has a unique characteristic of adhering to its specific objective of preserving the waqf property. The waqf property cannot be sold, mortgaged, given away as a gift or inherited. Only the income or usufruct can be distributed to the beneficiaries. When the beneficiaries are no longer in existence, the benefits of the waqf shall be distributed to charitable purposes as agreed by the Shariah adviser of the waqf foundation. In addition, LIWF recognises and honours the conditions of the founder in accordance with the Shariah principles on waqf. A distinct advantage of LIWF is that it provides for legal certainty as the LIWF is established based on the legal guidelines issued by Labuan FSA. Furthermore, Shariah compliance is endorsed by Labuan FSA's Shariah Supervisory Council (SSC), comprising leading Shariah scholars and practitioners. In Labuan IBFC, the rulings of the SSC can be used as reference in the court of law.

Different types of Waqf under LIWF

LIWF can be established for different types of waqf as illustrated in Figure 1:

Figure 1: Types of Waqf

Charitable waqf (al-waqf al-khayri)	Family waqf (al-waqf al-ahli)	Joint waqf (al-waqf al-mushtarak)	Self-dedicated waqf (al-waqf ala al-nafs)
Waqf income or usufruct dedicated for a charitable purpose	Waqf income or usufruct is reserved by the founder for specified family members and relatives. The income or usufruct of this kind of waqf is distributed to a charitable purpose when none of these persons exists	Waqf income or usufruct is shared accordingly between the family members and the specified beneficiaries for charitable purposes	The founder retains the income or usufruct of the waqf properties for him as long as he is still alive. After the death of the founder, the income or usufruct of the waqf is given to charitable purposes as specified by the founder

Structure of LIWF

Unlike a normal Shariah-compliant foundation where the endowment of assets by the founder into the Islamic foundation may be facilitated by way of hibah or hadiah (gift), in the case of LIWF, the endowment of the property must be executed by way of waqf as defined by Shariah principles. This can be done by indicating the intention of establishing the waqf in the charter (Waqfiyyah). Any property endowed to the LIWF is owned legally and beneficially by the waqf foundation. LIWF shall act as the trustee (nazir or mutawalli) of the waqf. The charter or Waqfiyyah of the LIWF shall form the basis to regulate and administer the LIWF in accordance with the Shariah principles on waqf. In terms of the governing law, LIWF may opt to be governed by Malaysian law or foreign law. In this regard, the preferred governing law and dispute resolution mechanism are provided in the charter of LIWF.

The key management of LIWF consists of a Shariah adviser, a supervisory person (as protector or guardian of the waqf foundation), an appointed council, officer and secretary. The management of the waqf foundation and its assets as well as the distribution of income to the identified beneficiaries shall comply with the Shariah principles on waqf. The properties endowed into LIWF are Shariah-compliant properties which may include:

- Real estate together with permanent furniture and fittings;
- Movable assets;
- Money or cash;
  In the case of money, the income generated from the utilisation of the money are spent on the waqf beneficiaries while the principal amount is retained.
- Shares and sukuk;
  For shares and sukuk, the income earned by the shares or sukuk are spent on the waqf beneficiaries.
- Rights that can generate income (for example intellectual property rights); or
- Other properties accepted by Shariah for waqf.

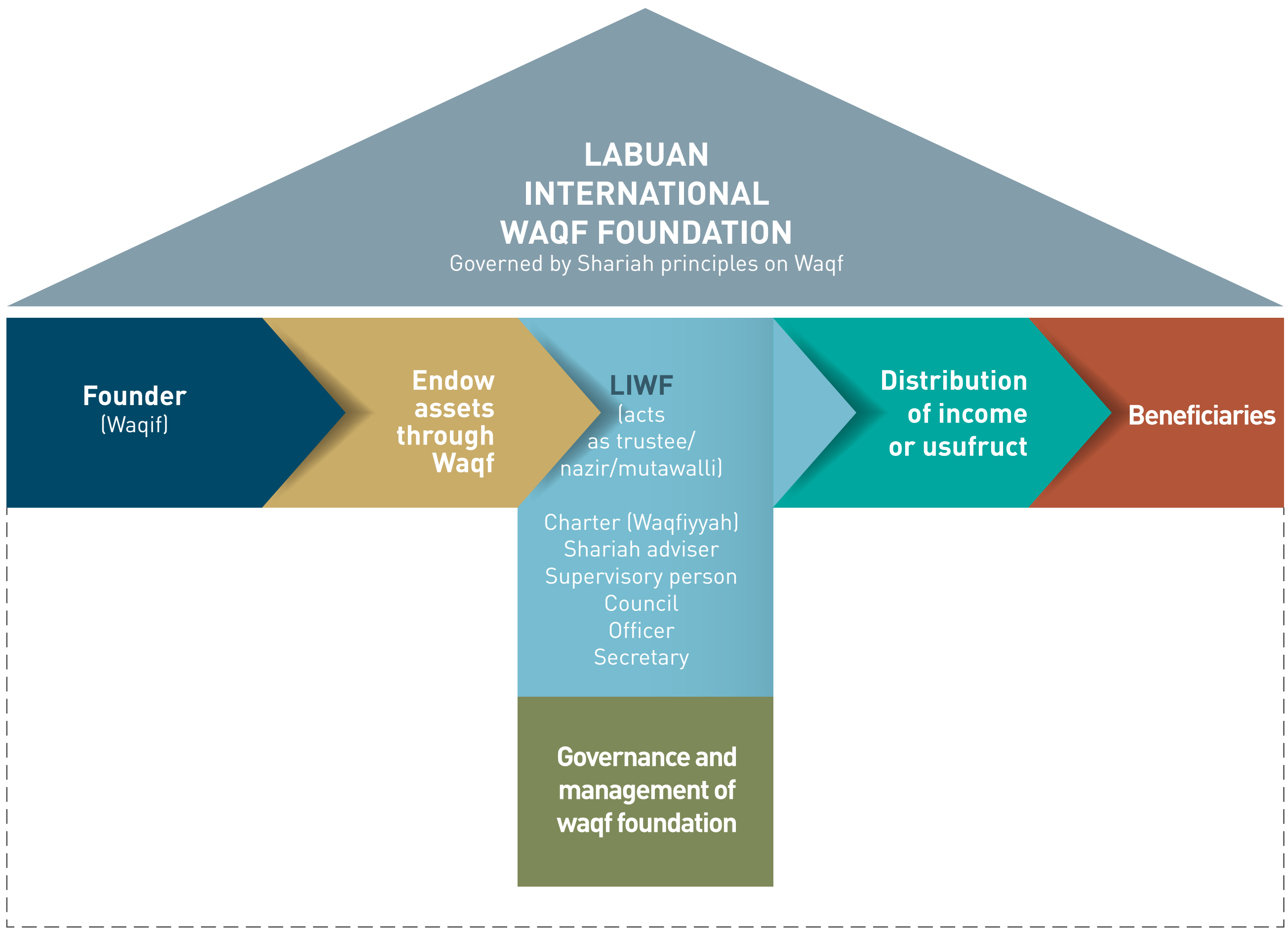
Given the strict Shariah principles on waqf management, there is a need for a strong and effective governance and management framework for LIWF. In this regard, the waqf foundation must ensure that the persons involved, directly or indirectly, in its management or operations are those with sufficient level of competency, integrity and credibility.

The respective roles and responsibilities of the founder, supervisory person, council member and officer of LIWF must be clearly defined and understood to ensure efficiency and accountability. The waqf foundation must act in good faith, with prudence and highest standard of care and loyalty, in the best interest of the founder and beneficiaries, maintain independence and objectivity as well as avoid conflict of interests.

In addition, there must be a clearly defined succession procedure for the waqf foundation. For example, in the absence of the founder, for any reason due to illness, legal incapacity or death, the supervisory person may be given the rights of the founder and may act on behalf of the founder. However, the supervisory person does not have the right to amend the waqfiyyah and/or to change the beneficiaries and distribution of income or usufruct to the beneficiaries chosen by the founder.

The structure of LIWF is illustrated in Figure 2 below:

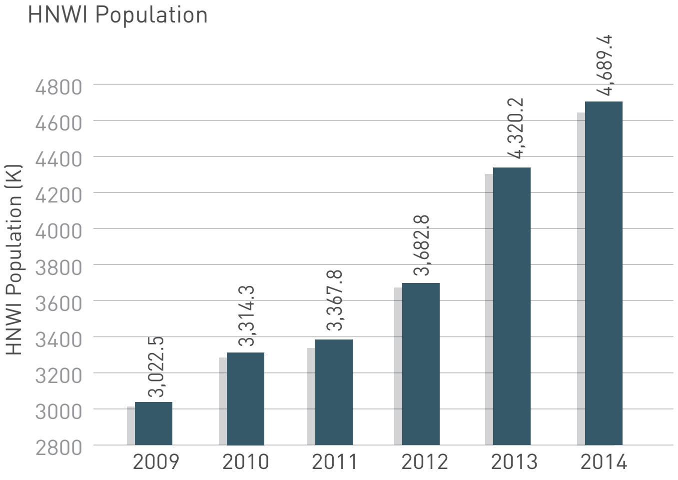
Figure 2: LIWF structure

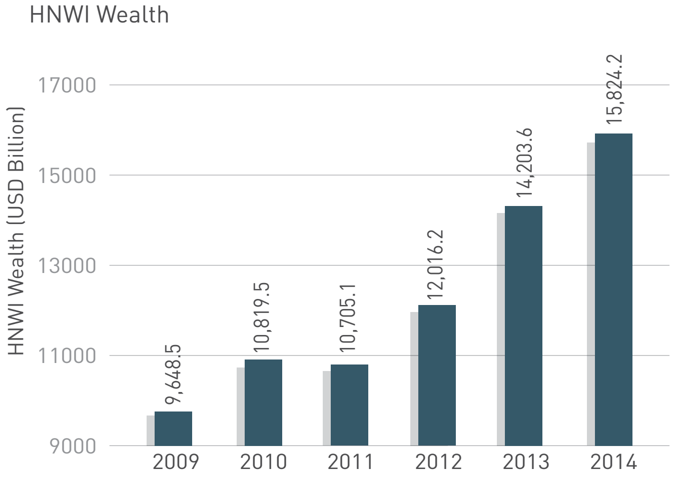


LIWF as vehicle for family succession planning

The integration of the concept of waqf with private foundations enhances the potential of waqf to play a more prominent role in family wealth preservation and succession planning for high net worth individuals (HNWIs). According to the World Wealth Report 2015, Asia Pacific recorded robust HNWI population and wealth growth rates of 8.5% and 11.4% respectively, the highest rates worldwide in 2014. Asia Pacific became the region with the highest HNWIs at 4.69 million with total wealth reaching USD15.8 trillion.

Figure 3: Rising HNWI population and wealth in Asia Pacific





Source: World wealth report https://www.worldwealthreport.com/reports/wealth/asia_pacific

The rising number of HNWIs in the Asia Pacific region highlights the growing importance of formal governance structures in managing wealth for inter-generational wealth transfer for the benefit of future generations. In adhering to the Shariah principles on waqf, LIWF has an in-built dimension of preserving the waqf property by protecting it from being sold, given away as a gift or inherited. This safeguards the waqf property from fragmentation arising from gift, sale or inheritance after the death of the founder. This will ensure that the waqf, for as long as it remains, depending on its life span, would continuously benefit the subsequent generations of the beneficiaries.

For the LIWF, upon the demise of the founder, Faraidh (Islamic inheritance law) is not applicable and relevant on the endowed properties into the LIWF provided that the endowment of the waqf property into the LIWF satisfies the following conditions:

- The endowment is done during the founder's lifetime;
- The endowment is made immediately and irrevocably;
- The endowment is made without any reserve power of the founder;
- The transfer of the ownership of the property is absolute; and
- The transfer has been accepted by the LIWF.

Faraidh is also not applicable where the founder manages the waqf property and receives remuneration for such management in the LIWF. However, if the founder is one of the beneficiaries in the LIWF, Faraidh is applicable and relevant on the portion of the waqf income that the founder is entitled to.

In this regard, LIWF established as a family waqf serves as an attractive vehicle for succession planning that enables a person to provide for the long term prosperity of his/her family members and their future generations. In a family waqf, the founder establishes a waqf for the benefit of his family members. The family members will be entitled to the income or usufruct from the waqf property as long as they are alive after which the waqf income or usufruct will be distributed to a charitable purpose for the benefit of the society. Alternatively, LIWF can also be established as a joint waqf where the founder would stipulate the percentage of the waqf income to be shared between the family members and the specified beneficiaries for charitable purposes. Essentially, a family waqf or joint waqf serves not only the religious and family objectives of the founder but also contributes to the socio-economic wellbeing of the society.

In conclusion, Labuan IBFC's international waqf foundation offers a unique value proposition as a highly effective vehicle for wealth preservation, estate management and dynamic succession.

CONSERVING STABILITY

ORGANISATIONAL DEVELOPMENT

ORGANISATIONAL DEVELOPMENT

CORPORATE SOCIAL RESPONSIBILITIES

Labuan FSA continues to organise and participate in corporate social responsibility (CSR) programmes that involve the Labuan community and other various stakeholders of the Labuan IBFC. For 2015, Labuan FSA continued to build upon its CSR pillars on community engagement and knowledge sharing to support the society that it co-exists. Activities organised for the year included donations; community and charitable events; educational and awards programmes as well as community-based events related to health and wellbeing awareness.

Community Engagement

To keep up with the tradition of helping the less fortunate, Labuan FSA had collaborated with the Welfare Department Labuan to donate basic essentials such as food, clothing, toiletries and healthcare products to more than 60 families of fire victims in Labuan. The employees of Labuan FSA had visited the fire victims and families at the fire evacuation centre. Donation was also given to the "Persatuan Malim Gunung" a mountain guides association to assist the mountain guides' livelihood affected by the earthquake in Sabah.

In 2015, the management and staff of Labuan FSA visited the Neonatal Intensive Care Unit of the Labuan Nukleus Hospital in conjunction with the festive month of the year. Hampers and cash packets were given to the children and mothers to ease financial burden of their families.

The Labuan FSA Day, a flagship CSR programme with its objectives to foster closer relationship with the local community in Labuan, was held in October to coincide with the 25th anniversary of the Labuan IBFC. A series of activities were organised to cater for all segments of the Labuan community. It was also for the very first time that the "Corporate Executive Run" was organised for Labuan IBFC industry players. The proceeds collected from the registration were channelled to several charitable organisations. Other than charity car boot sales, charity car wash was also organised by Labuan FSA's Staff Recreational and Welfare Club together with volunteers from Labuan FSA, Rotaract Club from the Universiti Malaysia Sabah and the Labuan International School, to raise funds for charity causes.

Knowledge Sharing

For education and awards programmes, Labuan FSA had sponsored the annual "Academic Students Excellence Award" for the primary and secondary students in Labuan as incentives to further motivate them to excel in their studies. Labuan FSA also engaged with the final year university students through sharing of Labuan IBFC financial industry knowledge and provided internship programmes to the students. Currently, there are also a number of management trainees attached under the Labuan FSA's Management Trainee Programme and upon completion of the programme, those who met the expected standards will be considered to be absorbed into the organisation.

Recognising the importance of talent development, Labuan FSA also organised several technical training programmes for the Labuan industry players to enhance their skills and competencies. Briefings and dialog sessions, especially on business and prudential issues were conducted for the Labuan IBFC industry aimed at broadening their knowledge and understanding on the subject. During the year, Labuan FSA had also conducted sharing session with the government agencies in Labuan as part of its efforts to update the development of the IBFC.

In addition to the above, Labuan FSA organised the Labuan IBFC 25th Anniversary Conference to mark the centre's 25 years of achievements. Two international speakers with global experience from the World Bank and Jersey Financial Services Commission were invited to deliver lectures titled *"Uneven Global Growth Recovery: Asia's Key Developments That will Shape The Global Economy and Prospects Moving Forward"* as well as *"The Evolution of International Financial Centres",* respectively. For the former, the lecture highlighted on the prospects of global economic growth in the advanced and emerging economies given the declining in oil prices and rate depreciation viz-a-viz the implications to the emerging Asia, such as ASEAN; while the latter discussed on the future and challenging roles of the international financial centres.

The Authority will continue to organise these programmes as part of its efforts to impart knowledge and sharing of information with the Labuan IBFC's stakeholders.

HUMAN RESOURCE MANAGEMENT AND DEVELOPMENT

The human resource management and development initiatives under the Labuan FSA's three-year Corporate Action Plan (2015 – 2017) continue to address the resources requirements and core competencies needed to ensure Labuan FSA can carry its mandates efficiently and effectively and to successfully achieve its long term goals. Attracting, developing and retaining talents that share Labuan FSA's mission and values remains a priority for the organisation.

Labuan FSA's Talents

As at end December 2015, the staff strength of Labuan FSA was 110, including seconded staff from other regulatory body to extend technical assistance and knowledge to staff of Labuan FSA. The organisation continued to ensure that it has sufficient workforce in the various departments including Strategic Development, Supervision and Monitoring, Legal/AML and Business Management as well as in the support areas such as Human Resources and Facilities Management. Attractive remuneration and benefits including the availability of continuous development programmes are in place to attract and retain talents with the right skills, experience and attitudes to become part of Labuan FSA's family.

In 2015, efforts were on-going to develop and retain employees with the aptitude and abilities to meet the critical current and future needs of the organisation. Labuan FSA had invested in developing its employees' by cultivating and providing avenues for continuously learning to improve their competency, productivity and performance.

In addition, various personal development programmes in the areas of communication, business presentations, grooming and etiquette and report writing were organised. These investments in training are important among others, to build confidence, corporate image and create positive relationship with internal and external stakeholders.

Learning and Development

Besides soft skill training, technical courses on supervisory and regulatory, financial stability, risk management, governance and market conduct as well as AML/CFT were conducted by international and domestic regulatory bodies, international associations, government agencies and reputable training providers to enhance the staff's knowledge and technical competencies. In 2015, three staff participated in a certification programme on investigations, while some attended various seminars and workshops on insurance, banking and wealth management to enhance their business knowledge.

ORGANISATIONAL DEVELOPMENT

Staff had also participated in e-learning programmes and webminars. Three staff successfully completed the online FSI-IAIS Regulatory and Supervisory Training, covering areas of insurance supervisory tools and techniques, risk management, corporate governance and conduct of business.

Labuan FSA continued to promote the culture of continuous learning and development to facilitate individual growth and development. It encourages staff to pursue their studies in higher education in line with their current roles and responsibilities. Education Assistance Programme was introduced and designed to award staff who have completed their qualifications while in service with Labuan FSA on reimbursement basis upon the completion of their paper qualifications.

In realising the mid and long-term objectives in succession planning management, Labuan FSA will continuously identifying potential successors within the organisation to be part of its pool of talent. In ensuring the readiness of the identified successors in leadership capability, these candidates were provided with leadership programmes including first level managers programme, developing others programmes as well as continuous coaching programmes.

In addition, as part of the succession planning process, Labuan FSA facilitates job rotation and deployment to enable them to attain more exposure and be responsible for new portfolios. Development of talents also includes stretch assignments and projects. A Performance Improvement Programme was also put in place to assist staff to improve their performance.

Shared Values

Labuan FSA reinforces its shared values to promote positive and proactive behaviour in the workplace through continuous formal and informal engagement with staff. As a result, staff have the insights of what are expected of them, and recognised the opportunities to improve themselves to meet the challenges.

Labuan FSA encourages the culture of developing others through knowledge sharing sessions on various topic of interests. The objective is to provide opportunities for staff to learn from their colleagues who are in-house subject matter experts on products and services as well as on regulatory and supervisory issues.

“Labuan FSA continued to promote the culture of continuous learning and development to facilitate individual growth and development”

Senior management also conducted a retreat to re-energise shared values and to build strong teamwork and collaboration. The retreat was followed by a teambuilding exercise to create greater bond among staff and departments and to encourage open communication environment and engagement by all staff. Key learnings and reflection during this session will continue to enhance the sense of teamwork within Labuan FSA.

Industry-wide Programmes

Labuan FSA has collaborated with selected professional training organisations to provide trainings to the industry players to raise the competency and knowledge to support the growing market demands in Labuan IBFC. The programmes conducted comprised knowledge on products and services, market conduct and governance, risk management and AML/CFT as well as general topic involving international centres and growth of Asia's major emerging markets and their potential influence. In addition, masterclasses on captive insurance, foundations, trusts, family office and trading of oil and gas programmes by the industry specialists were organised by the marketing arm of Labuan FSA, to provide in-depth knowledge to the service providers. The service providers also conducted their development programmes to keep abreast of up-to-date developments and requirements in their relevant fields.

LABUAN INTERNATIONAL SCHOOL

The involvement of Labuan FSA in managing and funding Labuan International School (LIS) is yet another example of its commitment to the Labuan community in providing a vital infrastructure and to enhance the educational aspect in the Labuan IBFC. The Authority's support of LIS is in line with the Government's initiatives to maximise the potentials and synergies of the IBFC with the establishment of other education centres and vocational institutions in Labuan.

The programmes offered by LIS:

- International School, with primary and secondary level education based on the International Curriculum, International General Certificate of Secondary Education (IGCSE) for foreign and national students;
- Sekolah Sri Labuan, a private school that offers both the Malaysian Integrated Primary School curriculum and Malaysian Integrated Secondary School curriculum; and
- Reception Manjaria, a pre-school for foreign and national children between four to six years old.

The support of the Malaysian Government has been and will continue to be critical to the development of LIS to becoming a reputable international education centre equipped with state-of-the-art facilities. In 2013, the Government had allocated funding for the construction of two hostel blocks with adjoining dining hall, as well as an Olympic-sized swimming pool with springboard diving facilities and a spectator stand. The construction was completed in end of December 2015.

ORGANISATIONAL DEVELOPMENT

LIS has been given full accreditation by the Cambridge International Examination which entitles LIS to conduct International Learning Programmes such as Checkpoint and IGCSE for Lower Secondary and Upper Secondary. As at to date, LIS has an approximate of 385 students comprising both local and foreign students. The student enrolment is expected to increase further concurrent with the planned expansion of the facilities with completion of new boarding facilities for the students.

"The MIND development focuses on meeting the needs of all students through programmes tailored for individual needs in open classrooms without boundaries"

LIS, in meeting with the desired standards, provides Primary and Secondary levels for both national and international syllabuses hence offering parents the choice of an alternative education for their children – an education for the world of global communication, innovations, creativities and opportunities.

Excellent academic achievement is one of LIS main objectives in its pursuit of attaining an education of a world-class standard for both primary and secondary schools. In this ever-challenging decade of the 21st century, it is important that today's children are educated to be well prepared in facing the world's new challenges, an era of no boundaries where the competition is global. LIS aims to develop modern thinkers in a 21st century learning environment where cultural understanding, communication, critical thinking, information literacy, arts appreciation and environmental responsibilities play important roles.

LIS also aspires to educate and nurture our future generation to be well developed in MIND, BODY and SOUL which fits the ideals of A Scholar, A Sportsman and A Gentleman. In line with its concept of "MIND, BODY & SOUL", LIS will continue to provide an all-round education curricular that strives to nurture well-rounded students.

The MIND development focuses on meeting the needs of all students through programmes tailored for individual needs in open classrooms without boundaries. The school has continuously embraced new ideas and state of the art technology and has embarked on a new Virtual Learning Environment platform - The Schoology, which is learner-centred one to one learning programme that engages personalisation of learning and developing long life learner skills.

LIS strongly believes that challenging the mind is the best way to achieve academic excellence in all LIS students.

Apart from the strong commitment of the academician in their daily interaction in the classrooms, LIS provides specialised Academic Intervention Programme to further challenge the mind of the children. Academic programmes such as Mastery Intensive Revision Programme and Remedial Classes are conducted throughout the year. Other programmes include special intervention programmes which are the Extensive English Programme and the Reading Programme both for secondary and lower primary students respectively. The examination classes are given top priority. These programmes will empower all academicians to monitor the child's progress and to be able to provide constructive advice to parents. This is an on-going effort to ensure that the children progress positively in their learning and produce excellent results in all internal and public examinations. LIS has also created opportunities for the students to challenge their mind through competitions such as debate which has been initiated through the Inter-School Debate Competition in 2015. In addition, public speaking workshops and scrabble competition were organised to nurture the mind of students.

LIS prides itself in the varieties of extra-curricular activities that it offers to build the strength of the BODY. Exciting expeditions namely Bronze, Silver, Gold, Platinum including Annual Campori ranging in their level of difficulties are offered throughout the year. These activities will instil leadership qualities, while demonstrating the importance of discipline and teamwork. Besides, the students have also been exposed to swimming as early as kindergarten. LIS was the champion in the Labuan inter-school swimming competition secondary level in 2015.

Teaching the children to be caring and compassionate towards others complements the ideas of challenging the MIND and building a strong BODY in every LIS children. LIS children are continually exposed to charity events in school. An annual charity drive is organised by Persatuan Anak Penyayang (PAP) LIS to help the needy and support cancer research in Malaysia through National Cancer Council Malaysia (MAKNA). Another activity which involve charity is through the Interact Club under the sponsorship of the Rotary Club.

For the year 2015, the management decided to continue to engage Cempaka Group (Cempaka) as its consultant to the 2nd year, providing services as an inspectorate to the school as well as training for the teachers. Apart from the training provided by Cempaka, the teaching capacity of the teachers were further enhanced by engaging with local university which provides part-time learning for the teachers to attain degree and master degree in education.

In future, the long-term aim is to create a new breed of truly all-rounded LIS students who embody Sportsmen & Gentlemen who are confident, poised with an ear for music, proficient in at least one musical instrument and have a growing appreciation for dance and vocal. Performing Arts have been integrated into both Primary and Secondary Schools curriculum. Many annual events, participated by all students to appreciate and nurture their talents, have been organised throughout the years such as Chinese New Year Celebration, Sports Day, Swimming Gala, Independence Day, Inter-School Debate, Blood Donation Campaign, Science & Mathematic Week 2015 and Year-end concert of 2015.

FINANCIAL STATEMENTS

2015

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF LABUAN FINANCIAL SERVICES AUTHORITY FOR THE YEAR ENDED 31 DECEMBER 2015

Report on the Financial Statements

The financial statements of Labuan Financial Services Authority and the Group have been audited by my representative, which comprise the Statements of Financial Position as at 31 December 2015, Statements of Profit Or Loss And Other Comprehensive Income, Statements of Changes in Reserves and Statements of Cash Flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Board's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements give a true and fair view of the financial position of Labuan Financial Services Authority and the Group as at 31 December 2015 and of their financial performance and cash flows for the year then ended in accordance with the approved financial reporting standards in Malaysia.

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

(DATIN PADUKA ONG SWEE LENG)
For AUDITOR GENERAL
MALAYSIA

PUTRAJAYA
13 MAY 2016

STATEMENT BY THE MEMBERS OF THE LABUAN FINANCIAL SERVICES AUTHORITY

We, **DR. ZETI AKHTAR AZIZ** and **AHMAD HIZZAD BAHARUDDIN**, being two of the Members of **LABUAN FINANCIAL SERVICES AUTHORITY**, state that, in the opinion of the Members of the Authority, the accompanying statements of financial position, statements of comprehensive income, statements of cash flows and statements of changes in reserves are properly 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 2015 and their financial performance and cash flows for the year then ended.

On behalf of the Members of the Authority.

DR. ZETI AKHTAR AZIZ
Chairman

AHMAD HIZZAD BAHARUDDIN
Director-General

Labuan, Malaysia
15 March 2016

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 statements of financial position, statement of comprehensive income, statements of cash flows and statements of changes in reserves as at 31 December 2015 are, to the best of my knowledge and belief, 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 15 March 2016

Before me,

COMMISSIONER FOR OATHS
L 006
NORMALA MAT JALI
MALAYSIA

LOT U0031 TING 1 JLN OKK AWG BESAR
P. O. BOX 81868, 87028 W. P. LABUAN, MALAYSIA
TEL (087) 416057, 416057,418057, 418057
FAX NO. 087-413057

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2015

		The Group		The Authority	
	Note	2015 RM	2014 RM	2015 RM	2014 RM
Revenue	4	**56,075,606**	54,894,882	**53,888,268**	52,737,945
Other operating income					
Government grant	14	**10,836,815**	13,743,071	**9,924,756**	13,537,394
Income from other investments	5	**2.440,666**	1,298,143	**2.440,666**	1,288,000
Other income	6	**1,556,776**	1,769,910	**1,319,604**	1,439,790
Other operating expense					
Staff costs	7	**(31,906,721)**	(31,192,007)	**(24,387,463)**	(21,808,393)
Depreciation of property, plant and equipment	9	**(2,361,667)**	(1,971,064)	**(2,009,202)**	(1,618,660)
Other expenses	6	**(24,835,184)**	(24,631,129)	**(34,069,699)**	(32,301,701)
Surplus before tax		**11,806,291**	13,911,806	**7,106,930**	13,274,375
Income tax expense	8	**–**	(209)	**–**	–
Net surplus for the year		**11,806,291**	13,911,597	**7,106,930**	13,274,375
Other comprehensive income, net of income tax		**–**	–	**–**	–
Total comprehensive surplus for the year		**11,806,291**	13,911,597	**7,106,930**	13,274,375
Total comprehensive surplus attributable to the Authority		**11,806,291**	13,911,597	**7,106,930**	13,274,375

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

STATEMENTS OF FINANCIAL POSITION

AS OF 31 DECEMBER 2015

		The Group		The Authority	
	Note	2015 RM	2014 RM	2015 RM	2014 RM
ASSETS					
Non-current assets					
Property, plant and equipment	9	**86,974,648**	76,243,601	**86,394,657**	75,543,338
Investment in subsidiary	10	**–**	–	**900,000**	900,000
Other receivables	11	**3,310,850**	6,447,490	**3,310,850**	6,447,490
		90,285,498	82,691,091	**90,605,507**	82,890,828
Current assets					
Fees and other receivables	11	**15,446,220**	15,236,530	**18,936,313**	19,028,570
Inventories	12	**142,109**	326,983	**–**	–
Cash and bank balances	13	**65,761,029**	60,465,762	**60,387,690**	52,749,858
		81,349,358	76,029,275	**79,324,003**	71,778,428
Total assets		**171,634,856**	158,720,366	**169,929,510**	154,669,256
RESERVES AND LIABILITIES					
Current liabilities					
Deferred income	14	**8,080,783**	17,338,523	**7,119,496**	15,465,177
Other payables	15	**17,386,499**	14,661,759	**21,404,599**	12,546,817
Government loans	16	**1,500,000**	1,500,000	**1,500,000**	1,500,000
Income tax payables		**–**	24	**–**	–
		26,967,282	33,500,306	**30,024,095**	29,511,994
Non-current liabilities					
Deferred income	14	**73,338,659**	64,197,436	**73,338,659**	64,197,436
Employee benefits	17	**–**	–	**–**	–
Government loans	16	**7,000,000**	8,500,000	**7,000,000**	8,500,000
		80,338,659	72,697,436	**80,338,659**	72,697,436
Total liabilities		**107,305,941**	106,197,742	**110,362,754**	102,209,430
Reserves					
Accumulated surplus		**64,328,915**	52,522,624	**59,566,756**	52,459,826
Total reserves and liabilities		**171,634,856**	158,720,366	**169,929,510**	154,669,256

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 2015

	Accumulated surplus RM
THE GROUP	
Opening balance at 1 January 2014	38,611,027
Net surplus for the year	13,911,597
Closing balance at 31 December 2014	52,522,624
Opening balance at 1 January 2015	**52,522,624**
Net surplus for the year	**11,806,291**
Closing balance at 31 December 2015	**64,328,915**
THE AUTHORITY	
Opening balance at 1 January 2014	39,185,451
Net surplus for the year	13,274,375
Closing balance at 31 December 2014	52,459,826
Opening balance at 1 January 2015	**52,459,826**
Net surplus for the year	**7,106,930**
Closing balance at 31 December 2015	**59,566,756**

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 2015

	The Group		The Authority	
	2015 RM	2014 RM	2015 RM	2014 RM
OPERATING ACTIVITIES				
Surplus before tax	11,806,291	13,911,806	7,106,930	13,274,375
Adjustments for:				
Unrealised gain on foreign exchange	(237,305)	(6,482)	(209,757)	(6,482)
Depreciation of property, plant and equipment	2,361,667	1,971,064	2,009,202	1,618,660
Utilisation of government grant	(10,836,815)	(13,743,071)	(9,924,756)	(13,537,394)
Gain on disposal of property, plant and equipment	(194)	(123,551)	(9,930)	(27,542)
Provision for long term employee benefits no longer required	–	(523,000)	–	(523,000)
Property, plant and equipment written off	49,274	18,223	49,274	1
Interest income from other investments and staff loans	(2,571,012)	(1,456,714)	(2,571,012)	(1,446,571)
Net fair value loss on other receivables	615,252	–	615,252	–
Allowance for impairment losses on fees and trade receivables recognised	3,627,669	3,855,425	3,617,135	3,785,955
Allowance for impairment losses on fees and trade receivables reversed	(2,984,877)	(3,704,502)	(2,856,532)	(3,667,501)
Amount owing by subsidiary companies written off	–	–	9,731	9,951
Fees and trade receivables written off	2,092,961	3,002,657	1,943,583	2,912,250
Inventories written off	134,163	–	–	–
Operating Surplus/(Deficit) Before Working Capital Changes	4,057,074	3,201,855	(220,880)	2,392,702
Changes in working capital:				
(Increase)/Decrease in:				
Fees and trade receivables	(2,069,535)	(3,095,892)	(2,158,600)	(3,117,650)
Other receivables	2,474,581	1,903,809	2,490,519	1,664,306
Inventories	50,711	(103,472)	–	–
Amounts due from subsidiaries	–	–	396,910	(462,732)
Increase/(Decrease) in:				
Fees received in advance	1,254,451	117,620	1,417,095	(45,024)
Refundable deposits	(87,415)	601,137	–	–
Other payables and accruals	1,557,704	(176,110)	4,390,687	(1,652,016)
Amount due to subsidiary	–	–	3,050,000	(1,750,478)
Cash Generated From/(Used In) Operating Activities	7,237,571	2,448,947	9,365,731	(2,970,892)
Income taxes paid	(24)	(2,827)	–	–
Interest received	130,346	158,571	130,346	158,571
Net Cash From/(Used In) Operating Activities	7,367,893	2,604,691	9,496,077	(2,812,321)

STATEMENTS OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

	The Group		The Authority	
	2015 RM	2014 RM	2015 RM	2014 RM
INVESTING ACTIVITIES				
Net increase in fixed deposits with maturity period of more than 3 months	(5,624,006)	(25,304,290)	(5,624,006)	(26,512,715)
Proceeds from disposal of plant and equipment	12,882	124,866	9,945	28,855
Additions of property, plant and equipment	(13,154,676)	(16,034,048)	(12,909,810)	(15,479,329)
Interest received	1,611,565	1,326,809	1,611,565	1,316,666
Net Cash Used In Investing Activities	(17,154,235)	(39,886,663)	(16,912,306)	(40,646,523)
FINANCING ACTIVITIES				
Government grant received	10,720,298	25,733,500	10,720,298	25,733,500
Repayment of government loans	(1,500,000)	(1,500,000)	(1,500,000)	(1,500,000)
Net Cash From Financing Activities	9,220,298	24,233,500	9,220,298	24,233,500
Net (decrease)/increase in cash and cash equivalents	(566,044)	(13,048,472)	1,804,069	(19,225,344)
Cash and cash equivalents at 1 January	12,589,768	25,631,758	4,873,864	24,092,726
Effect of exchange difference	237,305	6,482	209,757	6,482
Cash and cash equivalents at 31 December (Note 22)	12,261,029	12,589,768	6,887,690	4,873,864

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 2015

1. CORPORATE INFORMATION

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

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

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

2.2 Changes in accounting policies

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

On 1 January 2015, the Group and the Authority adopted the following new amendments to MFRS for annual financial periods beginning on or after 1 January 2015.

Amendments to MFRS 119	Defined Benefit Plans: Employee Contribution
Amendments to MFRSs	Annual Improvements to MFRSs 2010 - 2012 Cycle
Amendments to MFRSs	Annual Improvements to MFRSs 2011 - 2013 Cycle

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 Standards issued but not yet effective

The standards and interpretations that are issued but not yet effective up to the date of issuance of the Group and the Authority's financial statements are disclosed below. The Group and the Authority intend to adopt these standards, if applicable, when they become effective.

MFRS 9	Financial Instruments (IFRS 9 issued by IASB in July 2014)[1]
MFRS 14	Regulatory Deferral Accounts[2]
MFRS 15	Revenue from Contracts with Customers[1]
Amendments to MFRS 11	Accounting for Acquisition of Interest in Joint Operations[2]
Amendments to MFRS 101	Disclosure Initiative[2]
Amendments to MFRS 116 and MFRS 138	Clarification of Acceptable Methods of Depreciation and Amortisation[2]
Amendments to MFRS 116 and MFRS 141	Agriculture: Bearer Plants[2]
Amendments to MFRS 10, MFRS 128	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to MFRS 10, MFRS 12 and MFRS 128	Investment Entities: Applying the Consolidation Exception[2]
Amendments to MFRS 128	Equity Method in Separate Financial Statements[2]
Annual Improvements to MFRSs	Annual Improvements to MFRSs 2012-2014 Cycle[2]

1 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
2 Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.
3 Effective date deferred to a date to be determined and announced, with earlier application permitted.

The management expect that the adoption of the above standards and interpretations will have no material impact on the financial statements in the period of initial application.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.4 Basis of consolidation (cont'd.)

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

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

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

iii) Rights arising from other contractual arrangements; and

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

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

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

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.4 Basis of consolidation (cont'd.)

Business combinations (cont'd.)

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

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

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

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

2.5 Subsidiaries

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

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

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

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

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

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.6 Foreign currencies (cont'd.)

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

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

2.7 Revenue recognition

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

a) Fee income from business

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

b) Other fees

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

c) Interest income

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

d) Rental income

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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 favourable 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.9 Taxes (cont'd.)

b) Deferred tax (cont'd.)

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 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.12 Financial instruments

a) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial instrument and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Income and expense is recognised on an effective interest basis for debt instruments other than those financial assets and financial liabilities classified as at FVTPL.

b) Financial assets

i) Initial recognition and measurement

Financial assets within the scope of MFRS 139 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial assets are recognised initially at fair value plus transaction costs, in the case of assets not at fair value through profit or loss.

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

Financial assets of the Group and of the Authority are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

ii) Subsequent measurement

The subsequent measurement of financial assets of the Group and of the Authority described below:

<u>Loans and receivables</u>

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the profit or loss. The losses arising from impairment are recognised in the profit or loss in finance costs.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.12 Financial instruments (cont'd.)

b) Financial assets (cont'd.)

iii) Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; and
- The Group and the Authority have transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group and the Authority have transferred substantially all the risks and rewards of the asset, or (b) the Group and the Authority have neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group and the Authority have transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of it, the asset is recognised to the extent of the Group and the Authority's continuing involvement in it.

In such case, the Group and the Authority also recognise an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group and the Authority could be required to repay.

c) Impairment of financial assets

The Group and the Authority assess at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.12 Financial instruments (cont'd.)

c) *Impairment of financial assets (cont'd.)*

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group and the Authority first assess whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group and the Authority determine that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the profit or loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group and the Authority. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the profit or loss.

d) *Financial liabilities*

i) *Initial recognition and measurement*

Financial liabilities within the scope of MFRS 139 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group and the Authority determine the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, carried at amortised cost. This includes directly attributable transaction costs.

The Group and the Authority's financial liabilities include trade and other payables and loans and borrowings which are carried at amortised cost.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.12 Financial instruments (cont'd.)

d) Financial liabilities (cont'd.)

ii) Subsequent measurement

The measurement of financial liabilities of the Group and of the Authority is as follows:

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the profit or loss when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the profit or loss.

iii) Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the profit or loss.

e) Offsetting of financial instruments

Financial assets and financial liabilities are offset with the net amount reported in the statement of financial position only if there is a current enforceable legal right to offset the recognised amounts and an intent to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.13 Fair value measurement

The Group and the Authority measure financial instruments, such as, derivatives, and non-financial assets such as investment properties, at fair value at each reporting date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 21.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group and the Authority.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.13 Fair value measurement (cont'd.)

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.

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 categorisation (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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

General

Provisions are recognised when the Group and the Authority have a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group and the Authority expect some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the profit or loss net of any reimbursement.

2.17 Employee benefits

Defined contribution plans

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations. The Group makes contributions to the Employee Provident Fund in Malaysia, a defined contribution pension scheme. Contributions to defined contribution pension schemes are recognised as an expense in the period in which the related service is performed.

2.18 Cash and cash equivalents

The Group and the Authority adopt the indirect method in the preparation of the statements of cash flows. Cash equivalents are short-term, highly liquid investments with maturities of three months or less from the date of acquisition and are readily convertible to cash with insignificant risks of changes in value.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONT'D.)

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 other receivables

The Group and the Authority assesses at each reporting date whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Group and the Authority considers factors such as the probability of insolvency or significant financial difficulties of the receivables and default or significant delay in payments.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics.

b) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses and unabsorbed capital allowances to the extent that it is probable that taxable profit will be available against which the losses and capital allowances can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

4. REVENUE

	The Group		The Authority	
	2015 RM	2014 RM	2015 RM	2014 RM
Fee income	53,888,268	52,737,945	53,888,268	52,737,945
Other fees	2,187,338	2,156,937	–	–
	56,075,606	54,894,882	53,888,268	52,737,945

5. INCOME FROM OTHER INVESTMENTS

	The Group		The Authority	
	2015 RM	2014 RM	2015 RM	2014 RM
Interest received from:				
Fixed deposits	2,430,656	1,187,588	2,430,656	1,177,445
Money at call	10,010	110,555	10,010	110,555
	2,440,666	1,298,143	2,440,666	1,288,000

6. OTHER INCOME/(EXPENSES)

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

	The Group		The Authority	
	2015 RM	**2014 RM**	**2015 RM**	**2014 RM**
Interest income from staff loans:				
– Key management personnel	**12,887**	16,860	**12,887**	16,860
– Others	**117,459**	141,711	**117,459**	141,711
Rental income	**152,798**	276,762	**183,600**	205,890
Miscellaneous income	**778,426**	1,121,894	**510,451**	863,677
Gain on disposal of property, plant and equipment	**194**	123,551	**9,930**	27,542
Gain on foreign exchange:				
– Realised	**225,162**	–	**275,520**	–
– Unrealised	**237,305**	6,482	**209,757**	6,482
Provision for long term employee benefits no longer required	**–**	523,000	**–**	523,000
Allowance for impairment losses on fees and trade receivables reversed	**2,984,877**	3,704,502	**2,856,532**	3,667,501
Operational and marketing expenditure incurred under the government grant*	**(9,670,815)**	(12,577,071)	**(8,758,756)**	(12,371,394)
Audit fees:				
– Current year	**(66,590)**	(59,642)	**(24,836)**	(22,000)
– Underprovision in prior year	**(2,000)**	(16,000)	**–**	–
Rental of premises	**(2,087,445)**	(2,233,281)	**(1,745,925)**	(1,658,272)
Fees and trade receivable written off	**(2,092,961)**	(3,002,657)	**(1,943,583)**	(2,912,250)
Amount owing by subsidiary companies written off	**–**	–	**(9,731)**	(9,951)
Property, plant and equipment written off	**(49,274)**	(18,233)	**(49,274)**	(1)
Contributions to Labuan FSA Staff Welfare Fund	**(450,000)**	(400,000)	**(450,000)**	(400,000)
Lease of machinery and equipment	**(58,802)**	(57,034)	**(58,802)**	(48,360)
Tuition fees paid to a subsidiary	**–**	–	**(410,986)**	(379,892)
Allowance for impairment losses on fees and trade receivables recognised	**(3,627,669)**	(3,855,425)	**(3,617,135)**	(3,785,955)
Net fair value loss on other receivables	**(615,252)**	–	**(615,252)**	–
Inventories written off	**(134,163)**	–	**–**	–

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FOR THE YEAR ENDED 31 DECEMBER 2015

6. OTHER INCOME/(EXPENSES) (CONT'D.)

* These included the following expenditures:

	The Group		The Authority	
	2015 RM	2014 RM	2015 RM	2014 RM
Infrastructure for school building	(298,421)	(565,379)	(298,421)	(565,379)
Management fees	(458,766)	(546,435)	–	–
Operational expenses	(8,753,293)	(12,016,133)	–	–
Government grant expenses paid to subsidiaries	–	–	(8,300,000)	(12,356,891)
Global Takaful Group	(160,335)	(156,524)	(160,335)	(156,524)

7. STAFF COSTS

	The Group		The Authority	
	2015 RM	2014 RM	2015 RM	2014 RM
Staff costs*	31,906,721	31,192,007	24,387,463	21,808,393

* These included the following staff costs:

	The Group		The Authority	
	2015 RM	2014 RM	2015 RM	2014 RM
Members' remuneration:				
Executive	1,435,879	1,232,998	1,435,879	1,232,998
Non-executive	365,060	162,500	173,560	124,500
Other key management personnel compensation:				
Short term employee benefits	3,545,988	3,926,766	2,776,120	2,372,490
Employees Provident Fund	4,132,985	3,668,792	2,996,699	2,729,567

8. INCOME TAX EXPENSE

	The Group		The Authority	
	2015 RM	**2014 RM**	**2015 RM**	**2014 RM**
Statement of profit or loss and other comprehensive income:				
Malaysian income tax:				
Current tax	**–**	209	**–**	–

The Authority has been exempted from tax on all its income, other than dividend income, under the Income Tax (Exemption) (No.33) Order 1997 [PU(A) 221/97], Income Tax (Exemption) (Amendment) (No.2) Order 2003 [PU(A) 198/2003] and pursuant to Section 127(3A) of the Income Tax Act 1967 until the year of assessment 2011. On 18 February 2010, Ministry of Finance granted a further extension of ten years on the exemption period until the year of assessment 2020.

One of its subsidiaries, Labuan IBFC Incorporated Sdn. Bhd. has been granted tax exemption on all its income except for dividend income under Section 127(3A) of the Income Tax Act 1967 for an additional period of 5 years commencing year of assessment 2013 to 2017.

Income tax for other subsidiaries is calculated at the statutory tax rate of 25% (2014: 25%) of the estimated assessable profit for the year. The statutory tax rate will be reduced to 24% from the current year's rate of 25%, effective year of assessment 2016.

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 2015 and 2014 are as follows:

	The Group		The Authority	
	2015 RM	**2014 RM**	**2015 RM**	**2014 RM**
Surplus before tax	**11,806,291**	13,911,806	**7,106,930**	13,274,375
Taxation at Malaysian statutory tax rate of 25% (2014: 25%)	**2,951,572**	3,477,952	**1,776,733**	3,318,594
Effect of income not subject to tax	**(4,267,782)**	(4,812,511)	**(1,776,733)**	(3,318,594)
Effect of expenses not deductible for tax purposes	**1,486,976**	1,290,297	**–**	–
Reversal of temporary differences previously not recognised	**(272,167)**	(8,978)	**–**	–
Deferred tax assets not recognised	**101,401**	53,449	**–**	–
Tax expense for the year	**–**	209	**–**	–

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

8. INCOME TAX EXPENSE (CONT'D.)

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

	The Group	
	2015 RM	**2014 RM**
Provisions	**–**	1,070,495
Unutilised tax losses	**2,532,589**	2,110,084
Accelerated capital allowances	**69,076**	132,611
	2,601,665	3,313,190

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.

9. PROPERTY, PLANT AND EQUIPMENT

The Group	Leasehold land RM	Buildings RM	Motor vehicles RM	Computers RM	Furniture, fittings, office equipment and renovation RM	Work In Progress RM	Total RM
Cost							
At 1 January 2014	442,000	58,988,000	1,199,955	3,085,502	13,936,766	3,126,562	80,778,785
Additions	–	–	641,264	471,199	333,807	14,587,778	16,034,048
Disposals	–	–	(568,508)	(21,125)	(6,958)	–	(596,591)
Write off	–	–	–	(401,001)	(5,220,972)	–	(5,621,973)
Reclassification	–	–	–	(7,187)	7,187	–	–
At 31 December 2014/1 January 2015	442,000	58,988,000	1,272,711	3,127,388	9,049,830	17,714,340	90,594,269
Additions	–	–	–	779,399	425,575	11,949,702	13,154,676
Disposals	–	–	–	(198,110)	(8,066)	–	(206,176)
Write off	–	–	–	(572,910)	(374,651)	–	(947,561)
Reclassification	–	25,518,001	–	4,058,077	86,400	(29,662,478)	–
At 31 December 2015	442,000	84,506,001	1,272,711	7,193,844	9,179,088	1,564	102,595,208
Accumulated depreciation							
At 1 January 2014	7,772	1,921,395	1,055,620	2,648,891	12,944,942	–	18,578,620
Charge for the year	518	1,179,750	156,748	256,704	377,344	–	1,971,064
Disposals	–	–	(568,505)	(19,816)	(6,955)	–	(595,276)
Write off	–	–	–	(401,000)	(5,202,740)	–	(5,603,740)
At 31 December 2014/1 January 2015	8,290	3,101,145	643,863	2,484,779	8,112,591	–	14,350,668
Charge for the year	518	1,217,371	208,600	534,850	400,328	–	2,361,667
Disposals	–	–	–	(191,631)	(1,857)	–	(193,488)
Write off	–	–	–	(527,873)	(370,414)	–	(898,287)
At 31 December 2015	8,808	4,318,516	852,463	2,300,125	8,140,648	–	15,620,560
Carrying amounts							
At 31 December 2014	433,710	55,886,855	628,848	642,609	937,239	17,714,340	76,243,601
At 31 December 2015	433,192	80,187,485	420,248	4,893,719	1,038,440	1,564	86,974,648

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

9. PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

The Authority	Leasehold land RM	Buildings RM	Motor vehicles RM	Computers RM	Furniture, fittings, office equipment and renovation RM	Work In Progress RM	Total RM
Cost							
At 1 January 2014	442,000	58,988,000	494,653	2,596,137	5,614,674	3,126,562	71,262,026
Additions	–	–	461,863	385,444	44,244	14,587,778	15,479,329
Disposals	–	–	(194,591)	(21,125)	(5,110)	–	(220,826)
Write off	–	–	–	(401,001)	(1,028,064)	–	(1,429,065)
Reclassification	–	–	–	(7,187)	7,187	–	–
At 31 December 2014/1 January 2015	442,000	58,988,000	761,925	2,552,268	4,632,931	17,714,340	85,091,464
Additions	–	–	–	738,188	221,920	11,949,702	12,909,810
Disposals	–	–	–	(91,520)	–	–	(91,520)
Write off	–	–	–	(572,910)	(374,651)	–	(947,561)
Reclassification	–	25,518,001	–	4,058,077	86,400	(29,662,478)	–
At 31 December 2015	442,000	84,506,001	761,925	6,684,103	4,566,600	1,564	96,962,193
Accumulated depreciation							
At 1 January 2014	7,772	1,921,395	440,632	2,212,730	4,995,514	–	9,578,043
Charge for the year	518	1,179,750	78,048	209,168	151,176	–	1,618,660
Disposals	–	–	(194,589)	(19,817)	(5,107)	–	(219,513)
Write off	–	–	–	(401,000)	(1,028,064)	–	(1,429,064)
At 31 December 2014/1 January 2015	8,290	3,101,145	324,091	2,001,081	4,113,519	–	9,548,126
Charge for the year	518	1,217,371	137,311	474,561	179,441	–	2,009,202
Disposals	–	–	–	(91,505)	–	–	(91,505)
Write off	–	–	–	(527,873)	(370,414)	–	(898,287)
At 31 December 2015	8,808	4,318,516	461,402	1,856,264	3,922,546	–	10,567,536
Carrying amounts							
At 31 December 2014	433,710	55,886,855	437,834	551,187	519,412	17,714,340	75,543,338
At 31 December 2015	433,192	80,187,485	300,523	4,827,839	644,054	1,564	86,394,657

10. INVESTMENTS IN SUBSIDIARY

	The Authority 2015 RM	2014 RM
Unquoted shares, at cost	**900,000**	900,000

Name	Country of incorporation	Principal activities	Proportion (%) of ownership interest 2015	2014
Held by the Authority:				
LabuanFSA Incorporated Sdn. Bhd.*	Malaysia	Investment holding	**100**	100
Held through LabuanFSA Incorporated Sdn. Bhd.:				
Pristine Era Sdn. Bhd.*	Malaysia	Provision of educational services	**100**	100
Labuan IBFC Incorporated Sdn. Bhd.*	Malaysia	Provision of marketing and promoting services for Labuan International Business and Financial Centre	**100**	100

* The financial statements of the subsidiaries are not audited by the Auditor-General.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

11. FEES AND OTHER RECEIVABLES

	The Group		The Authority	
	2015 RM	**2014 RM**	**2015 RM**	**2014 RM**
Current				
Fees and trade receivables	**15,031,156**	15,054,582	**15,001,450**	14,786,433
Less: Allowance for impairment	**(2,817,945)**	(2,175,153)	**(2,807,411)**	(2,046,808)
Fees and trade receivables, net	**12,213,211**	12,879,429	**12,194,039**	12,739,625
Other receivables:				
Amount due from subsidiary	**–**	–	**4,049,068**	4,455,709
Staff housing loans	**286,199**	470,894	**286,199**	470,894
Staff vehicle loans	**115,350**	231,599	**115,350**	231,599
Staff advances/sundry debtors	**921,204**	585,418	**706,262**	337,023
Refundable deposits	**687,773**	683,003	**393,140**	430,566
Interest receivable	**1,405,042**	575,941	**1,405,042**	575,941
Prepayments	**30,028**	23,033	**–**	–
Others	**200**	–	**–**	–
	3,445,796	2,569,888	**6,955,061**	6,501,732
Less: Allowance for impairment	**(212,787)**	(212,787)	**(212,787)**	(212,787)
	3,233,009	2,357,101	**6,742,274**	6,288,945
	15,446,220	15,236,530	**18,936,313**	19,028,570
Non-current				
Other receivables:				
Staff housing loans	**2,813,377**	5,637,524	**2,813,377**	5,637,524
Staff vehicle loans	**497,473**	809,966	**497,473**	809,966
	3,310,850	6,447,490	**3,310,850**	6,447,490
Total fees and other receivables (current and non-current)	**18,757,070**	21,684,020	**22,247,163**	25,476,060

11. FEES AND OTHER RECEIVABLES (CONT'D.)

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	
	2015 RM	**2014 RM**	**2015 RM**	**2014 RM**
Neither past due nor impaired	**12,194,039**	12,739,625	**12,194,039**	12,739,625
More than 91 days past due not impaired	**19,172**	139,804	**–**	–
Impaired	**2,817,945**	2,175,153	**2,807,411**	2,046,808
	15,031,156	15,054,582	**15,001,450**	14,786,433

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 RM19,172 (2014: RM139,804) that are past due at the reporting date but not impaired.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

11. FEES AND OTHER RECEIVABLES (CONT'D.)

a) Fees and Trade Receivables (cont'd.)

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	
	2015 RM	2014 RM	2015 RM	2014 RM	2015 RM	2014 RM
The Group						
Fees and trade receivables – nominal amounts	**803,561**	785,285	**2,014,384**	1,389,868	**2,817,945**	2,175,153
Less: Allowance for impairment	**(803,561)**	(785,285)	**(2,014,384)**	(1,389,868)	**(2,817,945)**	(2,175,153)
	–	–	**–**	–	**–**	–
The Authority						
Fees and trade receivables – nominal amounts	**803,561**	716,675	**2,003,850**	1,330,133	**2,807,411**	2,046,808
Less: Allowance for impairment	**(803,561)**	(716,675)	**(2,003,850)**	(1,330,133)	**(2,807,411)**	(2,046,808)
	–	–	**–**	–	**–**	–

Movement in allowance account:

	The Group		The Authority	
	2015 RM	2014 RM	2015 RM	2014 RM
At 1 January	**2,175,153**	2,024,230	**2,046,808**	1,928,354
Impairment losses recognised	**3,627,669**	3,855,425	**3,617,135**	3,785,955
Impairment losses reversed	**(2,984,877)**	(3,704,502)	**(2,856,532)**	(3,667,501)
At 31 December	**2,817,945**	2,175,153	**2,807,411**	2,046,808

Fees and trade receivables that are individually determined to be impaired at the reporting date relate to debtors that have defaulted on payments.

11. FEES AND OTHER RECEIVABLES (CONT'D.)

b) Staff housing and vehicle loans

Staff housing and vehicle loans are repayable over a maximum period of 30 years and 9 years respectively (2014: 30 years and 9 year respectively). The interest charged on these loans ranges from 2% to 3% (2014: 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.

12. INVENTORIES

	The Group		The Authority	
	2015 RM	**2014 RM**	**2015 RM**	**2014 RM**
At cost:				
Books and stationeries	**149,453**	193,473	**–**	–
Uniforms, fabrics and t-shirts	**126,819**	133,510	**–**	–
	276,272	326,983	**–**	–
Inventories written off	**(134,163)**	–	**–**	–
	142,109	326,983	**–**	–

During the year, the amount of inventories recognised as an expense in the statements of profit or loss of the Group was RM183,153 (2014: RM227,688).

13. CASH AND BANK BALANCES

	The Group		The Authority	
	2015 RM	**2014 RM**	**2015 RM**	**2014 RM**
Cash on hand and at banks	**7,617,529**	12,589,768	**2,244,190**	4,873,864
Fixed deposits with licensed banks	**58,143,500**	47,875,994	**58,143,500**	47,875,994
Cash and bank balances	**65,761,029**	60,465,762	**60,387,690**	52,749,858

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 2015 for the Group and the Authority were 3.60% (2014: 3.66%) per annum with maturity period of 30 to 365 days (2014: 365 days).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

13. CASH AND BANK BALANCES (CONT'D.)

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

	The Group		The Authority	
	2015 RM	2014 RM	2015 RM	2014 RM
Cash at banks:				
United States Dollar	199,330	1,481,139	199,330	1,481,139
Hong Kong Dollar	185,962	213,511	–	–
Fixed deposits with licensed banks:				
United States Dollar	643,500	–	643,500	–

14. DEFERRED INCOME

Deferred income comprises the followings:

		The Group		The Authority	
		2015 RM	2014 RM	2015 RM	2014 RM
Grant related to income	(a)	6,501,708	16,172,523	5,540,421	14,299,177
Grant related to assets	(b)	74,917,734	65,363,436	74,917,754	65,363,436
		81,419,442	81,535,959	80,458,175	79,662,613

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 RM10,836,815 and RM9,924,756 (2014: RM13,743,071 and RM13,537,394) respectively.

The expected utilisation of the grants as at 31 December 2015 are as follows:

	The Group		The Authority	
	2015 RM	2014 RM	2015 RM	2014 RM
Within 12 months	8,080,783	17,338,523	7,119,496	15,465,177
After 12 months	73,338,659	64,197,436	73,338,659	64,197,436
	81,419,442	81,535,959	80,458,155	79,662,613

14. DEFERRED INCOME (CONT'D.)

a) Grant related to income

During the year, the Group and the Authority received a government grant of RM Nil (2014: RM15,800,000) from the Ministry of Finance for the purpose of projects to be undertaken by the Authority under the Tenth Malaysia Plan.

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	
	2015 RM	2014 RM	2015 RM	2014 RM
At 1 January	16,172,523	12,949,594	14,299,177	10,870,571
Received during the financial year	–	15,800,000	–	15,800,000
Less: Recognised in profit or loss	(9,670,815)	(12,577,071)	(8,758,756)	(12,371,394)
At 31 December	6,501,708	16,172,523	5,540,421	14,299,177

b) Grant related to assets

During the year, the Group and the Authority received a government grant of RM10,720,298 (2014: RM9,933,500) from the Ministry of Finance for the construction of a school building.

The grant related to assets is recognised in the statements of profit or loss over the estimated useful lives of the school building.

	The Group		The Authority	
	2015 RM	2014 RM	2015 RM	2014 RM
Grant related to assets:				
At 1 January	68,233,500	58,300,000	68,233,500	58,300,000
Received during the financial year	10,720,298	9,933,500	10,720,298	9,933,500
At 31 December	78,953,798	68,233,500	78,953,798	68,233,500
Cumulative credits:				
At 1 January	(2,870,064)	(1,704,064)	(2,870,064)	(1,704,064)
Credited to statements of profit or loss during the year	(1,166,000)	(1,166,000)	(1,166,000)	(1,166,000)
At 31 December	(4,036,064)	(2,870,064)	(4,036,064)	(2,870,064)
Net carrying amount:				
Current	1,579,075	1,166,000	1,579,075	1,166,000
Non-current	73,338,659	64,197,436	73,338,659	64,197,436
	74,917,734	65,363,436	74,917,734	65,363,436

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FOR THE YEAR ENDED 31 DECEMBER 2015

15. OTHER PAYABLES

	The Group		The Authority	
	2015 RM	2014 RM	2015 RM	2014 RM
Amount due to a subsidiary	–	–	6,042,479	2,992,479
Fees received in advance	8,638,868	7,384,417	8,638,868	7,221,773
Refundable deposits	1,413,722	1,501,137	900,000	900,000
Retention payables	1,064,203	–	1,064,203	–
Accruals	2,256,330	1,825,703	1,272,721	638,535
Others	4,013,376	3,950,502	3,486,328	794,030
Total other payables	17,386,499	14,661,759	21,404,599	12,546,817

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.

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	
	2015 RM	2014 RM
Within 12 months	1,500,000	1,500,000
After 12 months	7,000,000	8,500,000

17. EMPLOYEE BENEFITS

Movements in the liability for other long term employee benefits:

	The Group and The Authority	
	2015 RM	**2014 RM**
At 1 January	**–**	523,000
Recognised in profit or loss	**–**	(523,000)
At 31 December	**–**	–

<u>Assumptions</u>

Principal assumptions at the reporting date:

	The Group and The Authority	
	2015 %	**2014 %**
Discount rate	**–**	–
Future salary increases	**–**	–

The liability for other long term employee benefits is in respect of staff entitlement to set aside unutilised annual leave for the purpose of conversion into cash at the time of retirement.

Other long term benefit is calculated based on the number of unutilised leave available of each entitled staff as at reporting and the present value of last drawn salary of each entitled staff. The increment rate of future salary is calculated based on the average yearly increment rate of future salary of each entitled staff after taking into consideration of the increment as a result of promotion.

The discount rate at reporting date is the market yield at the reporting date on high quality corporate bonds or government bonds.

The Authority has ceased the employment benefit scheme in 2014.

18. CAPITAL COMMITMENTS

	The Group and The Authority	
	2015 RM	**2014 RM**
Approved and not contracted for office renovation	**2,539,027**	–
Approved and contracted for school building	**–**	13,410,000

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

19. LEASE COMMITMENTS

As of the end of the financial period, lease commitment in respect of rental of premise is as follows:

	The Group and The Authority	
	2015 RM	**2014 RM**
Financial year ended 31 December:		
2015	**–**	1,665,472
2016	**1,339,763**	191,733
2017	**1,102,847**	–
	2,442,610	1,857,205

20. RELATED PARTIES DISCLOSURES

a) Services rendered

In addition to the related party information disclosed elsewhere in the financial statements, the following significant transactions between the Group and the Authority and related parties took place at terms agreed between the parties during the financial year:

	The Group		The Authority	
	2015 RM	**2014 RM**	**2015 RM**	**2014 RM**
Rental income received from a subsidiary	**–**	–	**120,000**	120,000
Tuition fees paid to a subsidiary	**–**	–	**(410,986)**	(379,892)
Contribution to Labuan Financial Services Authority Staff Welfare Fund	**(450,000)**	(400,000)	**(450,000)**	(400,000)
Project expenses under RMK10	**–**	–	**(8,300,000)**	(12,356,891)
Marketing fees paid to a subsidiary	**–**	–	**(9,800,000)**	(5,500,000)

For the purposes of these financial statements, parties are considered to be related to the Group and the Authority if the Group and the Authority has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Authority and the party are subject to common control or common significant influence.

20. RELATED PARTIES DISCLOSURES (CONT'D.)

b) Transactions with key management personnel

	The Group and The Authority	
	2015 RM	**2014 RM**
Outstanding staff loans owing by key management personnel:		
Staff housing loans	**370,774**	640,370
Staff vehicle loans	**28,335**	79,176
	399,109	719,546

21. FINANCIAL INSTRUMENTS

The operations of the Group and the Authority are subject to a variety of financial risks, including credit risk and liquidity risk. The Group and the Authority has agreed to formulate a financial risk management framework with the principal objective to minimise the Group and the Authority's exposure to risks and/or costs associated with the financing, investing and operating activities of the Group and the Authority.

Various risk management policies are made and approved by the Group and the Authority for observation in the day-to-day operations for the controlling and management of the risks associated with financial instruments.

a) Credit risk

The financial instruments which potentially subject the Group and the Authority to credit risk are fee receivables. Concentration of credit risk with respect to fee receivables is limited due to a large number of Labuan companies in various industries. The Authority is of the opinion that the risk of incurring material losses in excess of the allowance for impairment loss made at year end related to this credit risk is remote.

b) Interest risk

Interest rate risk is the risk that the fair value or future cash flows of the Authority's financial instruments will fluctuate because of changes in market interest rates. The management is of the opinion that the Authority's exposure to interest rate risk as of 31 December 2015 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.

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FOR THE YEAR ENDED 31 DECEMBER 2015

21. FINANCIAL INSTRUMENTS (CONT'D.)

c) Foreign currency risk (cont'd.)

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	
	2015 RM	2014 RM	2015 RM	2014 RM
United States Dollar	84,283	141,813	84,283	141,813
Hong Kong Dollar	18,596	21,351	–	–

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.

21. FINANCIAL INSTRUMENTS (CONT'D.)

d) Liquidity risk (cont'd.)

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.

The Group

2015	On demand or within one year RM	One year to five years RM	Over five years RM	Total RM
Non-derivative financial assets:				
Fees and other receivables	15,416,192	1,434,595	2,491,507	19,342,294
Cash and bank balances	65,761,029	–	–	65,761,029
Total undiscounted non-derivative financial assets	81,177,221	1,434,595	2,491,507	85,103,323
Non-derivative financial liabilities:				
Government loans	1,500,000	6,500,000	500,000	8,500,000
Other payables	8,747,631	–	–	8,747,631
Total undiscounted non-derivative financial liabilities	10,247,631	6,500,000	500,000	17,247,631
Total net undiscounted non-derivative financial assets/(liabilities)	70,929,590	(5,065,405)	1,991,507	67,855,692

The Authority

2015	On demand or within one year RM	One year to five years RM	Over five years RM	Total RM
Non-derivative financial assets:				
Fees and other receivables	18,936,313	1,434,595	2,491,507	22,862,415
Cash and bank balances	60,387,690	–	–	60,387,690
Total undiscounted non-derivative financial assets	79,324,003	1,434,595	2,491,507	83,250,105
Non-derivative financial liabilities:				
Government loans	1,500,000	6,500,000	500,000	8,500,000
Other payables	12,765,731	–	–	12,765,731
Total undiscounted non-derivative financial liabilities	14,265,731	6,500,000	500,000	21,265,731
Total net undiscounted non-derivative financial assets/(liabilities)	65,058,272	(5,065,405)	1,991,507	61,984,374

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

21. FINANCIAL INSTRUMENTS (CONT'D.)

d) Liquidity risk (cont'd.)

Analysis of financial instruments by remaining contractual maturities (cont'd.)

	The Group			
2014	**On demand or within one year RM**	**One year to five years RM**	**Over five years RM**	**Total RM**
Non-derivative financial assets:				
Fees and other receivables	15,213,497	2,359,920	4,087,570	21,660,987
Cash and bank balances	60,465,762	–	–	60,465,762
Total undiscounted non-derivative financial assets	75,679,259	2,359,920	4,087,570	82,126,749
Non-derivative financial liabilities:				
Government loans	1,500,000	6,500,000	2,000,000	10,000,000
Other payables	7,277,342	–	–	7,277,342
Total undiscounted non-derivative financial liabilities	8,777,342	6,500,000	2,000,000	17,277,342
Total net undiscounted non-derivative financial assets/(liabilities)	66,901,917	(4,140,080)	2,087,570	64,849,407

	The Authority			
2014	**On demand or within one year RM**	**One year to five years RM**	**Over five years RM**	**Total RM**
Non-derivative financial assets:				
Fees and other receivables	19,028,570	2,359,920	4,087,570	25,476,060
Cash and bank balances	52,749,858	–	–	52,749,858
Total undiscounted non-derivative financial assets	71,778,428	2,359,920	4,087,570	78,225,918
Non-derivative financial liabilities:				
Government loans	1,500,000	6,500,000	2,000,000	10,000,000
Other payables	5,325,044	–	–	5,325,044
Total undiscounted non-derivative financial liabilities	6,825,044	6,500,000	2,000,000	15,325,044
Total net undiscounted non-derivative financial assets/(liabilities)	64,953,384	(4,140,080)	2,087,570	62,900,874

21. FINANCIAL INSTRUMENTS (CONT'D.)

d) Liquidity risk (cont'd.)

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 other receivables classified as loans and receivables as follows:

	The Group and The Authority	
	2015 RM	**2014 RM**
Loans and receivables carried at fair value		
Staff housing and vehicle loans	**3,712,399**	6,949,728

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			
2015	**Level 1 RM**	**Level 2 RM**	**Level 3 RM**	**Total RM**
Staff housing and vehicle loans	**–**	**3,712,399**	**–**	**3,712,399**

	The Group and The Authority			
2014	**Level 1 RM**	**Level 2 RM**	**Level 3 RM**	**Total RM**
Staff housing and vehicle loans	–	6,949,728	–	6,949,728

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 2015

22. CASH AND CASH EQUIVALENTS

	The Group		The Authority	
	2015 RM	**2014 RM**	**2015 RM**	**2014 RM**
Cash on hand and at bank	**7,617,529**	12,589,768	**2,244,190**	4,873,864
Fixed deposits placed with licensed banks	**58,143,500**	47,875,994	**58,143,500**	47,875,994
	65,761,029	60,465,762	**60,387,690**	52,749,858
Less: Fixed deposits with maturity period of more than 3 months	**(53,500,000)**	(47,875,994)	**(53,500,000)**	(47,875,994)
Cash and cash equivalents for statements of cash flows purposes	**12,261,029**	12,589,768	**6,887,690**	4,873,864

23. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.

	As previously stated RM	**Reclassification RM**	**As reclassified RM**
The Group			
Statements of Financial Position			
Current Assets			
Fees and other receivables	15,563,513	(326,983)	15,236,530
Inventories	–	326,983	326,983
Current liabilities			
Deferred income	27,272,023	(9,933,500)	17,338,523
Non-current liabilities			
Deferred income	54,263,936	9,933,500	64,197,436
The Authority			
Statements of Profit or Loss and Other Comprehensive Income			
Staff costs	21,428,502	379,891	21,808,393
Other expenses	32,681,592	(379,891)	32,301,701
Statements of Financial Position			
Current liabilities			
Deferred income	25,398,677	(9,933,500)	15,465,177
Non-current liabilities			
Deferred income	54,263,936	9,933,500	64,197,436

24. AUTHORISATION OF FINANCIAL STATEMENTS FOR ISSUE

The financial statements were authorised for issue by the Members of the Authority on 15 March 2016.