



A N N U A L R E P O R T
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MISSION STATEMENT

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

CORPORATE VALUES

INTEGRITY, COMMITMENT & PROFESSIONALISM
OPEN & HONEST COMMUNICATION
TEAMWORK
BUSINESS & STAKEHOLDER ORIENTED
CONTINUOUS LEARNING



CHAIRMAN'S STATEMENT

AS 2019 COMES TO A CLOSE, IT MARKS MY SERVING LABUAN FSA FOR 24 YEARS SINCE 1996, FIRST AS A MEMBER OF THE AUTHORITY AND SUBSEQUENTLY AS CHAIRMAN. WITH MY PENDING RETIREMENT, I AM GRATEFUL FOR THE OPPORTUNITY TO BE ABLE TO CONTRIBUTE TO THE ORGANISATION AND THE CENTRE. ONE COULD SAY THAT IT IS A FORM OF NATIONAL SERVICE ON MY PART. I HAVE BEEN FORTUNATE TO HAVE WITNESSED THE AMAZING PROGRESSION AND TRANSFORMATION OF LABUAN IBFC OVER THE YEARS; EVOLVING FROM A NASCENT OFFSHORE FINANCIAL MARKET INTO A THRIVING INTERNATIONAL BUSINESS AND FINANCIAL CENTRE THAT WE SEE TODAY.

The many achievements of Labuan IBFC have been made possible because of the unwavering commitment of the Government, the trust and confidence of the industry and investors, the hard work and dedication of the staff of Labuan FSA, as well as the strong support of other stakeholders, for which I am deeply appreciative of.

DATUK OH CHONG PENG
Chairman

CHAIRMAN'S STATEMENT

Being involved in the development of Labuan IBFC since its early years, I would admit that the growth path as an IBFC had not been easy. Over the course of 29 years, Labuan IBFC has endured and managed through financial crisis, economic turmoil and challenging business landscape changes. But the journey has been a superb source of learning experiences and has created a large pool of institutional knowledge and memory as well as wisdom that will serve Labuan FSA well in effectively carrying out its roles and functions for the future. Labuan FSA has embarked on various strategic initiatives to nurture the Centre which ranged from regulatory and legislative enhancements, rebranding and repositioning, business and process re-engineering, technological innovation to talent enrichments – all these were undertaken for the Centre to remain relevant and competitive in the ever-changing international business and regulatory environment.

We have come very far indeed and I am proud to say that Labuan IBFC has maintained its status and reputation as one of the prominent international centres within Asia. As the Centre continues its growth trend, I am confident that the Centre with its strong foundation in many aspects, will not only persevere through future challenges but also ready to tap on new business opportunities in the years to come.

After three decades of establishment, Labuan IBFC has moved into a matured phase. This is evident by the increased business volume and diversified financial offerings, wide client base as well as good network of professionals that are present in the Centre. The agility of Labuan FSA and the market players in adapting to shifting business landscape and evolving market demands, have enabled the Centre to respond with

innovative solutions to weather the changes. Indeed, a good measure of a successful financial centre is the presence of many and diversified industry players. Labuan IBFC is home to more than 6,000 active companies which includes top-ranked financial institutions comprising 59 banks, 219 insurance companies, 61 trust companies, about 300 leasing companies and 44 commodity trading companies. More importantly, the industry players have exhibited robust managerial and business qualities over the years culminating in a thriving financial market which is indicated in the market performance for 2019. I am proud to share the results and achievements of 2019, which had been another eventful and positive year for Labuan IBFC. We have continued to record encouraging growth with higher incorporations and more expansion on international business. The business and regulatory policies that have been put in place continued to be effective in sustaining the business and market of Labuan IBFC.

Indeed, the most eventful change for 2019 was the overhaul of the tax regime for Labuan IBFC. The revised tax framework is necessary for a more sustainable business environment for the Centre and to comply with the requirements of the OECD Base Erosions and Profit Shifting (BEPS) standards. Although there are still outstanding implementation issues to be addressed such as the gazetting of the regulations, I trust with the support of the Ministry of Finance and the Inland Revenue Board, the issues will be expediently resolved to enable the industry players to operate under a more clarified and certain tax framework.

In addition to intensifying business expansion, Labuan FSA has over the years continued to diligently play its

supervisory and regulatory role to ensure that the soundness and stability of the market are always preserved. Through expanding its international network and maintaining close ties with its regulatory peers in other jurisdictions, Labuan FSA has managed to ensure that the rules and regulations for Labuan IBFC are on par with other jurisdictions. Labuan FSA has also continued to engage with other regulators through the sharing of information in the prevention of any cross-border crimes. Through these efforts, I am proud that Labuan IBFC has achieved positive ratings in international assessments conducted by multilateral organisations over the years.

While Labuan IBFC has achieved many significant milestones, more importantly is its contributions to Labuan Island. Its economic contributions have been significant for example, almost 6,000 people are being employed by Labuan entities. It is the largest employer in Labuan compared to other industries. The Centre's employment size is expected to further increase when the economic substance requirement under the new fiscal regime is fully implemented in the coming years. This will foster even more employment opportunities particularly for the local people and boost economic activities on the Island. The other economic spin-offs to the Island include infrastructural developments, local spending, to the extent that more than fifty percent of the GDP of Labuan is attributed to the financial sector. It has always been in the agenda of Labuan FSA to ensure that Labuan IBFC contributes to the economic well-being of Labuan.

I am also proud of the dedication and contribution made by the staff of Labuan FSA and the Labuan IBFC industry in fulfilling corporate social responsibilities

CHAIRMAN'S STATEMENT

for the Labuan community. I am glad to see the fruitful collaborations made to undertake many Labuan community projects in the areas of education, environmental preservation and social programmes to assist those in need. Let us applaud this spirit of togetherness, such as the cooperation between Labuan FSA and the industry in establishing a fund to provide reliefs to the frontliners and the underprivileged groups in the Island during the Covid-19 pandemic. At the same time, Labuan FSA, as part of its corporate social responsibilities, will continue to support the running of Labuan International School (LIS) to ensure LIS remains the premier institution in providing good education for the youth in Labuan.

Looking ahead, we are all in unprecedented times resulting from the Covid-19 pandemic. There are new norms to adopt and new challenges to surpass. The business landscape is fraught with uncertainties and appropriate strategies need to be formulated to take on the future. However, as I pass on the Chairmanship torch to my successor, I am confident and optimistic for Labuan IBFC's future, and foresee that the Centre will achieve even greater heights moving forward. The foundation has been built for continual success of Labuan IBFC.

In closing, I would like to take this opportunity to thank my fellow Authority members for their dedication and support rendered to the Board. My deep appreciation to Dato' Mohammed Azlan Hashim for his many years of contributions, dedication and leadership as Authority member and as Chairman of the International Advisory Panel and Labuan IBFC Inc Sdn Bhd. Dato' Mohammed Azlan Hashim will also be retiring as Authority member in August 2020. My gratitude to Datuk Ali Abdul Kadir who retired in October

2019 for his invaluable contributions to the Authority for the past 19 years. Also, my sincere appreciation to Dato' Zahrah Abd Wahab Fenner and Dato' Hazim Jamaluddin who have also retired as Authority members. For the new members of the Authority, I would like to extend a warm welcome to Dato' Ooi Kok Seng, Datuk Dr. Mohd Daud Bakar, Dr. Wong Huei Ching and Ms. Goh Ka Im. I would also like to convey my gratitude to the past and present members of the Authority of Labuan FSA, who have provided their wisdom and advice in guiding Labuan FSA to develop Labuan IBFC. I must also thank the former Chairmen and the Director-Generals of Labuan FSA for their leadership in the management of Labuan FSA. My special thanks to the industry players and the management and staff of Labuan FSA for their dedication and perseverance in making what Labuan is today.

Leaders often talk about their accomplishments during their tenures and legacies. I have always thought that no single leader accomplishes anything alone and it is the combined efforts of many that is needed to make a profound and transformative achievement. It has been my pleasure to walk the Labuan IBFC journey hand-in-hand with all of you. It has been my honour and pride for being part of this wonderful story of Labuan IBFC and the "Labuan IBFC family" will forever hold a special place in my heart.

Warmest regards and thank you.

5 August 2020

DIRECTOR GENERAL'S REPORT

2019 HAS BEEN ANOTHER POSITIVE YEAR FOR LABUAN IBFC, IN SPITE OF THE CHALLENGES DUE TO GLOBAL AND REGIONAL EVENTS AS WELL AS POLICY CHANGES THAT HAVE TRANSFORMED THE BUSINESS LANDSCAPE OF THE CENTRE.

The various policies and regulatory reforms that have been put in place over the past decades have established a robust foundation for positive business growth and stability in Labuan IBFC.

DATUK DANIAL MAH BIN ABDULLAH
Director General

DIRECTOR GENERAL'S REPORT

The most significant policy change to the Labuan IBFC's business environment was the implementation of the new tax framework which came into effect on 1 January 2019. Amongst the changes were the abolishment of the RM20,000 tax election, removal of ring-fencing elements by eliminating restrictions on dealings with residents and in ringgit, and the need for substance requirements in the form of full-time employees and local expenditure for Labuan entities. The changes have aligned the tax framework of the Centre with that of international standards and requirements. Labuan has been assessed as "Not Harmful" under the OECD Forum on Harmful Tax Practices and rated as "Largely Compliant" under the Peer Review Assessment in the OECD Forum on Tax Transparency and Exchange of Information. It is noteworthy that the changes to the tax framework such as substance requirements are not unique to Labuan, but are also being implemented by other financial centres. More importantly, the new tax regime has enabled a more sustainable business model for Labuan IBFC for the future, considering that the tax framework is expected to further enhance the contributions of Labuan IBFC to the Island and nation. The substance requirements will generate employment opportunities and other economic boosts for Labuan while the abolishment of the tax election will significantly increase the fiscal revenues to the country.

As for any other new regulatory changes, there is bound to be implementational issues in effecting the Labuan tax framework. In this regard, a cross-agency committee comprising

of representatives from the Ministry of Finance, Inland Revenue Board and Labuan FSA was formed to address practical and operational issues faced by Labuan entities in complying with the new tax framework. The efforts included town hall sessions with market players, the issuance of clarifications and the expansion of the type of activity that could be undertaken by Labuan entities for the purpose of substance requirements. A dedicated help desk was also set up to address enquiries by industry players on practical and operational aspects of the new tax requirements. Moving ahead, the Authority will continue to engage with the relevant competent authority i.e. the Inland Revenue Board to assist the industry players in complying with the new requirements.

With regard to the performance of Labuan IBFC in 2019, the year saw encouraging growth across its key business sectors. The Centre continued to experience growing interest from the East Asia for new company incorporations. However, the incorporation had moderated compared to previous annual trend. In 2019, the total Labuan companies grew by 6.4% to 16,241 companies compared to 12.5% in the year before. This could be attributed to the new requirements under the tax regime. Nevertheless, it could be regarded as transitory market effect as potential investors adapt to the new fiscal requirements. The positive outlook in relation to incorporation could be inferred from the expansion of the trust company sector where five new trust company licences were approved in 2019.

The Labuan banking sector grew with the establishment of five new international banks. More and more Labuan banking institutions are

offering digital banking services to expand their business in the region. In terms of financial resilience, the banking sector remained strong with positive liquidity and funding support. The business portfolio of the Labuan banks is well diversified beyond the Malaysian market where 76.8% of total loan exposure is attributed to regional financing. The profitability of the banking sector increased significantly in 2019 by 26.9% to USD634.8 million.

The Labuan insurance business remained resilient albeit a modest growth rate considering the volatile global reinsurance market and low-yield investment environment. The gross premium flow was USD1.5 billion with foreign or non-Malaysian business contributing a larger share at 58.7%. Overall, in 2019 the sector improved its underwriting performance resulting in a profitability hike of 43.7% to USD190.5 million. This is mainly due to the favourable performance of the captive market with increased premiums of 14.2% to USD457.5 million (64.5% for non-Malaysian business). As the second largest captive centre in Asia with 52 captives, Labuan captives are recognised and well accepted by the international business community. For two consecutive years, Labuan IBFC attained the Best Asian Captive Domicile award by the Asian Captive Review Award. In addition, Labuan IBFC was given the Captive Insurance Jurisdiction of the Year by the China Offshore Awards in 2019. The vibrancy of the Labuan insurance industry is enhanced by the presence of many insurance intermediaries providing the requisite insurance services for the Labuan market. In 2019, there were 80 insurance brokers (general and life) and 23 insurance and underwriting managers.

DIRECTOR GENERAL'S REPORT

In the area of wealth management, Labuan continued to tap on the growth in wealth of the Asia Pacific region. The suite of asset management structures available in Labuan IBFC remained attractive for high networth individuals and family offices. In 2019, the number of foundations grew by 36.8% to 192 active ones. It is encouraging to see that Labuan trust companies are taking on the business opportunities in managing family offices of wealthy Asian families and individuals.

Labuan IBFC continued to record growth and expansion in international business conducted through the Centre as about 60% are non-Malaysian businesses for the banking and insurance sectors. This is in line with the aspirations to see Labuan IBFC playing a bigger role in the intermediation of regional businesses. However, while the focus is generating more “out-out” business, it is important to appreciate the contributory role of Labuan IBFC in facilitating financial flows and investments into Malaysia. Over the years, Labuan IBFC had provided credit facilities, reinsurance capacity and investment flows for the Malaysian economy.

The year 2019 saw further rationalisation and the restructuring of leasing companies, not only in response to the substance requirements but also to the depressed oil and gas market. Consequentially, the number of leasing companies decreased further from 371 in 2018 to 294 in 2019 while the industry leased assets declined 16.1% to USD45.1 billion. Similar to the leasing sector, the Labuan international commodity trading business also declined due to the downturn and volatility of the global oil and gas market. The total revenues of the sector decreased by 6% to USD30.7 billion, and the industry

profitability reduced by 64.4% to USD430.5 million.

Labuan IBFC continued to be an attractive jurisdiction for digital financial service (DFS) providers. During the year, 28 new approvals were granted to DFS players, including those who provide platforms for digital assets trading and e-payment. While the Authority is encouraged by the growth in digital business setups and will continue to facilitate innovative financial service solutions in that business space, it is equally important that proper regulatory and governance mechanisms are in place to ensure the soundness of the business. In this regard, the Authority will be issuing a regulatory and governance framework on digital financial services and intermediation. The framework will enumerate the licensing parameters and key regulatory principles relevant to the virtual nature of digital financial business such as digital banking, insurtech, and tokenised assets. The establishment of an industry-led Labuan FinTech Association in 2019 would augur well for more market-driven initiatives to intensify development of the FinTech industry in Labuan.

In the medium term, to sustain the growth and stability of the businesses in Labuan IBFC, the Authority will undertake a holistic review of the relevant policies and guidelines of the various business sectors to ensure consistencies with current requirements such as those of the new tax framework. Business guidelines on activities such as banking, insurance and company management are being enhanced to facilitate growth and expansion. The Authority will also continue to upscale the regulatory framework of Labuan IBFC in line with international practices and standards. Some of the immediate regulations that are being developed include regulatory expectations on cyber risk governance

and business resumption management in view of the increasing exposures to digital as well as other cyber-disruption risks.

In the area of insurance, the Authority is enhancing the capital adequacy regulations with the proposed Risk-based Capital (RBC) framework for Labuan insurers and reinsurers. The RBC would ensure appropriate and proportionate level of capital is provided for the level and type of risks carried by Labuan insurers. This would also be applicable for insurance captives where the existing requirements on margin of solvency are being enhanced to be more comparable to the capital regulations of peer jurisdictions.

As a regulatory body, the Authority remains committed to playing an effective supervisory role to maintain the good reputation of Labuan IBFC, through regular supervisory monitoring and enforcement actions. The Authority maintains close relationship with peer regulators and enforcement agencies to supervise cross-border business activities especially for Labuan entities with presence in other markets. In 2019, the Authority facilitated more than 60 information requests from 11 jurisdictions. The Authority is an active member of various international organisations of regulators by participating their global forums and plenaries to ensure the Authority is always kept abreast of regulatory and supervisory developments. Its membership in international bodies such as the International Organisation for Securities Commissions, International Association of Insurance Supervisors, Group of International Insurance Centre Supervisors, Group of International Finance Centre Supervisors and Asia Pacific Group

DIRECTOR GENERAL'S REPORT

on Anti-Money Laundering, is a reflection of the status as a well-regulated centre. In 2019, to further strengthen international regulatory and supervisory ties, the Authority signed three Memoranda of Understanding with the China Banking and Insurance Regulatory Commission, Financial Conduct Authority of United Kingdom and Nanjing Municipal Financial Regulatory Bureau.

In maintaining the soundness and reputation of the Centre, supervisory interventions were made for non-compliances of regulatory requirements which included issuance of show cause notices, imposition of financial penalties, suspension of business and revocation of licences. Threats relating to money laundering and terrorism financing (ML/TF) were mitigated through proactive measures such as raising awareness through industry trainings and technical briefings on terrorism financing and proliferation financing. Increased ML/TF surveillance and on-site supervisory examinations were conducted in 2019 focusing on the high risks identified under the Labuan sectoral risk assessment across the various business sectors. The Authority will remain vigilant and committed in its efforts to combat ML/TF to safeguard the integrity and uphold the reputation of the Centre.

Looking ahead, the persisting economic and political uncertainties will bring more challenges to the global financial centres including Labuan IBFC. This has been further exacerbated by the outbreak of Covid-19 as we usher in 2020, bringing about unprecedented changes and new norms in the business environment. In the early 2020, like many other regulatory agencies, the Authority implemented temporary regulatory reliefs covering

relaxations on administrative governance requirements, flexibility on technical requirements for insurers and extension of period for regulatory submissions, to alleviate the operational difficulties faced by the industry brought about by the pandemic. The Authority will continue to assess the impact of the pandemic to the market and provide the needed facilitations by regularly engaging the industry players. Where needed, further reliefs will be accorded to the market to ensure that the players are able to continue with their operations in the Centre and for their services to clients to remain uninterrupted.

It is difficult to gauge prospects even for the immediate future under this challenging and uncertain environment. We are in uncharted waters as a result of the Covid-19 crisis. The global and regional economic outlook is one of contraction and recessionary which will severely impact various business sectors. The policy reactions in countries across the globe are predominantly stimulus-based directed to buffer the impact to incomes and jobs as well as restore confidence in the economy. Labuan IBFC, like other international financial centres, needs to adapt to this new reality and adopt the new norms. The key business sectors of Labuan IBFC i.e. banking, reinsurance, leasing, commodity trading and company registration are already experiencing the negative effects of the economic contraction. This is compounded by the transitional effects in the implementation of the substance requirements for the various business activities in the midst of travel and movement restrictions due to the pandemic. It is therefore, imperative that all stakeholders, governmental and private of Labuan IBFC to support and assist each other

in sustaining and facilitating the Centre's businesses in order for it to remain as a progressive financial jurisdiction. This is considering that the IBFC is a key economic contributor (51.9%) to the GDP of Labuan as well as one of the largest employment provider in the Island.

While Labuan FSA has been pre-occupied in its efforts to cushion the impact and mitigate emergent risks of the pandemic, it is critical to remain focused on the long-term strategy of transforming the Centre to be more diversified, resilient and sustainable. Innovative technologies and digital advancements are opening up fresh opportunities and new marketplaces. To tap on this, Labuan FSA will continue to enhance the digital business space in Labuan IBFC through enhancing the existing regulatory policies and developing new business potentials. The Asia Pacific region will remain the key market for Labuan IBFC in line with the strategic intention to grow the Centre in tandem with the region. Labuan IBFC will continue to scan the regional business landscape and be proactively, anticipative and agile in intermediating Asia's financial and investment demands. In addition, as Labuan IBFC matures as a financial and business centre with the presence of over 800 licensees conducting a wide spectrum of business activities, efforts will be directed to further enhance and develop the cross-pollination of Labuan businesses and institutions to create a more vibrant intra-Labuan market within the IBFC. The new norms and market development initiatives would also demand for enhancements in the pool of talent in terms of requisite knowledge and skills in Labuan IBFC. Labuan FSA will be recommending for fiscal incentives to be introduced to

DIRECTOR GENERAL'S REPORT

attract the relevant knowledge workers to be based in Labuan.

The future business landscape will indeed be very challenging and appropriate strategies are being formulated to drive the Centre forward. Labuan FSA will remain committed to its key role of preserving the reputation of Labuan IBFC as a well-regulated and market-facilitative jurisdiction to serve the business, investment and intermediation needs of the region. A good growth foundation has been built over the 30 years since the establishment of Labuan IBFC in 1990. Labuan FSA, together with the other key agencies and the industry players, will further reinforce this foundation to progress to greater heights over the next 3 decades.

At this juncture, I am pleased to announce the financial performance of Labuan FSA where for the year ended 31st December 2019, the Authority recorded an increase in operating revenue of RM RM65.28 million as compared to RM66.03 million in 2018, while its total reserves correspondingly increased to RM RM83.09 million.

I would like to conclude by thanking the Labuan financial community for their patience and understanding during this challenging period. I would like to thank the industry players through the Association of Labuan Banks, Labuan International Insurance Association, Association of Labuan Trust Companies, Labuan Investment Banks Group and Labuan FinTech Association for working with Labuan FSA by pooling resources to provide support and aid to the local community in Labuan. These relief efforts included the procurement of medical equipment for the hospital and other essentials such as personal protective equipment for frontliners in combating against Covid-19.

I also wish to extend my heartfelt gratitude to the Authority members for their support, wisdom and guidance in the efforts to develop the Centre. My deepest appreciation to Datuk Oh Chong Peng, Chairman of Labuan FSA and Dato' Mohammed Azlan Hashim who have been with Labuan FSA for over 22 years and will be retiring in 2020, for their invaluable contributions to Labuan FSA and Labuan IBFC. I would like to thank the staff of Labuan FSA and its subsidiaries for their hardwork and dedication for contributing to making 2019 another positive, productive year for Labuan IBFC.

5 August 2020



CORPORATE INFORMATION



For further information, please go to:
www.labuanfsa.gov.my

CORPORATE INFORMATION



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



OBJECTIVES OF LABUAN FSA

Promote and Develop Labuan IBFC

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

Develop National Objectives

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

Central Authority

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

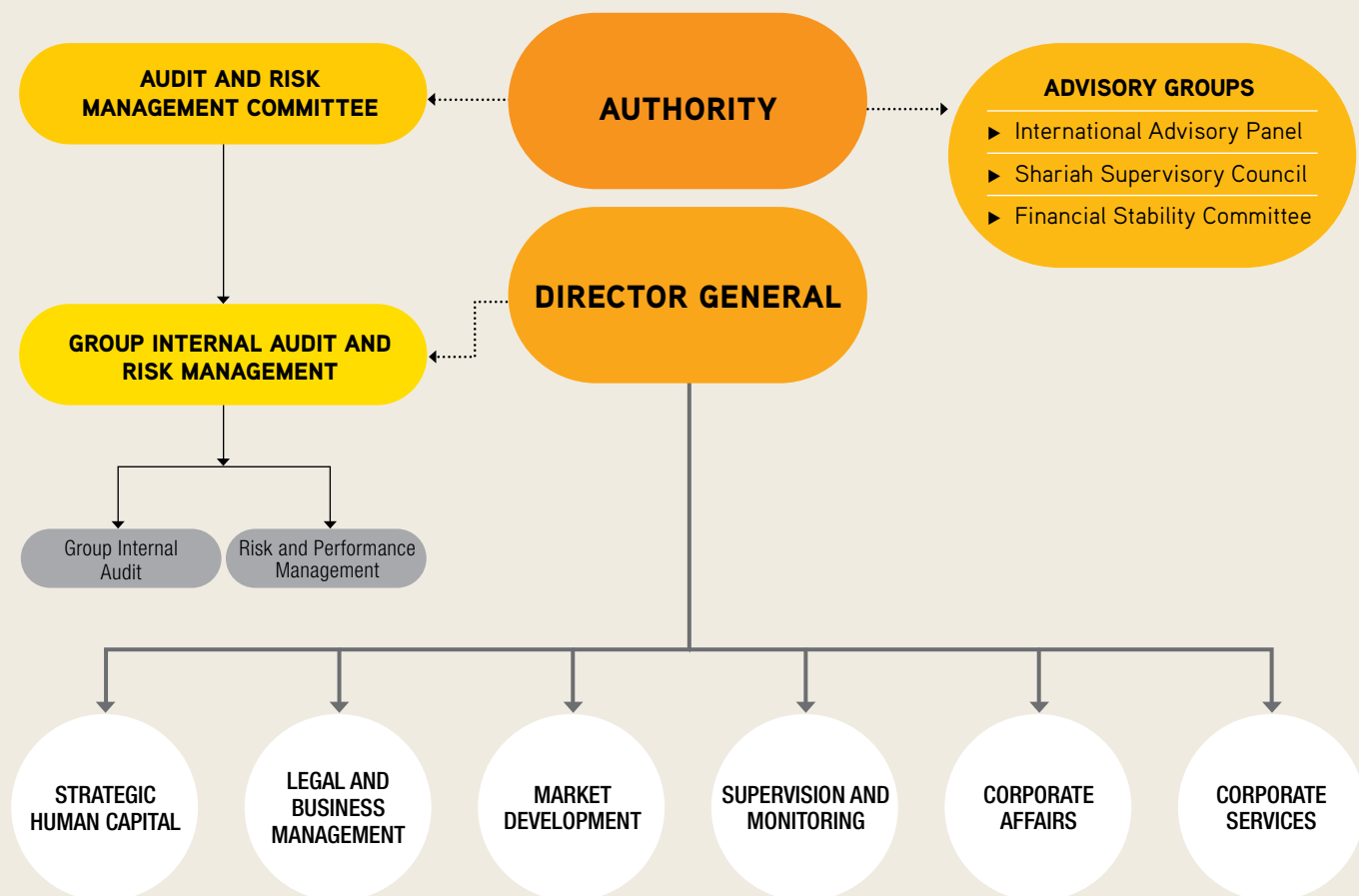
FUNCTIONS OF LABUAN FSA

In discharging our regulatory mandate, we are entrusted with the following statutory functions:

- ▶ **To administer, enforce, carry out and give effect to the provisions of the:**
 - Labuan Companies Act 1990
 - Labuan Trusts Act 1996
 - Labuan Financial Services Authority Act 1996
 - Labuan Foundations Act 2010
 - Labuan Financial Services and Securities Act 2010
 - Labuan Islamic Financial Services and Securities Act 2010
 - Labuan Limited Partnerships and Limited Liability Partnerships Act 2010
 - Any other laws relating to business and financial services in Labuan
- ▶ **To ensure** that international financial transactions are conducted in accordance with the laws;
- ▶ **To uphold** the good reputation and image of Labuan IBFC;
- ▶ **To conduct** research and commission studies to deepen and widen the scope of international financial services in Labuan;
- ▶ **To make recommendations** on the creation and improvement of facilities to enhance the attraction of Labuan as a centre for business and international financial services;
- ▶ **To collaborate** with Labuan financial institutions and industry associations in advancing the development and growth of business and financial services in Labuan IBFC; and
- ▶ **To advise** the Government generally on matters relating to financial services in Labuan IBFC.

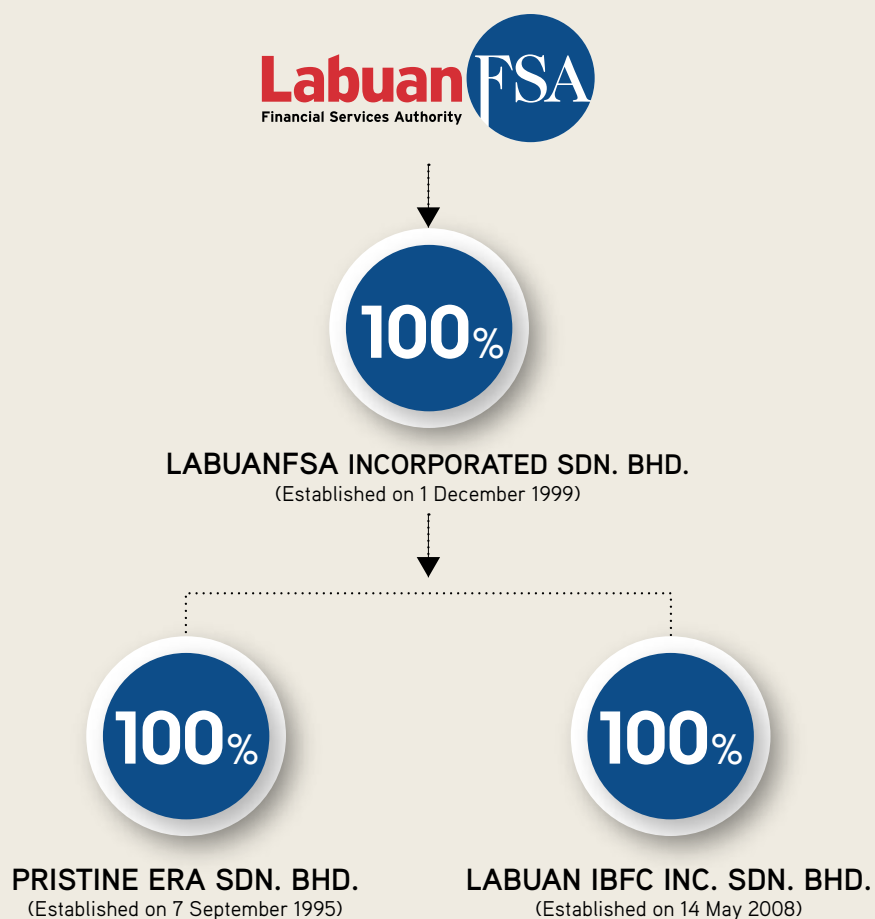
ORGANISATIONAL STRUCTURE

LABUAN FSA IS STRUCTURED INTO SEVEN DEPARTMENTS, SUPERVISED BY THEIR RESPECTIVE DIRECTORS, OVERSEEING THE IDENTIFIED PORTFOLIOS UNDER THEIR CARE.



SUBSIDIARIES

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



AUTHORITY MEMBERS OF LABUAN FSA



DATUK OH CHONG PENG
Chairman

DATUK OH IS THE CHAIRMAN OF LABUAN FSA SINCE 16 OCTOBER 2018 AND BEEN AN AUTHORITY MEMBER OF LABUAN FSA FROM 1996. DATUK OH HAS WIDE EXPERIENCE IN FINANCIAL AND OTHER BUSINESS SECTORS. HE IS CURRENTLY THE NON-EXECUTIVE DIRECTOR OF MALAYAN FLOUR MILLS BERHAD, DIALOG GROUP BERHAD, WCE HOLDINGS BERHAD, PUC BERHAD, A COUNCIL MEMBER OF UNIVERSITY TUNKU ABDUL RAHMAN AND A TRUSTEE OF UTAR EDUCATION FOUNDATION.

Datuk Oh was the Chairman of Alliance Financial Group Berhad from 2006 until his retirement from the Board in 2017. He was also a Non-Executive Director of British American Tobacco (Malaysia) Berhad, a partner of Coopers & Lybrand Malaysia and 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 and served as President of the Malaysian Institute of Certified Public Accountants from 1994-1996.



DATUK DANIAL MAH BIN ABDULLAH
Director General

DATUK DANIAL MAH IS THE DIRECTOR GENERAL OF LABUAN FSA, THE REGULATORY AUTHORITY OF LABUAN INTERNATIONAL BUSINESS AND FINANCIAL CENTRE. DATUK DANIAL ASSUMED THE POSITION OF DIRECTOR GENERAL ON 3 OCTOBER 2017. PRIOR TO THIS, HE WAS THE DEPUTY DIRECTOR GENERAL OF LABUAN FSA, A POSITION HE HELD SINCE 2007. HE HAS BEEN WITH LABUAN FSA SINCE THE EARLY YEARS OF ITS ESTABLISHMENT AND HELD VARIOUS POSITIONS WITHIN THE ORGANISATION.

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

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

AUTHORITY MEMBERS OF LABUAN FSA



**DATO' MOHAMMED AZLAN
BIN HASHIM**

DATO' MOHAMMED AZLAN IS CHAIRMAN OF IHH HEALTHCARE BERHAD, D&O GREEN TECHNOLOGIES BERHAD, MARINE & GENERAL BERHAD AND LABUAN IBFC INC. SDN. BHD. HE IS ALSO A BOARD MEMBER OF KHAZANAH NASIONAL BERHAD.

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

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



**MR. ADNAN ZAYLANI
BIN MOHAMAD ZAHID**

MR. ADNAN ZAYLANI IS AN ASSISTANT GOVERNOR OF BANK NEGARA MALAYSIA, RESPONSIBLE FOR DEVELOPMENT OF THE FINANCIAL AND INSURANCE SECTORS, DEVELOPMENT FINANCE, ISLAMIC FINANCE AND OVERSEES THE LEGAL DEPARTMENT.

Previously he had held responsibilities and oversight over financial markets, investment, foreign exchange administration and currency management. He is a member of the Management Committee, Financial Stability Committee and sits on other policy committees and working groups within Bank Negara Malaysia.

He also serves as a Board Member of Kumpulan Wang Persaraan, Non-Executive Director of Credit Guarantee Corporation Malaysia Berhad, Member of the Board Executive Committee of International Islamic Liquidity Management Corporation, and Executive Committee Member and Audit Committee Member of International Centre for Education in Islamic Finance.

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

AUTHORITY MEMBERS OF LABUAN FSA



DATO' OOI KOK SENG

DATO' OOI IS THE PARTNER-IN-CHARGE FOR KPMG NORTHERN REGION. HE HAS EXTENSIVE AUDIT, ACCOUNTING AND CONSULTING EXPERIENCE, BOTH IN MALAYSIA AND IN WASHINGTON DC, USA.

His experience is not limited to audit assignments but also covers various corporate exercises which include corporate advisory on initial public offerings, cross border acquisitions, special issues and share valuation.



**DATUK DR MOHD DAUD
BIN BAKAR**

DATUK DR MOHD DAUD BAKAR IS THE FOUNDER AND GROUP CHAIRMAN OF AMANIE ADVISORS AND FOUNDER AND CHAIRMAN OF AMANIE NEXUS SDN BHD. HE IS CURRENTLY THE CHAIRMAN OF THE SHARIAH ADVISORY COUNCIL OF THE CENTRAL BANK OF MALAYSIA, THE SHARIAH ADVISORY COUNCIL OF SECURITIES COMMISSION MALAYSIA AND THE SHARIAH SUPERVISORY COUNCIL OF LABUAN FINANCIAL SERVICES AUTHORITY.

Datuk Dr Mohd Daud is also a member of the Shariah Board of Dow Jones Islamic Market Index (New York), The National Bank of Oman, Financial Guidance (USA), BNP Paribas (Bahrain), Morgan Stanley (Dubai), Bank of London and Middle East (London), Noor Islamic Bank (Dubai), Islamic Bank of Asia (Singapore).

Currently, he is the Adjunct Professor (Islamic Finance) for the Asia Graduate School of Business of UNITAR International University and Adjunct Professor for the Islamic Business School of Universiti Utara Malaysia. Prior to this, he was the Deputy Vice-Chancellor at the International Islamic University Malaysia.

Datuk Dr Mohd Daud received his first degree in Shariah from the University of Kuwait, a Bachelor of Jurisprudence from the University of Malaya, and obtained his PhD from the University of St Andrews, UK.

AUTHORITY MEMBERS OF LABUAN FSA



DR. WONG HUEI CHING

DR. WONG HUEI CHING, A DIRECTOR AT THE SECURITIES COMMISSION MALAYSIA (SC) IS RESPONSIBLE FOR ENTERPRISE CORPORATE PLANNING AND STRATEGY DEVELOPMENT FOR THE ORGANISATION AND THE CAPITAL MARKET. SHE HAS BEEN INVOLVED IN VARIOUS MARKET DEVELOPMENT INITIATIVES RANGING FROM FACILITATION OF MARKET VIBRANCY TO GREATER INDUSTRY DIGITISATION EFFORTS.

Prior to joining the SC, she was with a global management consulting firm in their strategy practice, and also worked with one of Malaysia's largest banks. Her experience in financial services sector spans across consumer, wholesale and international banking, particularly in strategy development and transformation.

Dr. Wong holds a Bachelor in Electronic and Communications Engineering and a PhD in Electrical and Electronic Engineering from the University of Bristol, UK.



MS. GOH KA IM

MS. GOH IS A PARTNER AND THE HEAD OF THE TAX AND REVENUE PRACTICE GROUP AS WELL AS THE HEAD OF THE PRIVATE WEALTH AND FAMILY BUSINESS PRACTICE GROUP IN SHEARN DELAMORE & CO.

Ms. Goh is the Jurisdiction Editor of Malaysia (Labuan) for the International Tax Planning Association (ITPA) and was a previous Chair of the Tax Committee of the Inter Pacific Bar Association.

Ms. Goh has an LL.B (Hons) degree from the University of Bristol, UK and was called to the Bar of England and Wales as a member of Gray's Inn. She was admitted as an advocate and solicitor of the High Court of Malaya in 1988 and the Supreme Court of Singapore in 1994. She became a partner of Shearn Delamore & Co. in 1997.

SENIOR MANAGEMENT OF LABUAN FSA



DATUK DANIAL MAH BIN ABDULLAH
(Director General)



DATUK ISKANDAR BIN MOHD NULI



MRS. YON ZAHIMAH
BINTI IBRAHIM



MR. SYAHRUL IMRAN
BIN MAHAZDIR



MR. AZUDDIN BIN JASIN



MR. MOHD RIZLAN
BIN MOKHTAR



MR. JIMMY CHEN SIEW HANG



MR. WAN AHMAD SANUSI
BIN MAHMOOD

ADVISORY GROUPS OF LABUAN FSA

INTERNATIONAL ADVISORY PANEL

The International Advisory Panel (IAP) is a consultative committee that was set up in 2004 to provide guidance and advice on the strategic business direction and market development of the Labuan IBFC. The seven-member panel comprises prominent individuals with unique industry experience and expertise.

IAP Members:

1. Dato' Mohammed Azlan bin Hashim - *Chairman*
2. Mr. Michael Troth
3. Dato' Mohammad Faiz bin Azmi
4. Datuk Dr. Mohd Daud bin Bakar
5. Ms. Pushpa Rajadurai
6. Mr. Chew Seng Kok
7. Mr. Mohammad Ridzuan bin Abdul Aziz

SHARIAH SUPERVISORY COUNCIL

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

SSC Members:

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

FINANCIAL STABILITY COMMITTEE

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

FSC Members:

1. Datuk Danial Mah bin Abdullah - *Chairman*
2. Mr. Syahrul Imran bin Mahadzir
3. Mr. Qaiser Iskandar bin Anwarudin
4. Mr. Ong Sheng En
5. Mr. Vijayakumar MV Nair

INTERNATIONAL MEMBERSHIPS

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



EVENT HIGHLIGHTS 2019



- ▶ Labuan FSA held a townhall with the industry on “Latest Tax Policy Changes In Labuan IBFC” to provide clarifications to the Labuan IBFC industry on issues relating to the revised Labuan tax framework. The updates to the industry included global developments driving the Labuan tax review, Labuan’s revised tax framework and substantial requirements vis-a-vis other jurisdictions as well as the monitoring and enforcement on substance compliance. Labuan FSA also shared with the participants on the frequently asked questions from the industry pertaining to the business sectors impacted, employment and operating expenditure requirements that the industry expect to comply.
- ▶ Labuan FSA launched the inaugural publication of Labuan IBFC’s Market Report 2018. The report provided stakeholders and potential investors on the performance of the Labuan IBFC industry for 2018. It also highlighted the evolving trends related to the various business sectors of the Centre and strategic initiatives moving forward.

EVENT HIGHLIGHTS 2019

- ▶ Labuan FSA conducted a briefing to the Nanjing Municipal Financial Regulatory Bureau in China on Labuan IBFC and discussed on areas of cooperation on regulatory and supervisory of financial institutions as well as on potential business opportunities between the two authorities.
- ▶ The members of ASEAN +3 Macroeconomic Research Office (AMRO) visited Labuan IBFC to understand the business operations of the Labuan IBFC for them to produce reports about macroeconomics and financial issues pertinent to the ASEAN+3 region.
- ▶ Labuan FSA participated in meetings with international financial centre grouping - Group of International Finance Centres Supervisors Plenary meeting in London, Organisation for Economic Co-operation and Development in Paris and Group of International Insurance Centre Supervisors in London as part of its regulatory engagements with peer regulators and global standard setting bodies.



EVENT HIGHLIGHTS 2019



- ▶ High-level dignitaries visits to Labuan FSA include the Minister of Finance, Malaysia and the Minister of Federal Territories, Malaysia and the Ambassador of Ukraine. Labuan FSA briefed the dignitaries on the latest development on Labuan IBFC and the Labuan Island.
- ▶ Labuan FSA conducted a briefing to the members of the ASEAN countries and representatives of Asian Development Bank (ADB) in conjunction with the ADB's Economic Corridor Development for Competitive and Inclusive Asia Training Programme in Labuan. The programme is aimed to promote regional cooperation and integration among the developing ASEAN countries. It discussed issues and challenges relating to the economic corridors in pursuing initiatives for economic and social development amongst the ASEAN member countries.
- ▶ Labuan FSA collaborated with Inland Revenue Board, in organising the "Common Reporting Standard" briefing. This briefing, attended by Labuan IBFC's industry players, touched on global standard for automatic exchange of information on financial account information between the governments in order to combat offshore tax evasion and protect the integrity of taxation systems.
- ▶ The Director-General of Labuan FSA delivered a speech at the captive conference themed "Adding Confidence to Captives: Managing Volatility via Self Insurance" organised by Labuan IBFC Inc. Sdn Bhd.
- ▶ The 24th Labuan IAP Meeting was held in Singapore. The meeting deliberated on Labuan IBFC's financial technology's offering, development and potential demand for alternative investment and financing opportunities via digital platforms. The meeting also discussed on market developments such as banking, insurance and Islamic finance sectors. In addition, members of the IAP were briefed on the development of the new Labuan tax framework as well as other activities of the Centre.
- ▶ Labuan FSA collaborated with the Labuan IBFC industry associations and organised the "LIBFC Business & Career Opportunities" in Penang. The programme was held to create greater visibility of the business opportunities for investors and service providers in Penang, and for university students who wish to start their career path in the financial industry. This initiative was to offer employment opportunity to the fresh graduates and also to build up the talent pool for the Labuan financial industry to meet the talent demand in the Centre.

EVENT HIGHLIGHTS 2019

- ▶ Labuan FSA collaborated with Islamic Banking & Finance Institute Malaysia (IBFIM) and Universiti Malaysia Sabah, jointly organised a seminar on “Industry Opportunities in Islamic Finance”. The seminar speakers included Chief Executives of IBFIM and International Islamic Finance Market, sharing their knowledge and experience in driving the development of Islamic Finance.
- ▶ The annual Labuan IBFC Lecture Series was jointly organised by China Construction Bank Corporation, Labuan Branch and European Credit Investment Bank Ltd and supported by Labuan FSA. With the theme “Labuan IBFC: Reinforcing The China Connection”, two prominent guest-speakers, namely Professor Charles H. Fine, President of Asia School of Business and Professor Chen Bingcai from The Central Party School of the People’s Republic of China and Chinese Academy of Governance Department of Economics, delivered their lectures titled “Sourcing and Developing Fintech Solutions: Risks and Opportunities” and “Unlocking China’s Potentials – Right Time, Right Now”, respectively.
- ▶ During the year, Labuan FSA has collaborated with several domestic enforcement agencies and regulators in organising awareness sessions on integrity, corporate governance and anti-money laundering for the Labuan IBFC industry.



EVENT HIGHLIGHTS 2019



- ▶ The Director-General of Labuan FSA was interviewed by Astro Awani and BERNAMA News. The interviews featured stories on the Labuan IBFC's achievements and its contributions to the economic development of Labuan Island. The interview also highlighted the introduction of the new tax policy and its impact to the business of Labuan IBFC and the positive economic spill over from the substance requirements to the Labuan Island.
- ▶ Labuan IBFC "Go Digital" Day was organised by Labuan FSA with the objective to scale-up awareness of Labuan IBFC's digital financial services offerings. In addition, the event aimed to encourage greater interaction and cooperation amongst the industry players and to complement each other, in further developing the FinTech business in Labuan IBFC. Malaysia Digital Economy Corporation, Malaysian Communications and Multimedia Commission and Labuan IBFC's money brokers showcased their services and products during the event.
- ▶ In unison to the slogan '**Together We Build Labuan**', Labuan FSA has initiated several corporate social responsibilities programmes throughout the year in the area of community wellness, education and environment preservation. Several initiatives were carried out by the Centre, in collaboration with the local government agencies and non-profit organisation. These initiatives included career talks to students, arts and cultural events as well as mental health and environmental awareness programmes.



CORPORATE GOVERNANCE



For further information, please go to:
www.labuanfsa.gov.my

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE REFERS TO THE WAY 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, LABUAN FSA IS COMMITTED TO ENSURING **ACCOUNTABILITY, INTEGRITY AND TRANSPARENCY** IN ITS GOVERNANCE AND STAKEHOLDER MANAGEMENT.

GOVERNANCE FRAMEWORK



ACCOUNTABILITY

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



INTEGRITY

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



TRANSPARENCY

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

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.

ACCOUNTABILITY

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

CORPORATE GOVERNANCE

The Authority

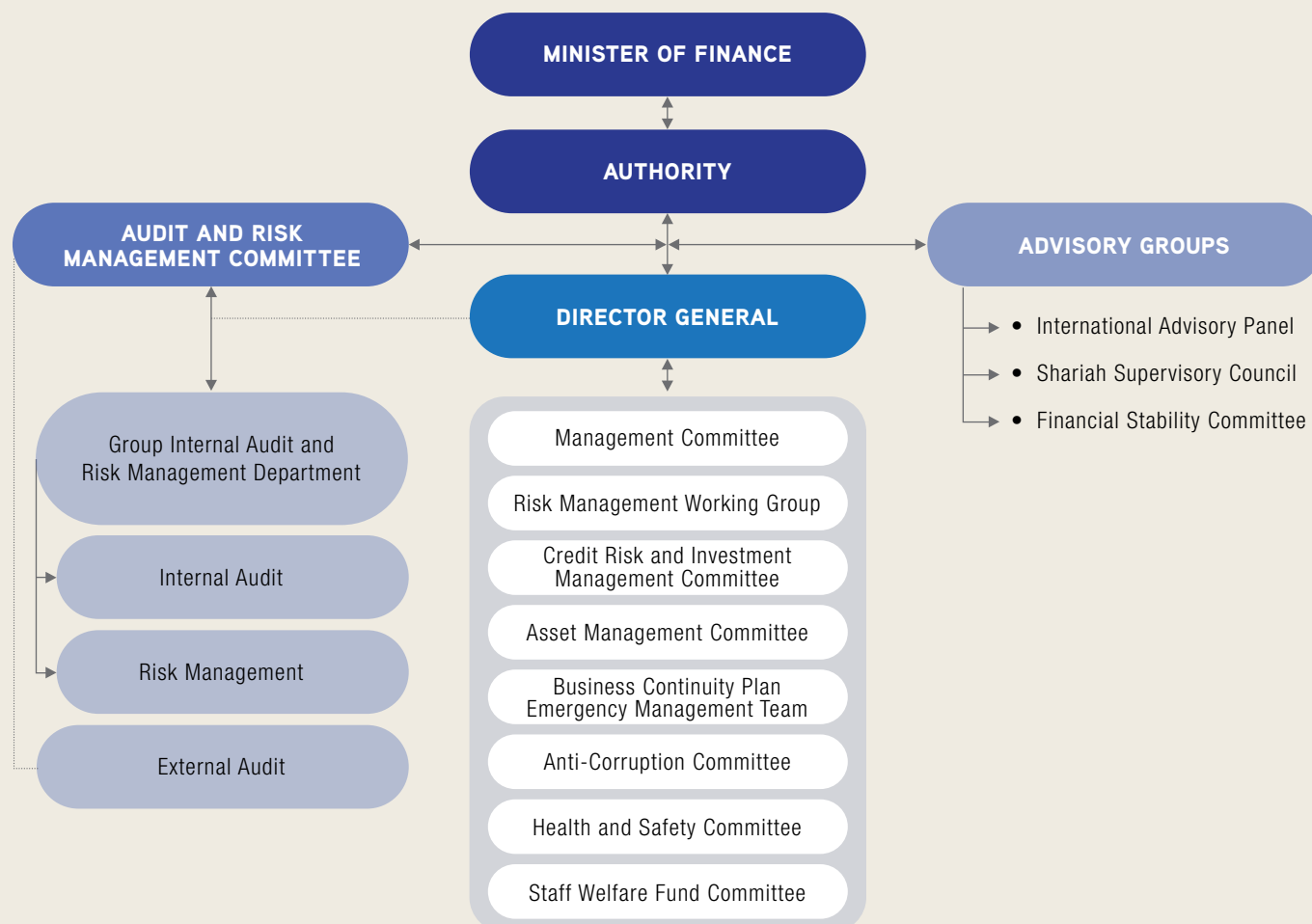
In the hierarchy of Labuan FSA, the Authority is the highest decision-making body. It comprises eight prominent members with backgrounds in business, financial, regulatory, private and public services sectors. Under the Labuan Financial Services Authority Act 1996 (Act), the Director General is directly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

Members of the Authority are appointed by the Minister of Finance under Section 5 of the Act for a term not exceeding

three years. To reappoint any member, the Chairman has to obtain approval from the Minister of Finance.

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

GOVERNANCE FRAMEWORK



CORPORATE GOVERNANCE

The Authority held six meetings during the 2019. A schedule of Authority meetings for the whole year is prepared before the end of the preceding financial year, to facilitate the members in discharging their responsibilities at the Authority meetings.

In 2019, the Authority continued to oversee the management of Labuan FSA through review and approval of proposals discussed at Authority meetings. These included business policies and guidelines, corporate action plan, budget and the appointment of advisory committee members. In addition, the Authority authorised the procurement of goods or services valued at more than RM250,000, reviewed appeal for the application of licence, and provided guidance to the management on Labuan IBFC's transition and implementation of the new tax policy and substance requirements. The Authority was also continuously updated on matters discussed at the Audit and Risk Management Committee meetings, and through active engagement with the management, on progress of Labuan IBFC

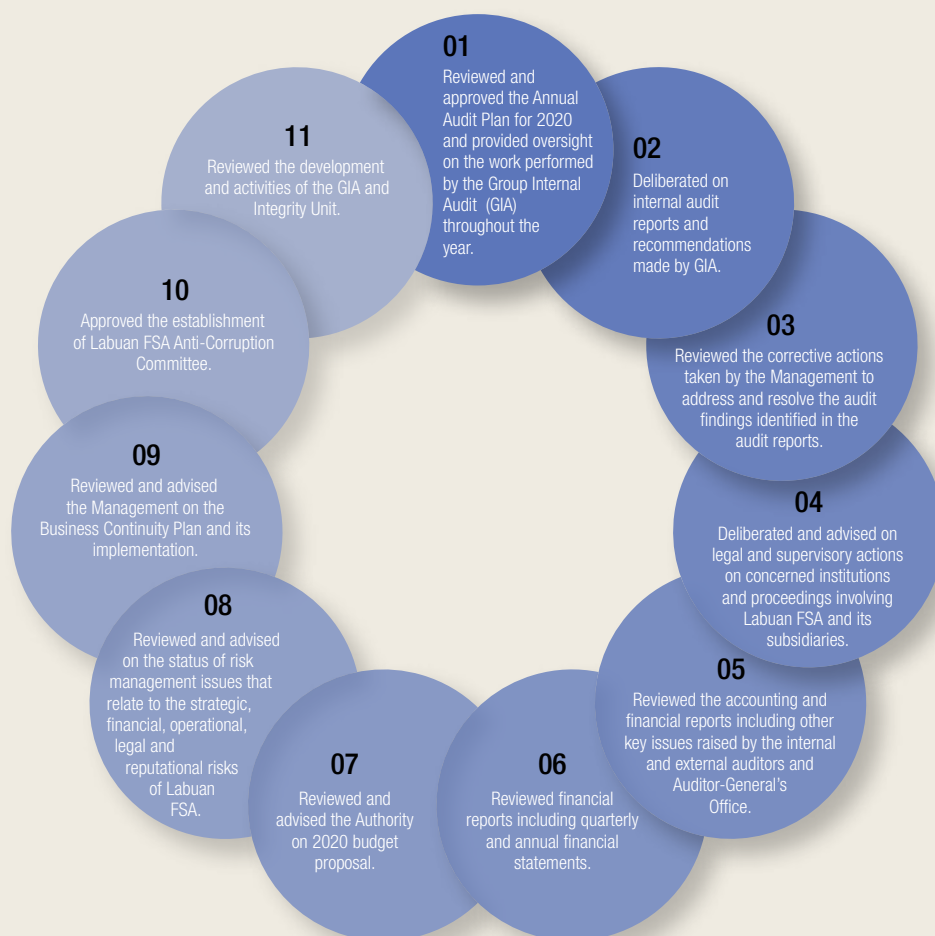
industries, financial position of Labuan FSA and performance of its subsidiaries and advisory committees.

The Audit and Risk Management Committee

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

In 2019, the ARMC convened six meetings and presided over the deliberation of audit reports of Labuan FSA and its subsidiaries, enterprise risk management assessment, financial statements as well as budget revision and other internal audit activities reports.

During the year 2019, the ARMC carried out the following activities in discharging its function and duties:



CORPORATE GOVERNANCE

INTERNAL AUDIT

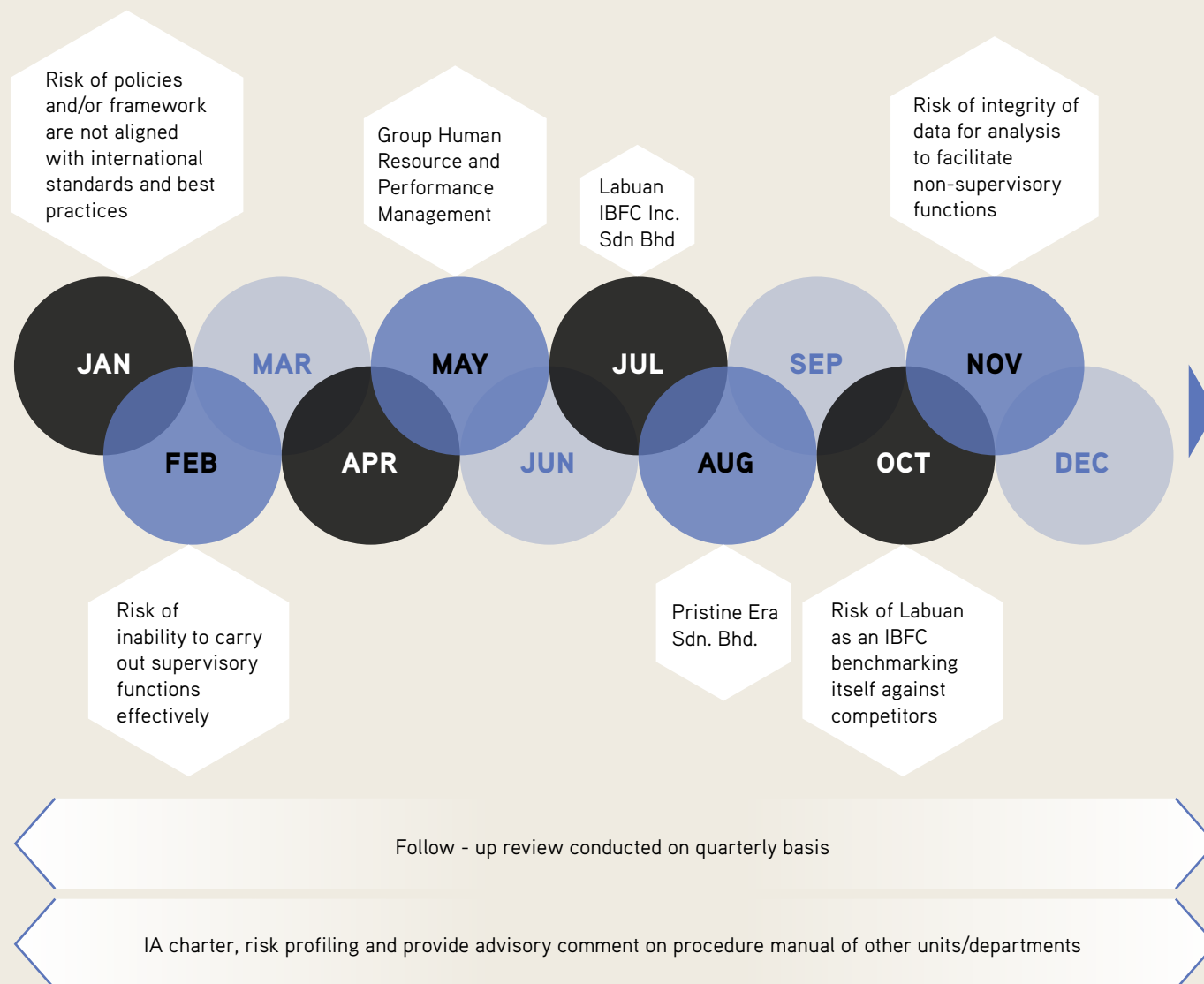
The Group Internal Audit (GIA) supports the ARMC in discharging its responsibilities by providing an independent, objective assurance and consulting activity designed to add value and improve Labuan FSA and its subsidiaries' operations. This facilitated Labuan FSA in accomplishing its objectives by bringing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

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

AUDIT UNIVERSE		
RISK-BASED APPROACH	LABUAN FSA'S STRATEGIC BUSINESS PLAN 2018-2020	SPECIAL PROJECT
<p>Risk based on outcome of Enterprise-wide Risk Management Assessment (ERM):</p> <ul style="list-style-type: none"> ▶ Risk rated as "High" and "Moderate" are audited in accordance with recommended audit cycle. ▶ Operational audit of the effectiveness of units/departments' operations. 	<p>Based on Labuan FSA's strategic initiatives for 2018-2020 to support the following strategic thrusts:</p> <ul style="list-style-type: none"> ▶ To be more business focused. ▶ Preserve reputation of Labuan IBFC through strong regulatory and supervisory regime. ▶ Strengthen financial sustainability of the organisation and its subsidiaries. ▶ Effective talent management and development for Labuan FSA and its subsidiaries. ▶ Upscaling infrastructure and facilities in Labuan FSA. 	<ul style="list-style-type: none"> ▶ Management's requests. ▶ Investigation, if any.

CORPORATE GOVERNANCE

Audit Activities 2019



CORPORATE GOVERNANCE

GIA conducted seven audit reviews in 2019 to evaluate control measures established and the effectiveness of risk management system. GIA proactively engaged with auditees through regular follow up reviews every four months. As of December 2019, GIA had conducted follow up review on nine audit reports, out of which 95% of the audit findings were resolved. Through the audit follow up, the management ensures the corrective actions have been successfully implemented and the risks highlighted have been mitigated.

Internal Controls

Recognising the need to instil clear lines of accountability in each functional unit within the organisation, Group Internal Audit and Risk Management Department (GIARM) continuously reviews and provides advisory comments on status of internal controls. The ultimate objective is to enhance the efficiency and effectiveness of key controls, simplify procedures and strengthen internal systems that support Labuan FSA's overall governance. During the year, GIA developed the Group Internal Audit's Procedure Manual for Information Security Management System (ISMS) in accordance to section 9.2 of the ISO 27001:2013, which will be used by the GIA in planning and performing the ISMS audit. The new procedure manual would ensure all activities involved in the ISMS are audited to assess the effectiveness and that the corrective actions, improvements, and prevention action are implemented under the ISMS.

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

Competencies and Professionalism

In order to meet the expectation in terms of functions, roles and responsibilities, GIA auditors are expected to be continuously trained and developed to ensure they are equipped with the necessary knowledge, skills and core competencies to enhance their professionalism. Apart from developing audit expertise, GIA views knowledge sharing as an effective approach in developing governance awareness and had collaborated with Supervision and Monitoring Department, conducted a knowledge sharing and awareness programme on Internal Audit Function for Labuan Trust Companies (LTCs). The programme aimed to raise awareness of the LTCs on Labuan FSA's requirements and expectations with regards to compliance and internal audit practices.

EXTERNAL AUDIT

As a federal statutory body, Labuan FSA submits annual financial statements to the Auditor General's Office (AGO) for

audit, pursuant to the Statutory Bodies (Accounts and Annual Reports) Act 1980 (Act 240). Key issues raised by the external auditors were addressed promptly by the management.

Management

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

Management Committee

The Management Committee (MC) comprises seven senior management members who assist the DG in discharging his responsibilities. It provides direction on Labuan FSA's overall business strategy, facilitates the management and supervision of its operations, and authorises the purchase of goods or services up to RM250,000. In 2019, MC conducted 45 meetings, chaired by the DG, deliberated a variety of significant matters including business and prudential policies and cases of concerned institutions. It also discussed on budget and expenditure, functional units' policies and procedures, corporate social responsibility activities and human resources matters. The MC also monitored all projects under management.

Other Management Committees

In addition to the board committees, other management committees were established to support the execution of various programmes and activities as follows:

i. Risk Management Working Group

The Risk Management Working Group (RMWG) is established under the Enterprise Risk Management Framework of Labuan FSA for coordinating decision making, driving risk management process and reporting to the Authority on the measures taken to mitigate critical risks of Labuan FSA. It comprises of 13 members including seven Directors and six Deputy Directors. The Director General of Labuan FSA is

CORPORATE GOVERNANCE

the Chairman of the RMWG. During the period under review, four RMWG meetings were conducted to deliberate on the risk profiles of Labuan FSA Group.

ii. Labuan FSA Anti-Corruption Committee

The Labuan FSA Anti-Corruption Committee was established in line with the instruction from the Prime Minister of Malaysia in enhancing governance, integrity and anti-corruption in the management of Malaysian government administration. The committee comprises of seven Directors including the DG who is the Chairman and the Integrity Officer who acts as the secretariat. The committee discussed issues of integrity, governance and anti-corruption based on four terms of reference (TOR) namely Law and Regulatory Policy; Standard Operating Procedure; Strengthening Governance and Integrity; and Detection, Compliance, Punitive and Recovery. A total of two meetings were held in 2019.

iii. Credit Risk and Investment Management Committee

The Credit Risk and Investment Management Committee (CRIMCO) is established under Section 15 of the Labuan Financial Services Act 1996 to assist Labuan FSA to review and recommend to the DG for approval or rejection of any application for licence, registration or approval and other operational matters pursuant to the relevant laws and guidelines related to Labuan entities. The committee members consists of a Chairman and five other members from the relevant divisions or units within the organisation. In 2019, 11 meetings were held, and 139 licence applications and operational matters were deliberated by CRIMCO.

iv. Asset Management Committee

The Asset Management Committee (AMC) oversees all aspects of asset management including procurement and disposal of assets in the best interest of Labuan FSA. The AMC is empowered to authorise the purchase of goods or services up to RM100,000, as well as determining and recommending the appropriate disposal of Labuan FSA's assets, when required. In 2019, four meetings were held with 31 proposals deliberated.

v. Staff Welfare Fund Committee

The committee reviews and recommends to the DG for approval or rejection of staff loan applications. In 2019, the committee approved ten applications with regard to staff personal loans.

vii. Business Continuity Plan Emergency Management Team

The Business Continuity Plan Emergency Management Team (BCP EMT) acts as the focal point in dealing with events of disaster, emergencies or disruptions to the operations of Labuan FSA. The BCP EMT is responsible for assessing a reported incident, invoking the BCP where necessary, maintaining channels of communication with the management and relevant stakeholders, providing leadership during emergency and recovery procedures and revoking the declaration of disaster. In 2019, a BCP simulation exercise was successfully conducted to test the effectiveness of Labuan FSA's BCP.

viii. Health and Safety Committee

Health and safety is an integral part of Labuan FSA daily activities and the proper practice of safe and healthy working is essential to achieve success of the organisation's goals. The Health and Safety Committee (HSC) was formed to assist the management in providing and maintaining a safe and healthy work environment for all its employees. The responsibilities include:

- ▶ Provide and preserve a workplace with a safe and healthy working system that meets national and international standards;
- ▶ Ensure that its activities are carried out in a safe and healthy environment;
- ▶ Nurture a work culture that emphasises safety through education and training; and
- ▶ Review and improve on the policy whenever necessary.

INTEGRITY

Labuan FSA is committed to conducting its business in an open, honest and ethical manner. In order to build such an environment of integrity, Labuan FSA itself has to be a model in integrity in which ethics and honesty both support and are supported by good governance. In Labuan FSA's day-to-day operations, staff are guided by values which are shared with our employees:

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

CORPORATE GOVERNANCE

Labuan FSA supports the ideas and initiatives of the Malaysian Government in combating corruption as depicted under the National Anti-Corruption Plan (NACP) launched in January 2019. In this regard, Labuan FSA continues to hold itself to high standards of integrity and practices in the conduct of its business and activities. As part of ongoing efforts to maintain high standards of integrity, Labuan FSA had established the Labuan FSA Anti-Corruption Committee (*Jawatankuasa Anti-Rasuah [JAR]*) which spearheads the initiatives on addressing and enhancing governance, integrity and anti-corruption within the organisation. The JAR is chaired by the DG and comprises of senior management members and oversees the development of the Organisational Anti-Corruption Plan (OACP), which is planned for implementation in 2020.

During the year, Labuan FSA attended Anti-Corruption Committee meetings organised by the Integrity Unit of the Ministry of Finance Malaysia, to update on matters pertaining to integrity. Labuan FSA also collaborated with Malaysian Anti-Corruption Commission, and organised a Corruption Prevention Programme in Labuan on 6 November 2019. The objective of the programme was to share the cases of current corruption issues, challenges in procurement, licensing, and enforcement related to all enforcement agencies.

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

INTEGRITY PROGRAMME

CORPORATE INTEGRITY PLEDGE	The signing of Corporate Integrity Pledge reflects Labuan FSA's commitment to further enhance corporate governance, accountability and transparency as well as adherence to ethical standards in Labuan IBFC.
INTEGRITY PACT	Integrity Pact comprises a declaration by bidders not to offer or give any form of bribes as a means to obtain a contract or to facilitate certain processes in procurement. Bidders and Labuan FSA employees are required to sign a pact to refrain from getting involved in corrupt practices.
NO GIFT POLICY	Labuan FSA adopts a "No Gift Policy" that requires employees to demonstrate the highest standards of ethics and conduct in relationship to potential vendors, suppliers and customers.
WHISTLE BLOWING POLICY	Whistleblowing Policy is an avenue for all Labuan FSA employees or its subsidiaries and members of the public to disclose any misconduct and wrongdoings in accordance with the procedures as provided under the policy. The whistle-blower will be accorded with protection of confidentiality of identity and will also be protected against adverse and detrimental actions for disclosing any improper conduct committed provided that the disclosure is made in good faith.
ASSETS DECLARATION	Assets Declaration requires all employees to declare their income, asset, liabilities and financial interests in writing. The declaration is confidential and shall be updated when there is additional assets acquired or disposed.
UNDERTAKING LETTER	Letter of Undertaking is signed by all employees upon joining Labuan FSA. The aim is to create awareness among staff on the importance of carrying out their duties professionally and to abide by the terms and conditions agreed on.
PERSONAL DATA PROTECTION ACT	Personal Data Protection Act is established to ensure information/data collected will be processed in accordance with personal data laws of Malaysia.
AWARENESS PROGRAMMES	Continuous awareness programmes were held annually to ensure staff practise good values in carrying out everyday task and avoid unethical conduct which will have negative effect on the organisation.

CORPORATE GOVERNANCE

ENTERPRISE RISK MANAGEMENT

Labuan FSA recognises that risk management and sound internal controls are integral to achieve the Group's goals and objectives, and integrates Enterprise Risk Management (ERM) in its planning, processing and decision-making functions. Based on ISO31000; 2018 Risk Management Principles and Guidelines, the ERM Framework standardises Labuan FSA's risk management approach across the Group. The key components are illustrated in Diagram 1:



Diagram 1: Enterprise Risk Management Framework

Labuan FSA's ERM framework systematically facilitates risk assessment, ensuring significant and material risks are identified, analysed and evaluated across the Group. The key assessment activities are summarised in Diagram 2.



RISK IDENTIFICATION

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



RISK ANALYSIS

- ▶ Determine the effectiveness of the risk controls.
- ▶ Measures the impact and likelihood of the risk occurrence, in factoring key mitigants.



RISK EVALUATION

- ▶ Determine the level of risk tolerance that the risk owners are able and willing to manage.

Diagram 2: Risk Assessment Process

CORPORATE GOVERNANCE

In 2019, Labuan FSA has completed a full cycle of the ERM processes involving the participation of the Risk Management Unit (RMU), Heads of Units/ Departments, subsidiaries, Risk Management Working Group (RMWG), Audit and Risk Management Committee (ARMC) and the Authority. The key actions are illustrated in Diagram 3.



Diagram 3: Key action under the ERM Process of Labuan FSA

The RMWG convened four meetings in 2019 and deliberated on key risks pertaining to the objectives and strategic goals as well as the operational, financial and cyber security risks of the organisation which were then escalated to the ARMC and Authority.

In ensuring the Group's diverse risks are rationalised and effectively managed, Labuan FSA's approach to risk management includes the implementation of group-wide risk management incorporating its subsidiaries that enables Labuan FSA to achieve the following:

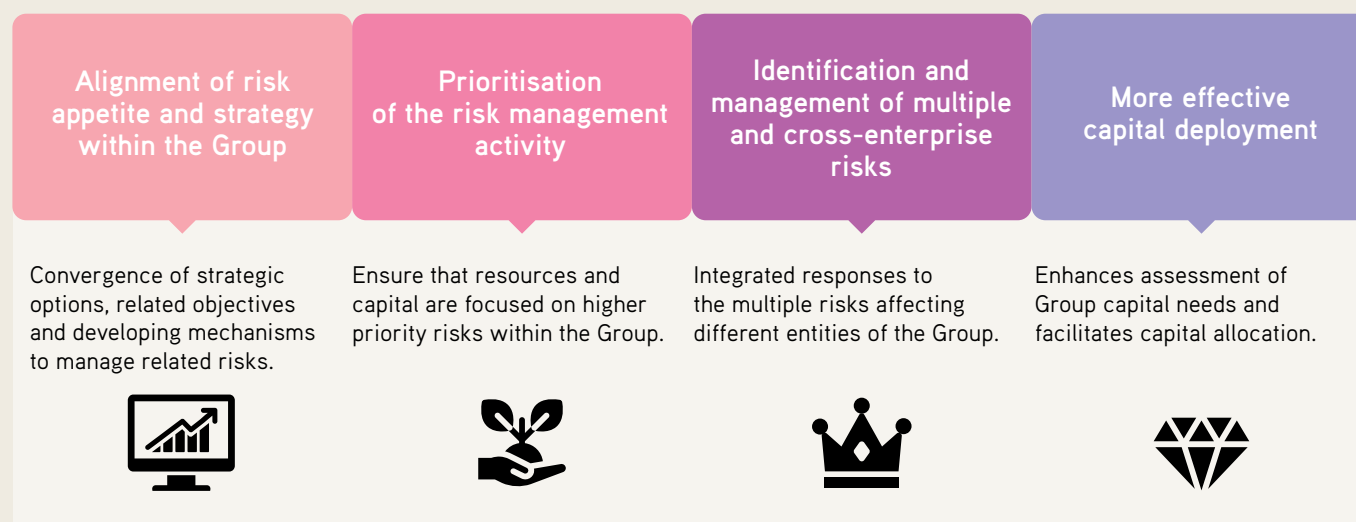


Diagram 4: Labuan FSA's Approach to Risk Management

CORPORATE GOVERNANCE

During 2019, the RMU conducted a total of 26 engagement sessions across the Group which enabled several measures to be implemented including:

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

The ERM process for the Group are similar and also applicable to the subsidiaries as depicted in Diagram 4. The results of the risk assessment are discussed at their respective board meetings prior to presenting to the ARMC for endorsement.

Labuan FSA embraces ERM as it emphasises a top-down holistic approach to effective risk management for the entire organisation. The goal of ERM is to increase the likelihood of achieving Labuan FSA's objectives and goals under the Corporate Action Plan by managing risks within the organisation's appetite for risk. The risks fall under four main groups, namely strategic, operational, system and financial with nine sub-risks as shown in Diagram 5 below:

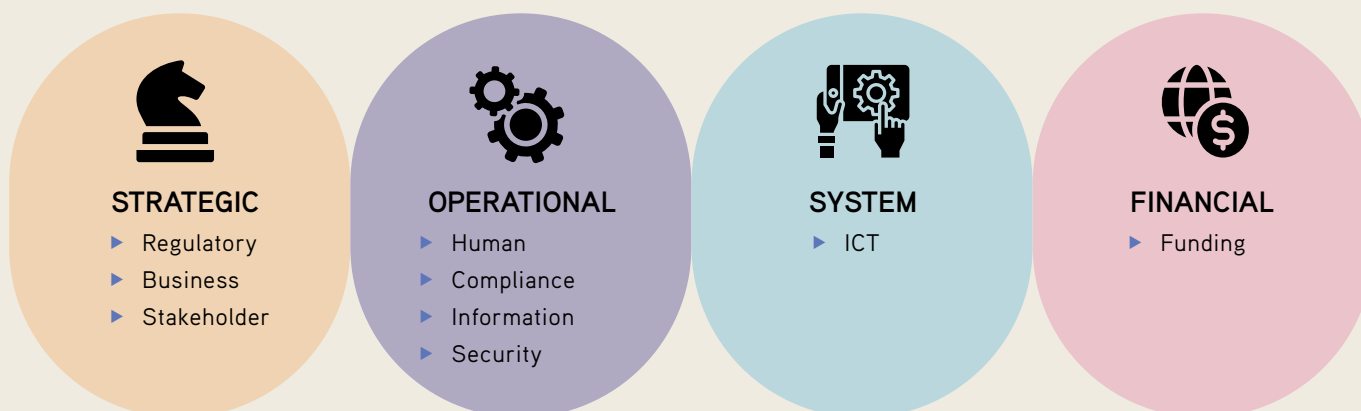


Diagram 5: Labuan FSA Risk Grouping

The identification of emerging risks is undertaken vigorously, adopting a vertical and horizontal approach involving heads of units / departments, senior management, RMWG and ARMC. The significant risks and Labuan FSA's responses in managing and mitigating these risks are as follows:

CORPORATE GOVERNANCE

1. Business Risk

Business risk refers to the risk of occurrences, activities and events that may impact the development and growth of business activities in Labuan IBFC and cause Labuan FSA to deviate from attaining its strategic business goals. During 2019, the risks included market competition, trade tensions and trade policy uncertainty, subdued global trade, geopolitical tensions, as well as deterioration of activity in major economies that challenged the growth of Labuan IBFC.

RISK	RISK RESPONSE
Business	Reviewed the existing policies / guidelines to provide clarity and to create a more conducive, flexible and efficient environment for business activities.
	Intensified promotional efforts which focused on attracting potential investors from growth markets and emerging economies.
	Establishment of Labuan Investment Committee (LIC) to address the implementation issues as well as to provide recommendations or any related changes to the new tax framework in Labuan IBFC.
	Robust engagements with industry to clarify on new requirements and enhance confidence in the continued viability of Labuan IBFC as a business jurisdiction.

2. Regulatory Risk

Regulatory risk refers to any significant events or changes to the legal, regulatory and supervisory environment that may have impact on Labuan IBFC. The developments that need to be addressed include efforts by the OECD in the area of tax transparency and information sharing, Financial Action Task Force (FATF) on money laundering, as well as initiatives under the Financial Stability Board (FSB) on regulatory, supervisory, and other financial sector policies. Labuan FSA keeps abreast on regulatory developments to ensure the prudential and business policies in Labuan IBFC are aligned with international and national standards and requirements.

RISK	RISK RESPONSE
Regulatory	Stay abreast of international and national developments through engagements with international multilateral organisations such as OECD as well as relevant authorities and agencies.
	Collaborate with the relevant authorities and agencies to ensure compliance with the required international standards, laws and regulations.
	Reviewed the existing policy / guidelines / framework / laws to ensure compliance with the international standards and best practices.
	Conduct periodic risk-based supervisory activities with thematic focus on market conduct, AML and off-site monitoring, as well as enforcement measures on offences.
	Continuous development programmes to enhance the competency and professionalism of supervisory and regulatory talents.

CORPORATE GOVERNANCE

3. Financial Risk

Financial risk refers to the risk of Labuan FSA experiencing reduction in revenue and cash flow and impairing the ability to implement strategic initiatives for the growth of Labuan IBFC. The risk correlates to Business Risks where a slowdown in growth of business would have an impact on the revenue and profitability of Labuan FSA.

RISK	RISK RESPONSE
Financial	Optimising investment of excess funds to generate additional revenue.
	Adhered to smart spending practices and cost management strategies.
	Cost optimisation by rationalising the operations of Labuan FSA and its subsidiaries.
	Initiatives to enhance collection of fees receivables and renewal of licences.

Key Activities Undertaken by the Risk Management Unit in 2019

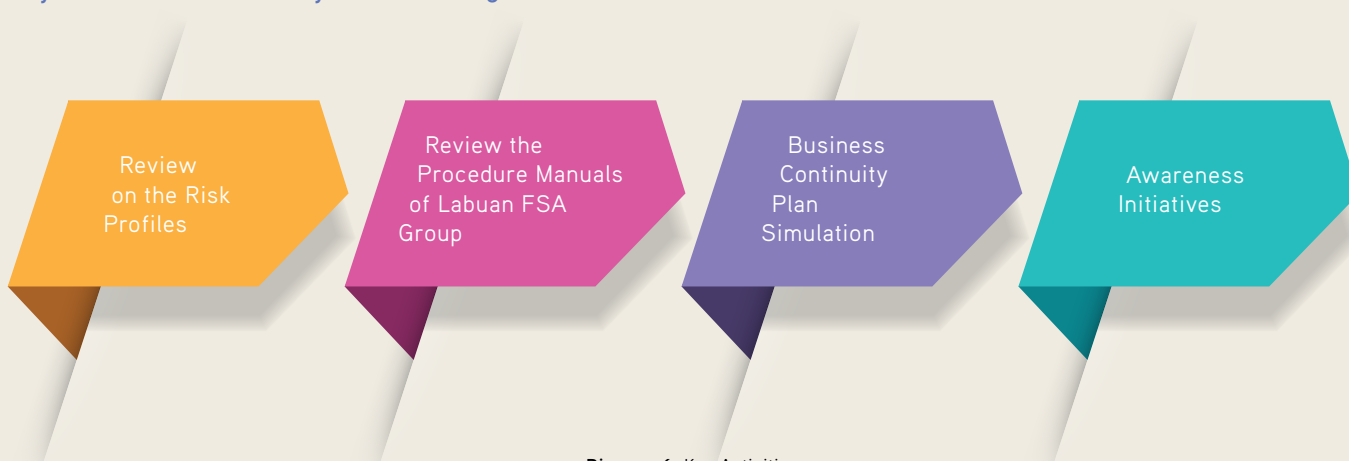


Diagram 6: Key Activities

Review of Risk Profiles

In 2019, the risk profile of Labuan FSA was reviewed to identify the implication arising from any changes in Labuan FSA's strategies. The review involved engagement sessions with the head of units / departments and subsidiaries. The outcomes of the review were reported to the RMWG and ARMC meetings, respectively.

Review of Procedure Manuals of Labuan FSA Group

Labuan FSA will ensure that the operations are being managed more effectively, which resulted in an improvement in the overall performance of the organisation. In this regard, the procedure manuals should be reviewed and updated accordingly.

CORPORATE GOVERNANCE

Awareness Initiatives

During 2019, the RMU conducted initiatives to enhance awareness on risk management as follows:

- ▶ Three bilingual risk bulletins and snippets by the RMU for internal circulation.
- ▶ 26 engagement sessions with the risk owners to promote a culture of risk awareness; and
- ▶ Two briefing sessions with the Business Continuity Plan (BPC) teams to highlight the importance of having effective emergency procedures and back-up plans in the event of disaster.

Business Continuity Plan

The Business Continuity Plan (BCP) framework of Labuan FSA is a key component of the organisation's governance to ensure resiliency and enable an effective response when faced with adverse events.

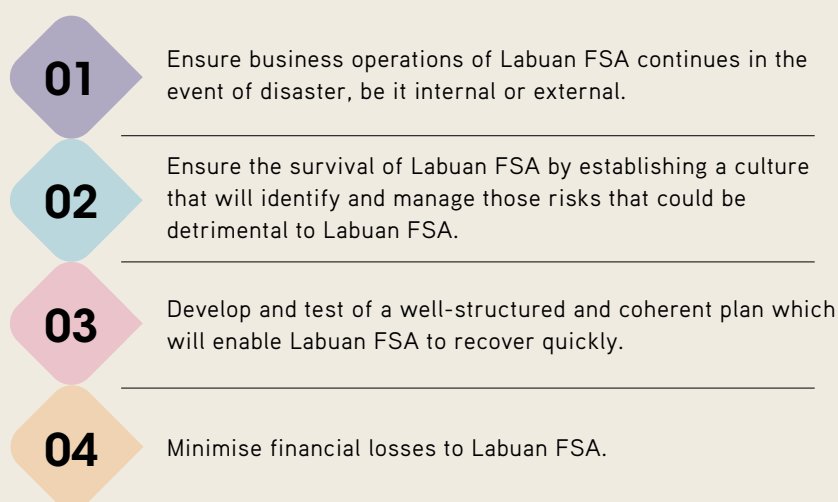


Diagram 7: Objectives of BCP

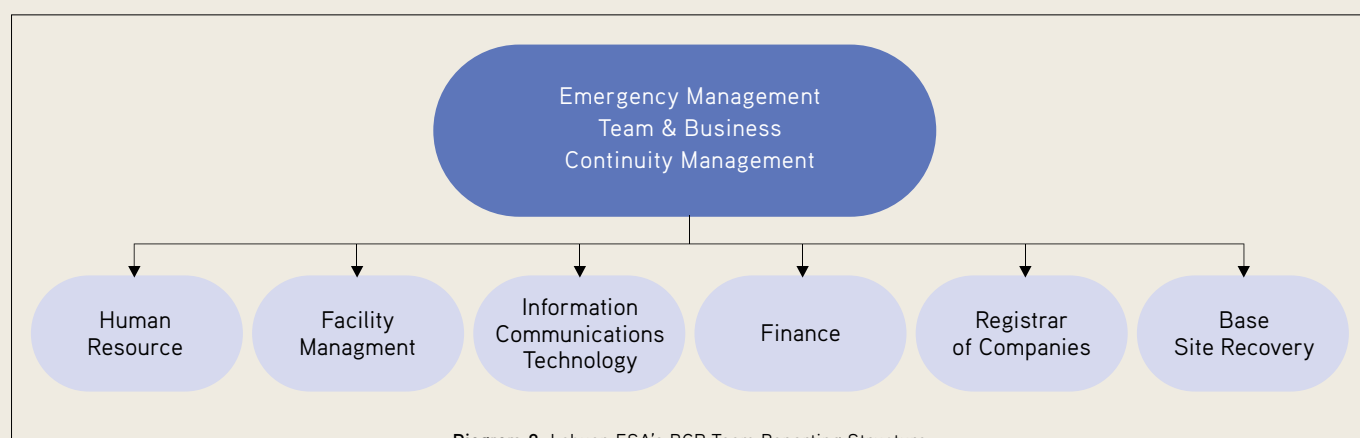


Diagram 8: Labuan FSA's BCP Team Reporting Structure

CORPORATE GOVERNANCE

Labuan FSA's BCP was successfully tested through a simulation exercise in December 2019. This simulation was participated by 27 employees under the Emergency Management Team (EMT) and assessed the functionality and responsiveness of both the Standby Site and Base Site. As a result of the exercise, Labuan FSA continues to enhance the BCP framework on three areas as highlighted in Diagram 9.

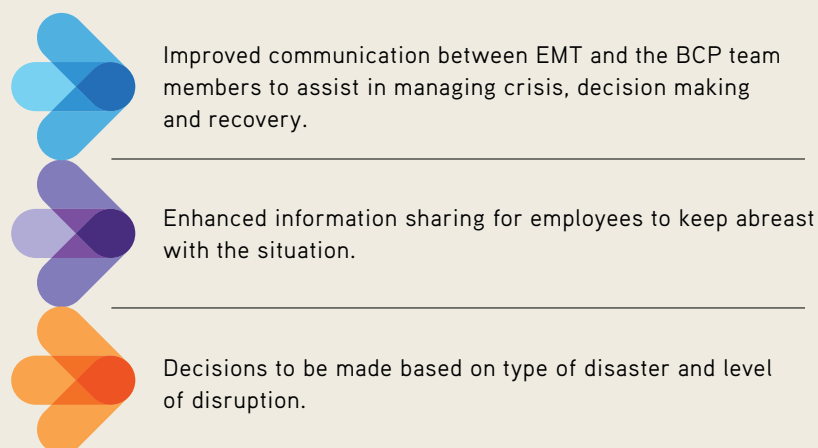


Diagram 9: Outcomes of BCP Simulation

The BCP will be activated depending on the impact of the disaster that has been identified under the organisation's level of emergency as shown in Diagram 10.

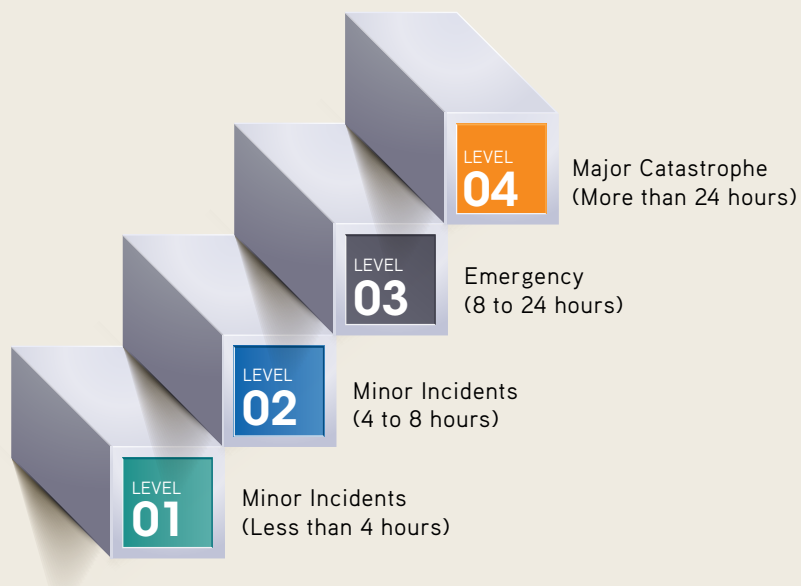


Diagram 10: Labuan FSA's Emergency Level



LABUAN IBFC INDUSTRY PERFORMANCE



For further information, please go to:
www.labuanfsa.gov.my

BUSINESS OF THE LABUAN IBFC



LABUAN COMPANY

LABUAN COMPANIES CAN BE INCORPORATED OR REGISTERED TO CARRY OUT EITHER TRADING OR NON-TRADING ACTIVITIES IN LABUAN. The incorporation of Labuan companies is through the "COROL" system, which is an online core registration system that provides convenience and security to its users with real-time access. Upon lodgement of complete documentation and payment of fees as well as clearance from the due diligence process conducted by Labuan FSA, a Labuan company can be approved for incorporation or registration within 24 hours. The Labuan Companies Act 1990 provides the incorporation, registration and administration of Labuan companies.



BANKING

A LABUAN BANK CAN BE SET UP AS BRANCH OR SUBSIDIARY OF A LICENSED BANK OR AN ESTABLISHED FINANCIAL INSTITUTION OR FINANCIAL SERVICE PROVIDER SUPERVISED BY A COMPETENT REGULATORY AUTHORITY IN THE COUNTRY OF ORIGIN. Labuan banks provide a host of services in both conventional and Islamic to cater to the financial needs of clients both domestic and international. The services provided by Labuan banks include credit facilities, receiving deposits, investment banking services, Islamic banking business, or such other approved activities. All Labuan banks are governed and regulated under the Labuan Financial Services and Securities Act 2010.



INSURANCE

LABUAN INSURANCE BUSINESS INCLUDE GENERAL, LIFE, REINSURANCE AND CAPTIVE INSURANCE. Aside from the conventional (re) insurance services, Labuan IBFC also offers (re)takaful services to cater for those seeking Shariah compliant products. The insurance brokers, underwriting managers as well as insurance managers complete the supply chain by offering the needed intermediary services within the insurance industry. The Labuan insurance business is governed by the Labuan Financial Services and Securities Act 2010.



WEALTH MANAGEMENT

LABUAN IBFC OFFERS A COMPREHENSIVE ARRAY OF WEALTH MANAGEMENT PRODUCTS, EITHER CONVENTIONAL OR ISLAMIC, THAT ARE SUITABLE FOR HIGH NET-WORTH INDIVIDUALS, FAMILY OFFICES AND OTHER WEALTH MANAGERS NEEDING STRUCTURES FOR EFFICIENT WEALTH PROTECTION AND INHERITANCE MANAGEMENT. The relevant Acts related to wealth management include the Labuan Trusts Act 1996 and the Labuan Foundations Act 2010 that provide for the establishment of structures such as trusts and foundations.



LEASING AND COMMODITY TRADING

LABUAN IBFC OFFERS NICHE FINANCIAL PRODUCTS SUCH AS LEASING AND COMMODITY TRADING TO CATER FOR THE NEEDS OF INVESTORS. Leasing is the business of letting or subletting property on hire for the use of such property by the hirer, regardless whether the letting is with or without an option to purchase the property. Labuan IBFC has been a jurisdiction for the lease of aircrafts, ships and other heavy machineries for use in the aviation and oil and gas industries. Labuan leasing business could be transacted via conventional means or in accordance with Shariah principles. Commodity trading is for the trading of physical products and related derivatives such as petroleum and petroleum-related products including liquefied natural gas, minerals, agriculture products, refined raw materials, chemicals, base minerals and coal. Under the Global Incentives for Trading (GIFT) programme, a set of incentives are offered through the establishment of the Labuan international commodity trading companies for traders and trading houses to use Malaysia as their international commodity trading base. Labuan leasing business and commodity trading business are governed under the Labuan Financial Services and Securities Act 2010.



DIGITAL FINANCIAL SERVICES

LABUAN IBFC'S RAPID EMBRACE OF FINANCIAL INNOVATIONS AUGURS WELL FOR THE INCREASING ADOPTION OF DIGITAL FINANCIAL SERVICES (DFS) RELATED BUSINESS IN THE CENTRE VIA ITS READY SUITE OF STRUCTURES AND SOLUTIONS. Labuan IBFC's practical and cost-effective approach allows DFS to be conducted in the actual market instead of sandbox environment. Investors can leverage on the Labuan money broking licence to provide platform for trading of digital assets. Additionally, the relevant laws and guidelines can also facilitate credit token business and payment system operators to set up DFS-related activities such as distributed ledger technology and digital currencies in Labuan IBFC.

LABUAN IBFC INDUSTRY PERFORMANCE

LABUAN REMAINED A RESILIENT FINANCIAL CENTRE IN FACE OF CONSTANT CHANGES IN GLOBAL REGULATORY STANDARDS. THE CENTRE RECORDED POSITIVE GROWTH IN CORE BUSINESS SECTORS AND WITNESSED A SURGE IN NEW BUSINESS INNOVATIONS, WHICH IS IN TANDEM WITH LABUAN IBFC'S ASPIRATION TO EMBRACE DIGITALISATION AS THE WAY FORWARD IN DOING BUSINESS.

HIGHLIGHTS OF KEY BUSINESS SECTORS PERFORMANCE IN 2019



COMPANIES

Incorporation of Labuan companies continued to grow albeit at a slower pace due to global tax policy change and substance requirement. Increased interest from investors from Far East region.

INSURANCE

Labuan insurance sector remained resilient with positive growth trend and profitability increased by 43.7%.



BANKING

Labuan banking sector remained financially strong with positive liquidity and increased profitability by 26.9%. Banks continued to focus on non-resident loans and fee-based income.

COMMODITY TRADING

Labuan commodity trading sector has recorded a slowdown due to depressed and volatile in the global oil and gas market.



DIGITAL FINANCIAL SERVICES

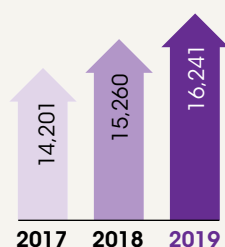
There is an influx of digital financial services setups ranging from digital banking, insurtech to digital-based intermediaries in Labuan IBFC.

LABUAN IBFC INDUSTRY PERFORMANCE

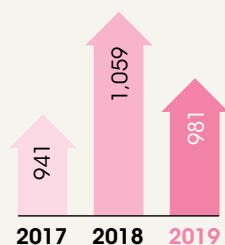
COMPANIES

In 2019, the total registered company grew by 6.4% to 16,241 companies (2018: 15,260) with 981 new companies incorporated. Operating companies increased by 2.1% to 6,158 (2018: 6,031) from the previous year. 58.8% (2018: 60.1%) of the total companies originated from Asia and the Pacific region. There was an increase in establishment of companies from the Far East region to 14.7% from 12.8%. Representation from Europe stood at 12.4% (2018: 12.1%), followed by America and the Middle East and Africa, accounted for 10.6% (2018: 11.2%) and 3.5% (2018: 3.8%), respectively.

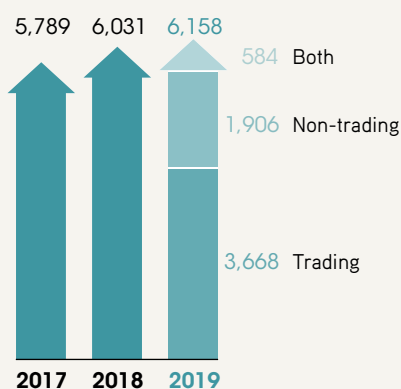
TOTAL COMPANIES



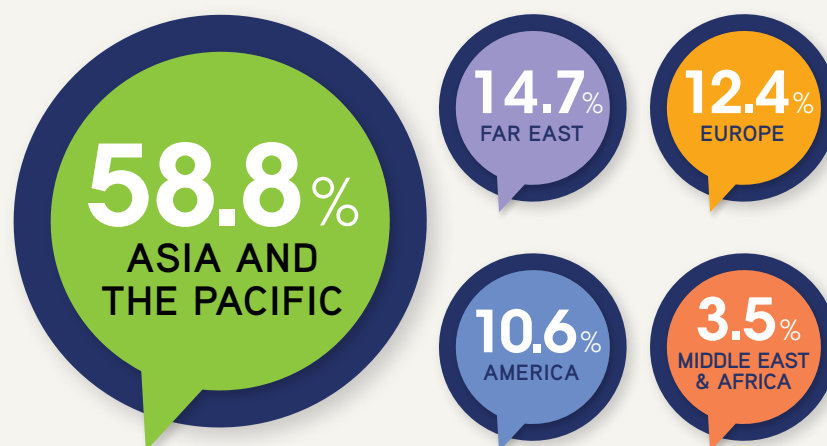
NEW INCORPORATIONS



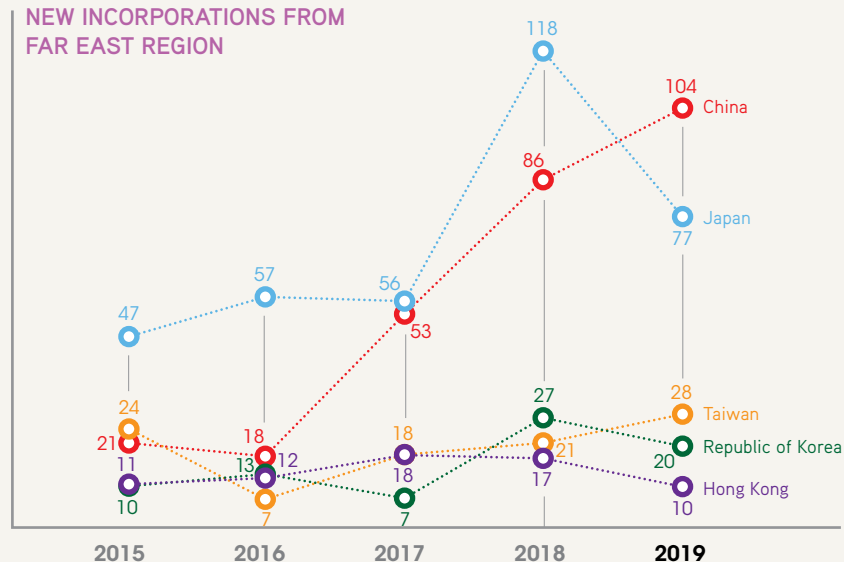
OPERATING COMPANIES



ORIGIN OF LABUAN COMPANIES



NEW INCORPORATIONS FROM FAR EAST REGION

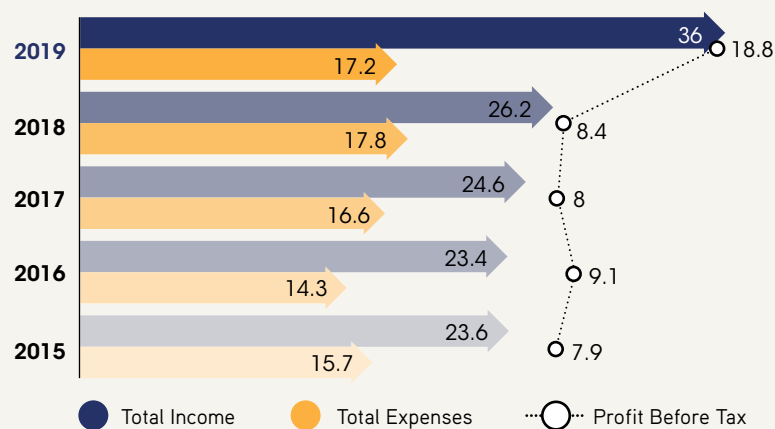


LABUAN IBFC INDUSTRY PERFORMANCE

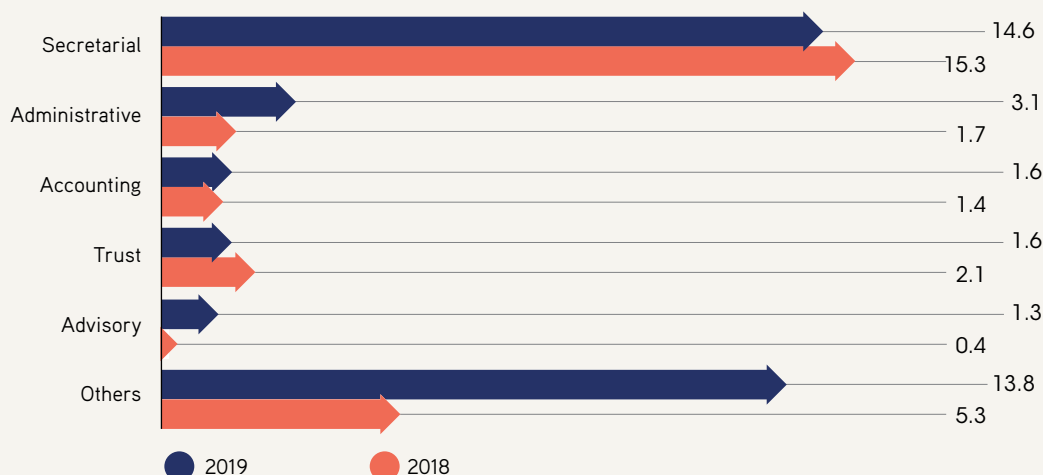
TRUST COMPANIES

The increase in company incorporation has boosted the growth of the trust and corporate services sector in Labuan IBFC. These service providers offer a wide range of services to entities across the market as well as to the international investors. In 2019, five new trust companies were approved, comprising one full-fledged trust and four managed trust companies, while two trust companies surrendered their licences. This brings the total number of trust companies to 61 (2018: 58), an increase of 5.2% from last year. The total income of the trust companies increased by 37.4% to USD36 million (2018: USD26.2 million). This is due to investment income gained from the sale of a Labuan trust company subsidiary's share which led to a significant increase of 123.8% in the sector's profitability to USD18.8 million (2018: USD8.4 million). The income of Labuan trust companies was mainly derived from advisory services, secretarial, trusteeship, accounting and administrative activities.

PROFITABILITY (In USD Million)



SOURCE OF INCOME (In USD Million)



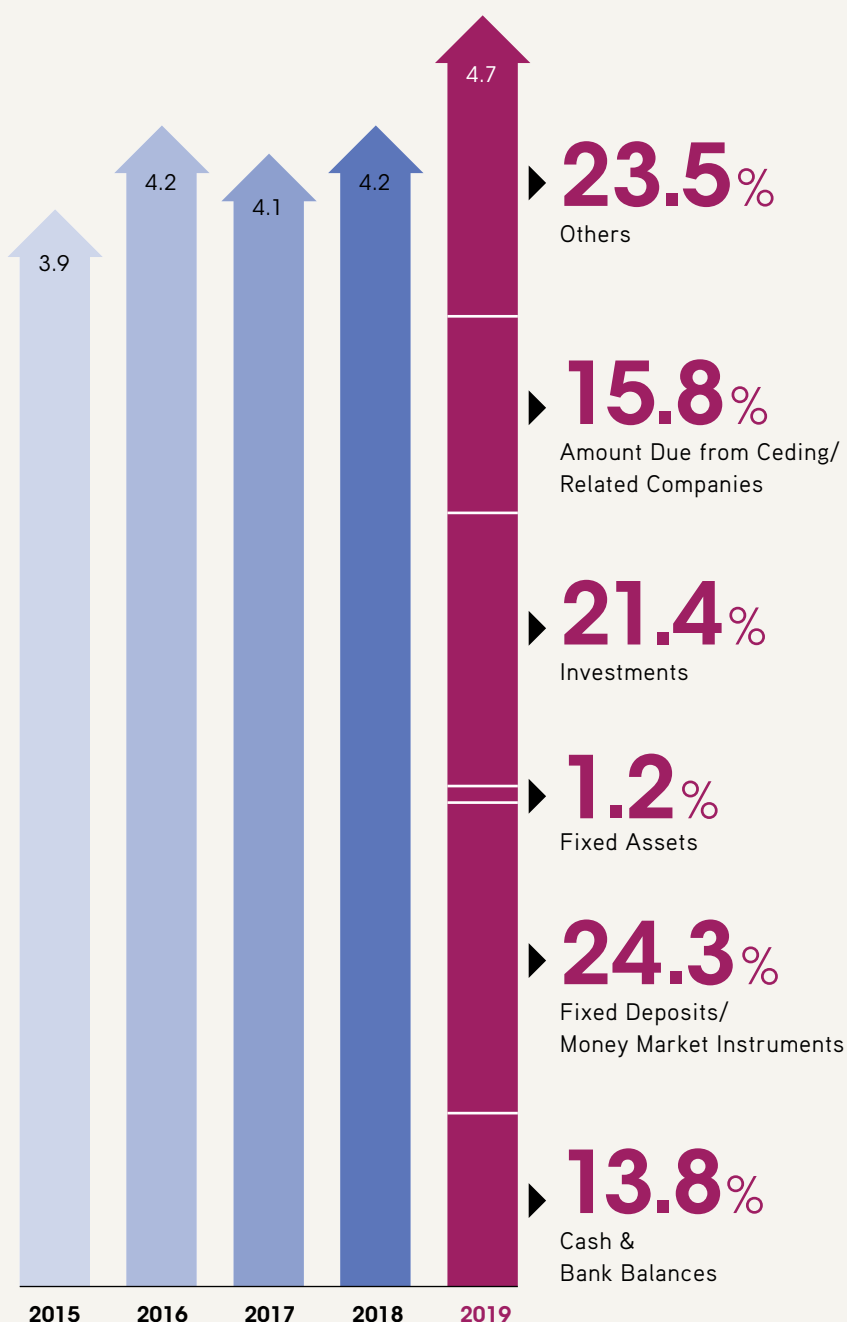
LABUAN IBFC INDUSTRY PERFORMANCE

INSURANCE

Labuan insurance industry remained resilient with modest growth trend and higher profitability performance for 2019. Ten new entities were approved, comprising one general insurer, five captives, three brokers and one underwriting manager. During the year, seven licensees have surrendered their licences due to business decisions. This brings the total number of approved Labuan insurance and insurance-related entities to 219 (2018: 216).

Total assets increased by 9.8% to USD4.7 billion (2018: USD4.2 billion), mainly attributed to higher investment in fixed deposits and money market instrument. Fixed deposit and money market remained the largest portion of total assets component, representing 24.3% or USD1.1 billion (2018: USD948.5 million).

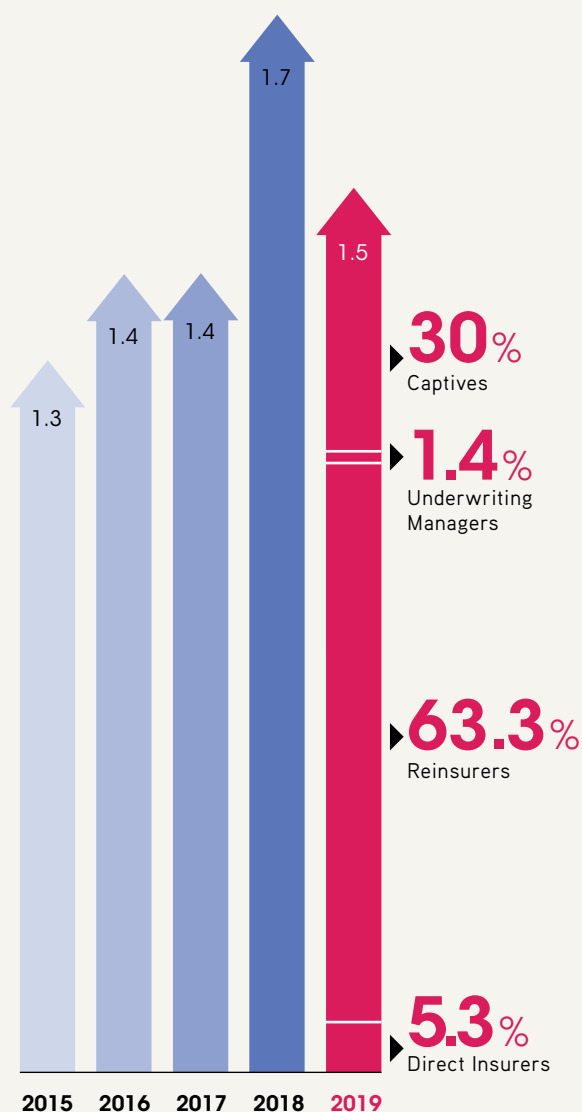
TOTAL ASSETS (In USD Billion)



LABUAN IBFC INDUSTRY PERFORMANCE

Total gross premiums moderated by 8.8% to USD1.5 billion (2018: USD1.7 billion) due to business rationalisation by affected (re)insurers for their international portfolios. Non-resident business continued to dominate the insurance activity by 58.7% (2018: 64.7%) and fire sector remained the largest contributor of 33.5% or USD509.8 million (2018: 39.8%, USD664.9 million) of the total gross premiums underwritten.

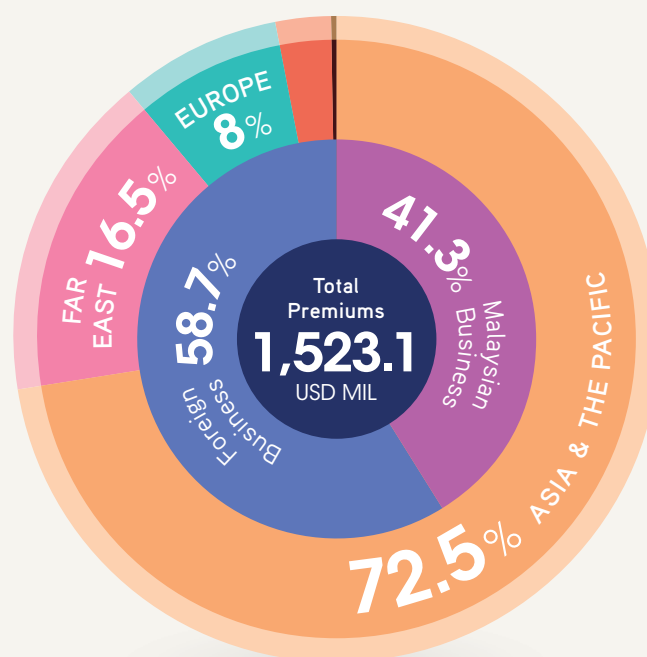
TOTAL GROSS PREMIUMS (In USD Billion)



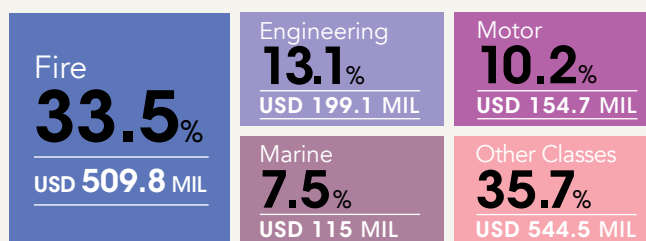
DISTRIBUTION OF GROSS PREMIUMS

By Region

MIDDLE EAST & AFRICA 2.9% ● ● 0.1% AMERICA



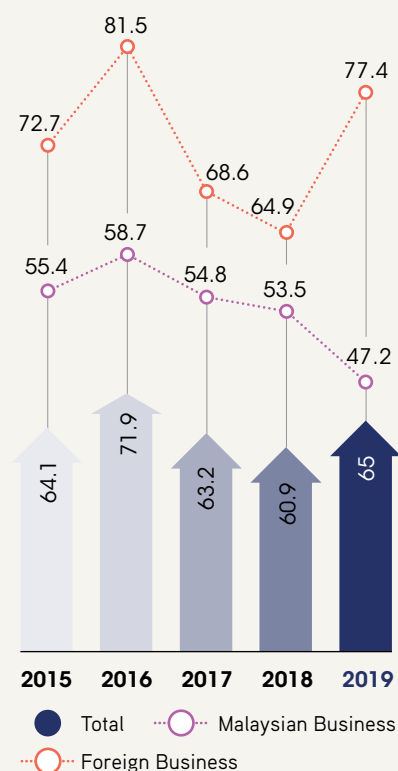
By Sector



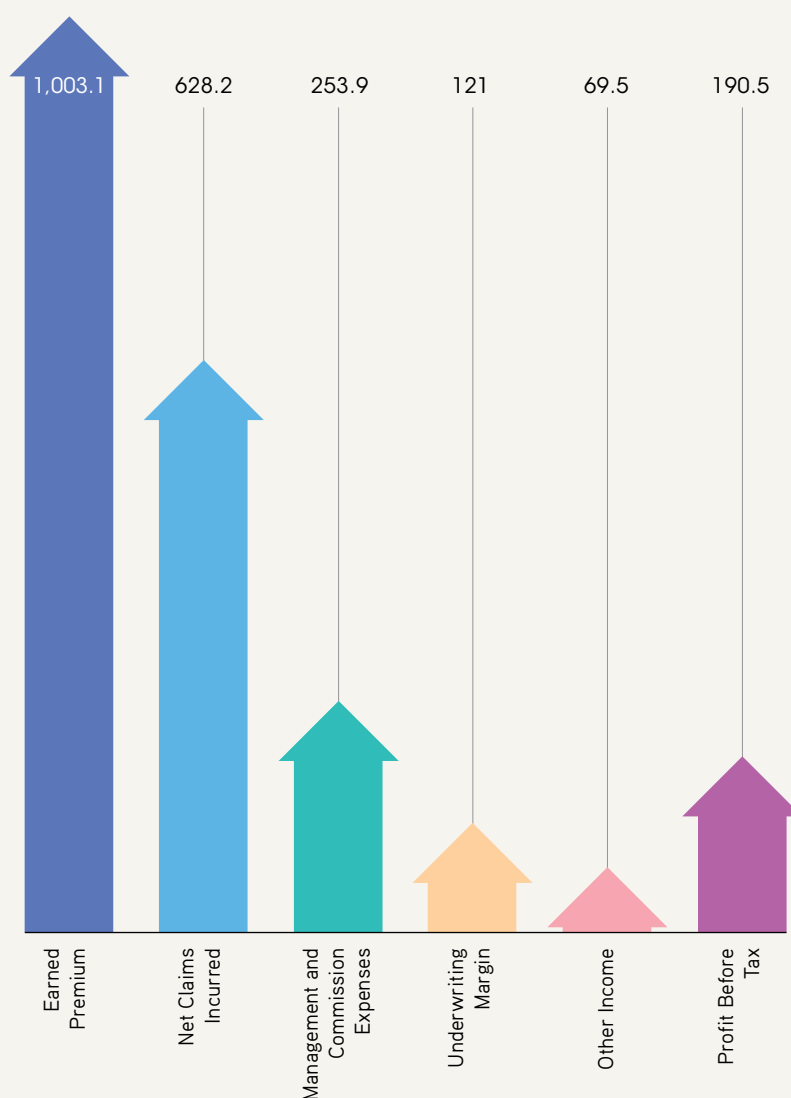
LABUAN IBFC INDUSTRY PERFORMANCE

The overall net retention ratio of the industry increased to 65% (2018: 60.9%) mainly due to higher business retention in fire, motor and other classes. The industry earned premium income increased by 1.7% to USD1,003.1 million (2018: USD982.8 million) hence, increase in underwriting margin by 25.8% to USD121 million (2018: USD95.8 million). Net claims incurred remained stable with slight decrease of 0.5% to USD628.2 million (2018: USD621.7 million). Contrastingly, management and commission expenses decreased by 4.3% to USD253.9 million (2018: USD265.3 million). As a result of improved underwriting performance and better cost management, industry's profitability increased by 43.7% to USD190.5 million (2018: USD132.6 million).

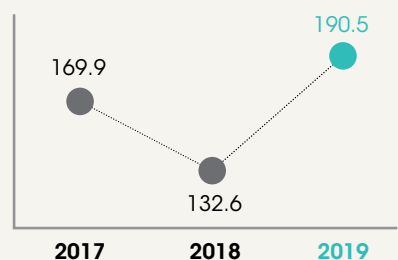
NET RETENTION RATIO (In %)



UNDERWRITING MARGIN (In USD Million)



PROFITABILITY (In USD Million)

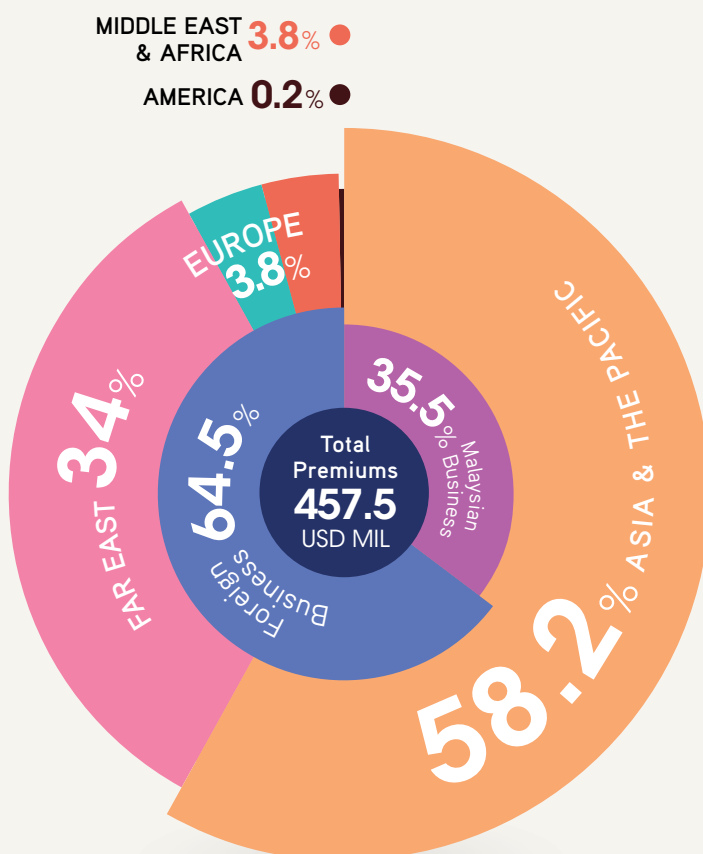


LABUAN IBFC INDUSTRY PERFORMANCE

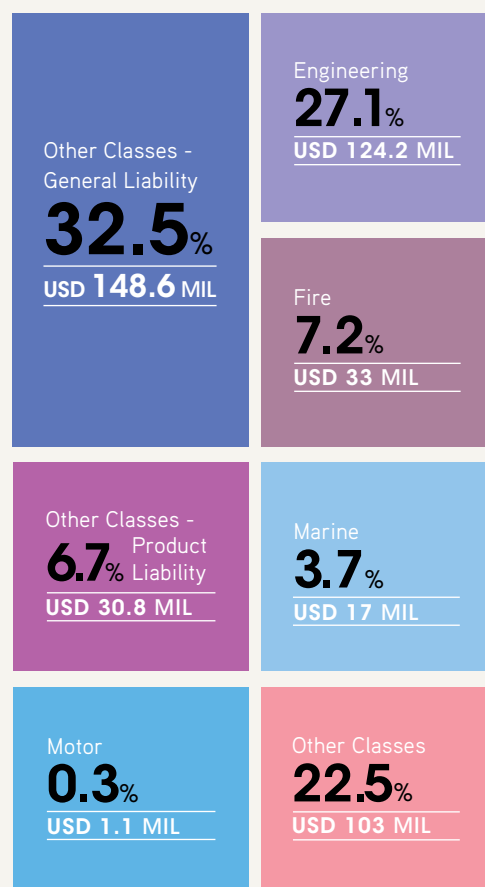
Captive insurance business continued its growth momentum with five new captives being set up in 2019, four were Malaysian based and one from Marshall Island. The total gross premiums increased by 14.2% to USD457.5 million (2018: USD400.5 million) and 64.5% of the total premiums were originated from the international market. Engineering sector and other classes of business continued to be the main sectors that contributed to the increase in total gross premiums of captives with USD124.2 million (2018: USD98.7 million) and USD282.4 million (2018: USD246.1 million), respectively.

DISTRIBUTION OF GROSS PREMIUMS

By Region

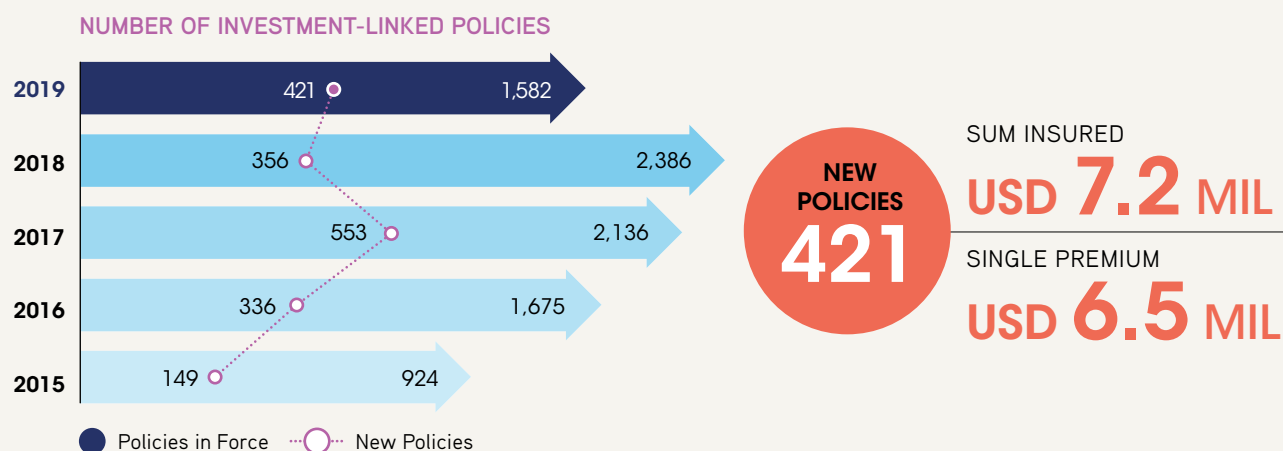


By Sector

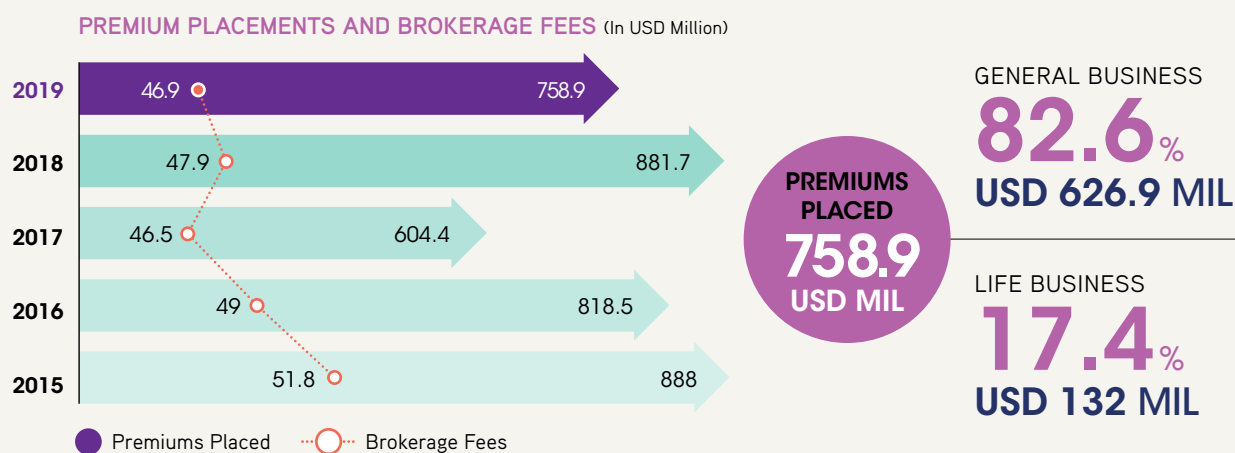


LABUAN IBFC INDUSTRY PERFORMANCE

For life insurance business, a total of 421 (2018: 356) new investment-linked policies were issued in 2019 with a total of USD6.5 million (2018: USD8 million) worth of premiums. The total number of policies in force decreased by 33.7% to 1,582 (2018: 2,386).



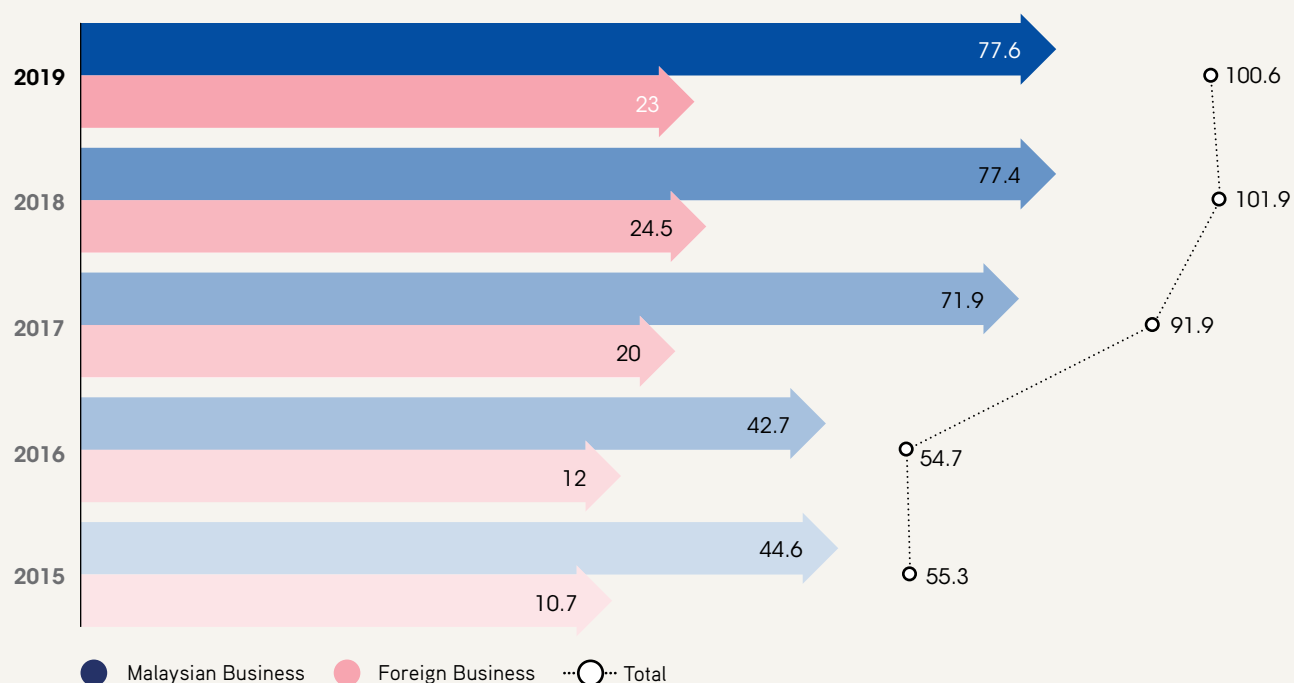
The total premium placement by the Labuan insurance brokers decreased by 13.9% to USD758.9 million (2018: USD881.7 million). The general insurance business contributed 82.6% (2018: 87%) of the total premium placement, mainly derived from the international market. The brokerage fees earned by the Labuan insurance brokers declined slightly by 2.2% to USD46.9 million (2018: USD47.9 million).



LABUAN IBFC INDUSTRY PERFORMANCE

The total gross contributions for (re)takaful sector declined slightly by 1.3% to USD100.6 million (2018: USD101.9 million) with motor sector remained the highest contributor of 55% or USD55.3 million (2018: USD50.1 million).

TOTAL GROSS CONTRIBUTIONS (In USD Million)



Motor

55%

USD 55.3 MIL

Fire

29.7%

USD 29.9 MIL

Engineering

5.2%

USD 5.2 MIL

Marine

2%

USD 2 MIL

Other Classes

8.1%

USD 8.2 MIL

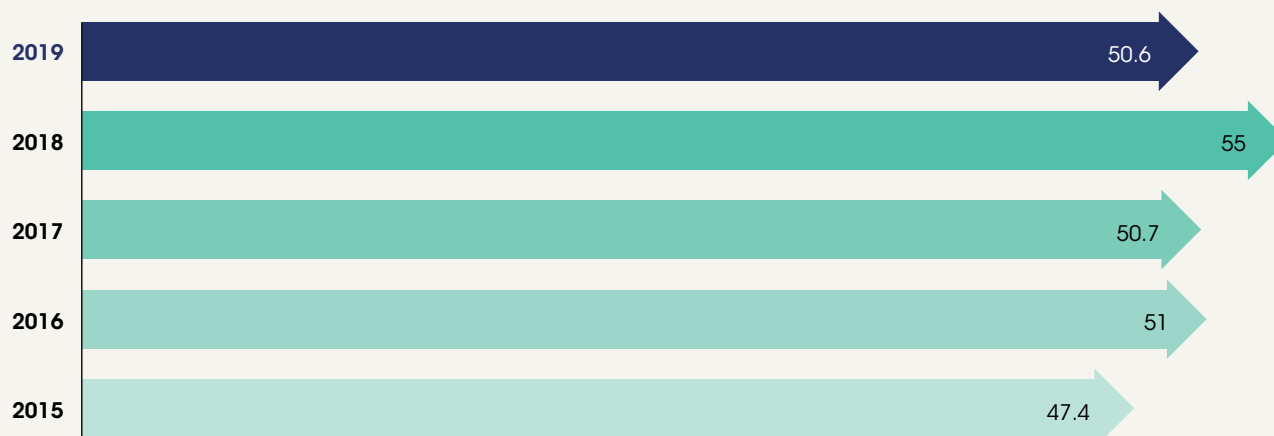
LABUAN IBFC INDUSTRY PERFORMANCE

BANKING

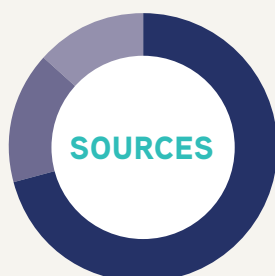
The banking sector continued to grow with the entrance of five new banks, comprising one commercial bank and four investment banks, bringing the total number of banks to 59 (2018: 55). One investment bank has surrendered its licence.

Total assets reduced by 8% to USD50.6 billion (2018: USD55 billion) due to lower financing extended. In line with the implementation of new tax policy, the banks have rationalised their loan portfolios by reducing resident financing. Borrowing from head offices and financial institutions continued to be the primary funding source for Labuan banks.

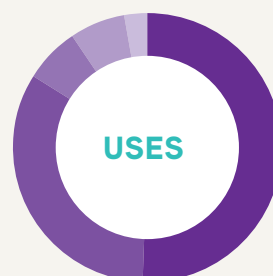
TOTAL ASSETS (In USD Billion)



SOURCES AND USES OF FUNDS



71.1% Amount due to financial institutions/
interbank borrowings
15.7% Deposits
13.2% Others



50.7% Loans and advances
33.4% Balances due from head
offices/ branches
6.7% Investments
6.6% Cash and short-term funds
2.6% Others

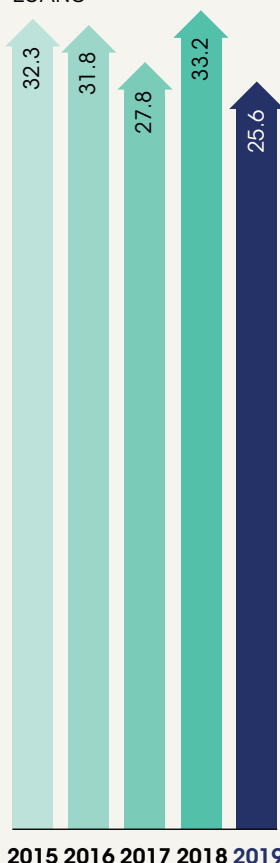
LABUAN IBFC INDUSTRY PERFORMANCE

Total loans contracted by 22.7% to USD25.6 billion (2018: USD33.2 billion) and non-resident customers contributed 66.9% or USD17.1 billion (2018: 59.7%, USD19.8 billion) of the loan portfolio. The total customer deposits declined by 16.5% to USD8 billion (2018: USD9.5 billion) due to resident depositors' withdrawal. Deposits from non-residents were 54.7% or USD4.4 billion of the total deposits.

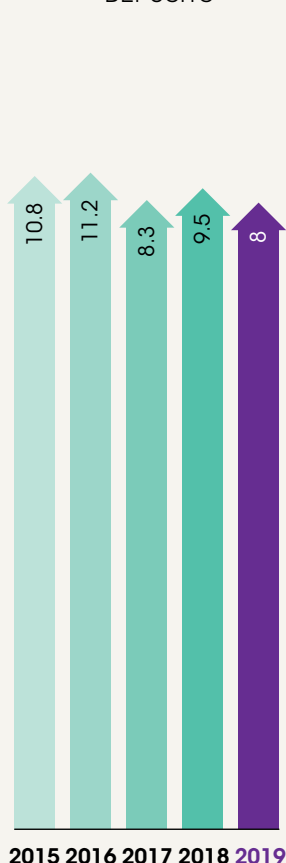
Financing extended to property sector showed a growth of 22.2% with lending to non-resident borrowers to fund commercial and residential projects in the United Kingdom, Australia and Vietnam.

LOANS AND DEPOSITS (In USD Billion)

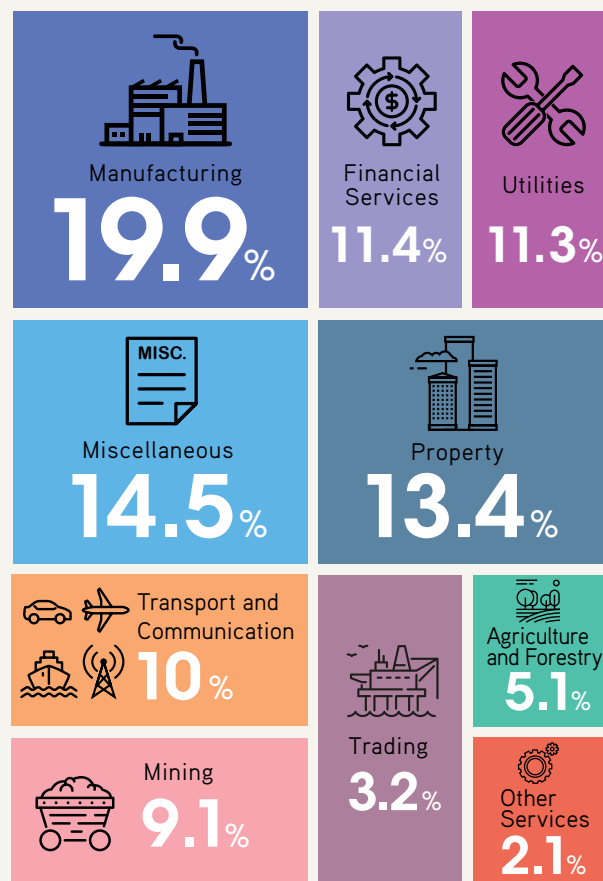
LOANS



DEPOSITS



FINANCING COMPOSITION



LABUAN IBFC INDUSTRY PERFORMANCE

LOAN PORTFOLIOS

BY ORIGIN
OF BORROWERS

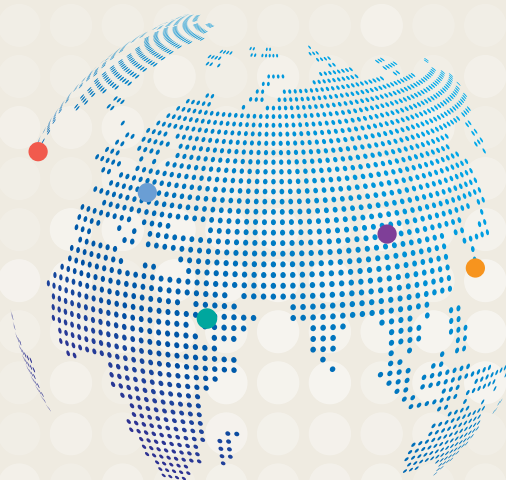
**ASIA &
THE PACIFIC**
66.5%

EUROPE
18.9%

AMERICA
9.4%

FAR EAST
4.1%

**MIDDLE EAST
& AFRICA**
1.1%



BY LOAN EXPOSURES

**ASIA &
THE PACIFIC**
76.8%

Main Sectors
Manufacturing
Utilities
Transport and
communication

EUROPE
14.4%
Main Sectors
Property
Financial services
Special purpose vehicles

FAR EAST
4.1%
Main Sectors
Manufacturing
Other services
Property

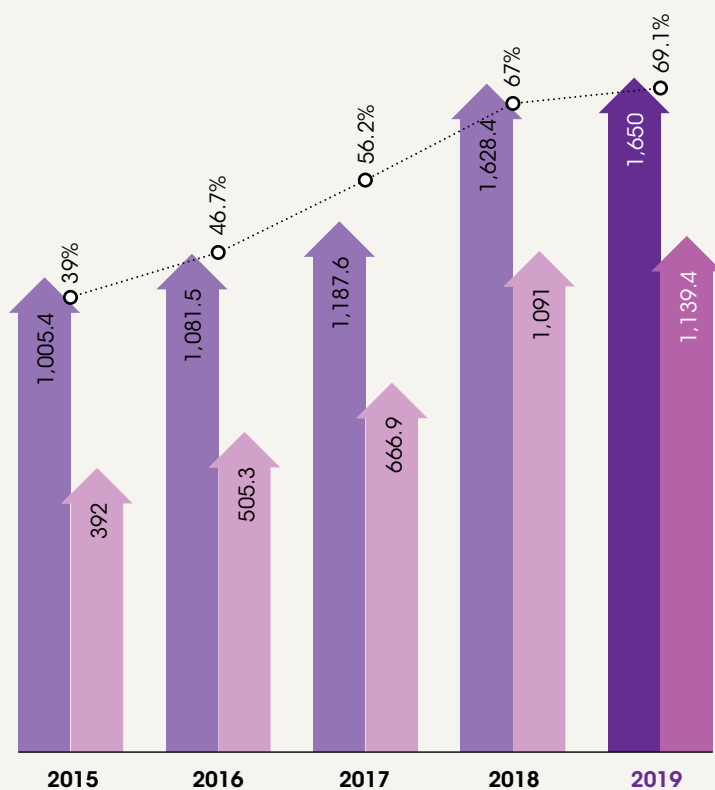
AMERICA
3%
Main Sectors
Agriculture and forestry
Transport and
communication
Utilities

**MIDDLE EAST
& AFRICA**
1.7%
Main Sectors
Mining and quarrying
Utilities
Transport and
communication

LABUAN IBFC INDUSTRY PERFORMANCE

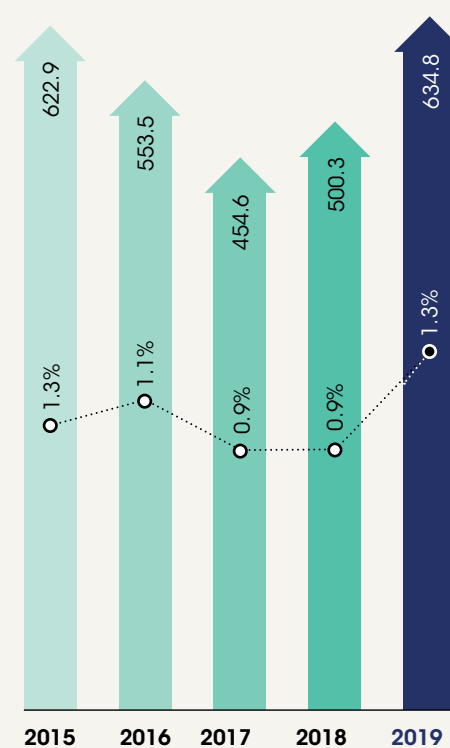
The banking sector's profitability recorded an encouraging 26.9% growth to USD634.8 million (2018: USD500.3 million) due to lower non-interest expense and net gain from reversal of provision. As a result, the industry's Return on Assets improved from 0.9% to 1.3%.

NET INTEREST INCOME (In USD Million)



● Total Interest Income ● Total Interest Expenses
○ Interest Expense to Interest Income Ratio

PROFITABILITY (In USD Million)



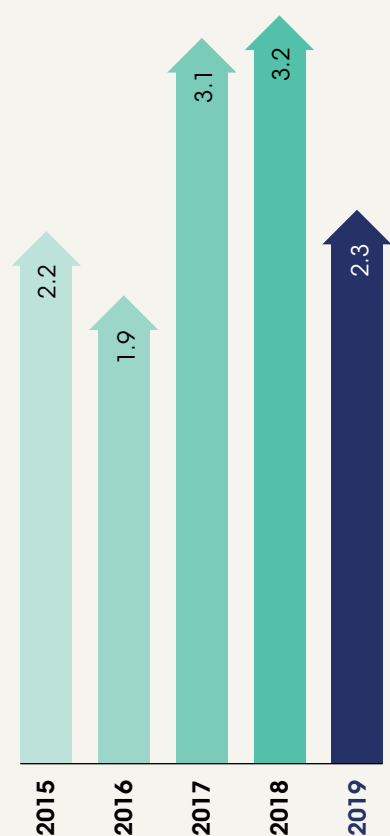
● Profit Before Tax
○ Return on Assets

LABUAN IBFC INDUSTRY PERFORMANCE

The Islamic banking assets has declined to USD2.3 billion (2018: USD3.2 billion) due to repatriation of funds to head offices after settlement of loans by clients. The total financing stood at USD 2 billion (2018: USD 2.7 billion) with non-residents accounted for 66.3% (2018: 70.4%). The total Islamic deposits decreased to USD67.3 million (2018: USD212.7 million) with non-residents contributing 94% of the total (2018: 91.6%).

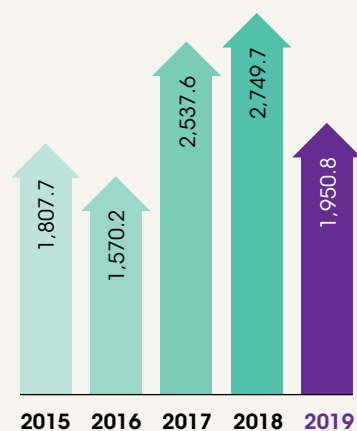
ISLAMIC BANKING

TOTAL ISLAMIC ASSETS (In USD Billion)

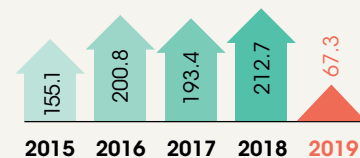


FINANCING AND DEPOSITS (In USD Million)

FINANCING



DEPOSITS



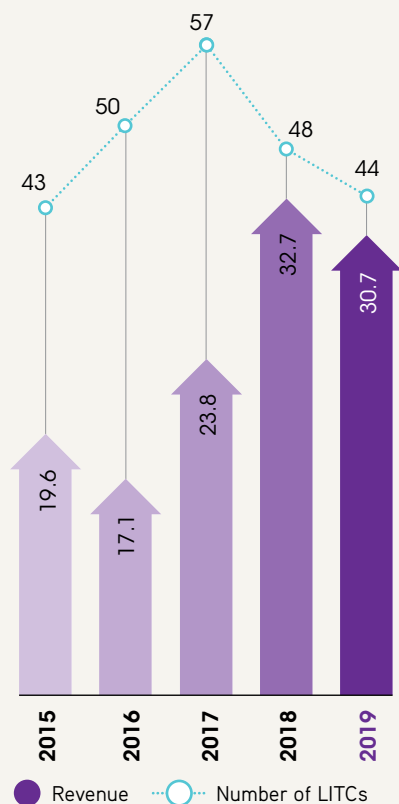
LABUAN IBFC INDUSTRY PERFORMANCE

INTERNATIONAL COMMODITY TRADING

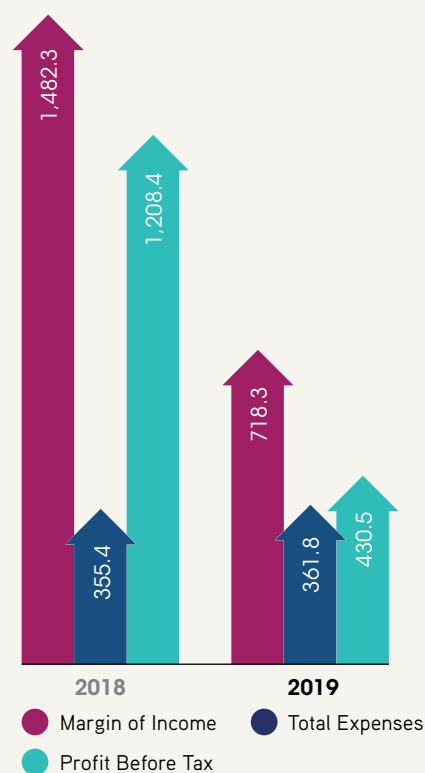
The Labuan commodity trading industry has recorded a slowdown due to depressed and volatile in the global oil and gas market. For the year under review, four Labuan international commodity trading companies (LITCs) were approved, while eight were either surrendered or revoked, bringing the total number to 44 (2018: 48).

The unfavourable petroleum and commodity prices had exerted downward pressure on the revenue of LITCs to USD30.7 billion (2018: USD32.7 billion). Consequently, profitability was impacted by the lower margin of income amounted USD718.3 million (2018: USD1.5 billion).

TOTAL REVENUE (In USD Billion)



PROFITABILITY (In USD Million)



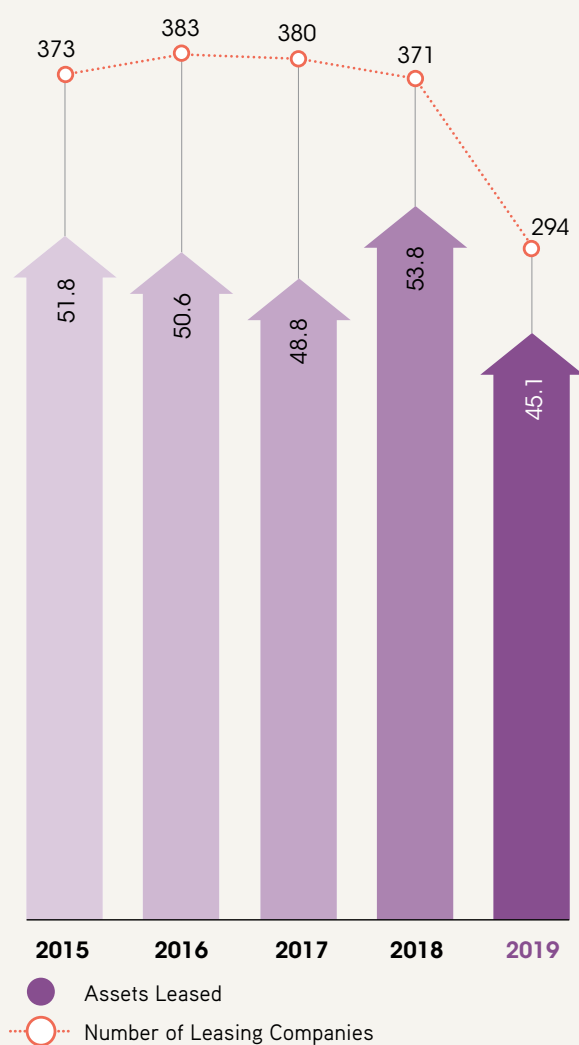
LABUAN IBFC INDUSTRY PERFORMANCE

LEASING

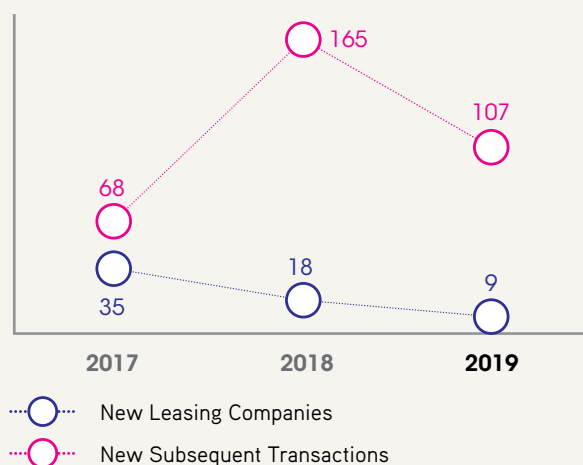
Labuan leasing growth pace was moderated due to continued business rationalisation to meet the substance requirements. This has resulted in the reduction of the number of Labuan leasing companies in 2019. Consequently, the total industry leased asset decreased by 16.1% to USD45.1 billion (2018: USD53.8 billion). Nonetheless, Labuan leasing structure remained popular among international leasing players with new market entrance where nine new leasing companies and 107 subsequent leasing transactions were approved in 2019, bringing the total leasing companies to 294.

TOTAL ASSETS LEASED

(In USD Billion)

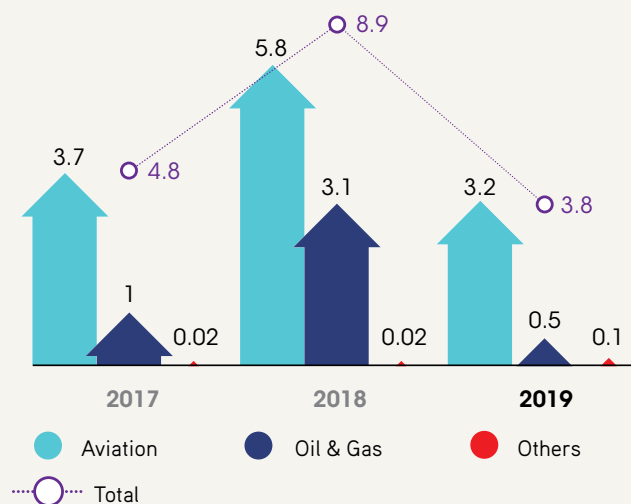


NEW APPROVALS



NEW ASSETS LEASED

(In USD Million)



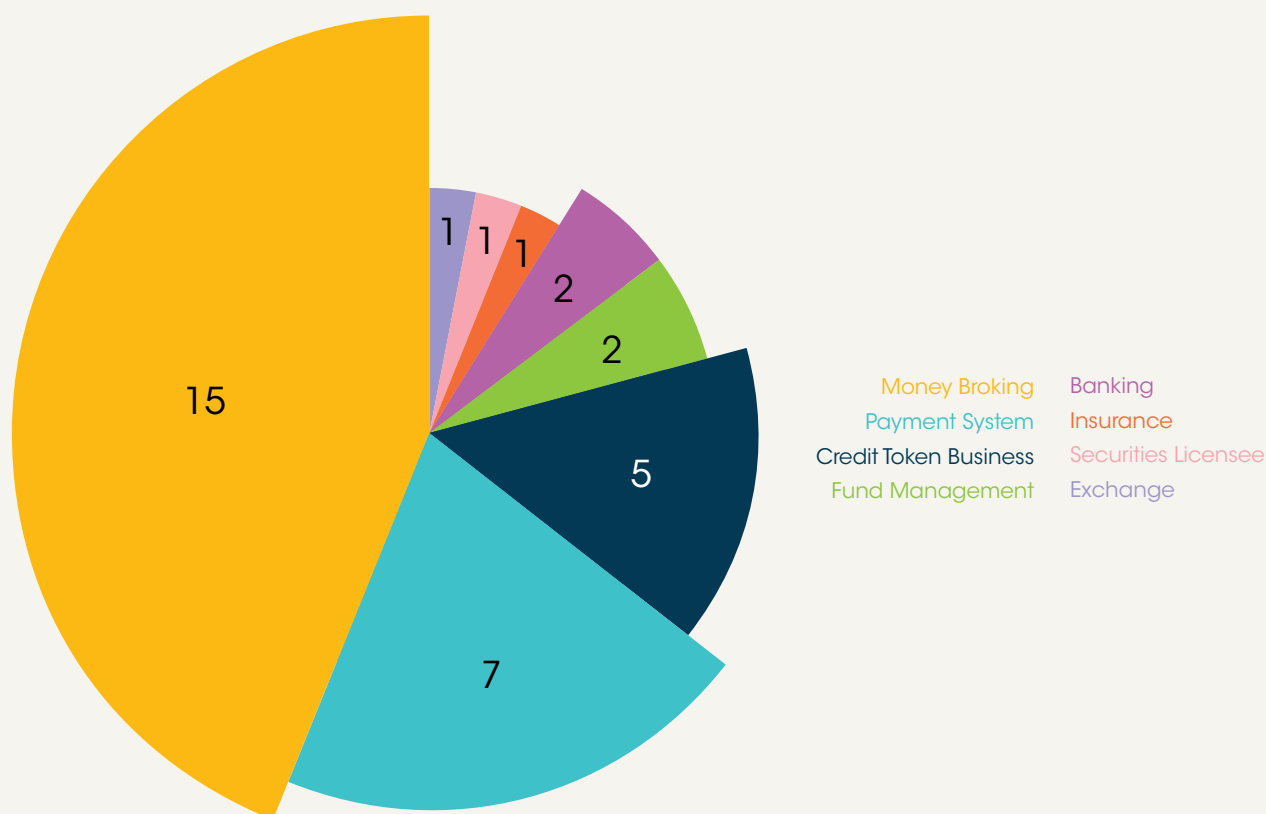
LABUAN IBFC INDUSTRY PERFORMANCE

DIGITAL FINANCIAL SERVICES

Labuan IBFC continued to record an influx of digital financial services (DFS) setups ranging from digital banking, insurtech to digital-based intermediaries in the market. This is attributable to a more practical and cost-effective approach which allows DFS businesses to operate in the actual market instead of in an artificially created sandbox business environment. There were 28 new licences granted for the DFS-related businesses in 2019, while two approvals were null and void, bringing the total number to 34 (2018: 8). Majority were to provide digital currency trading platform and e-payment system.

Money broking business continued to gain traction as the digital assets continued to grow in the international market. Most of the new money broking setups offer online e-currencies trading. In 2019, 26 money brokers were approved during the year, one licence was null and void while one surrendered, bringing the total number to 59 (2018: 35). More than 60% of Labuan money brokers were originated from Asia, mainly from Japan, Singapore, Hong Kong, Korea and Malaysia. For credit token business, three new licences were issued for asset backed token and for payment system, seven were approved for clearing and settlement of funds in the credit token business.

DIGITAL FINANCIAL SERVICE PROVIDERS



LABUAN IBFC INDUSTRY PERFORMANCE

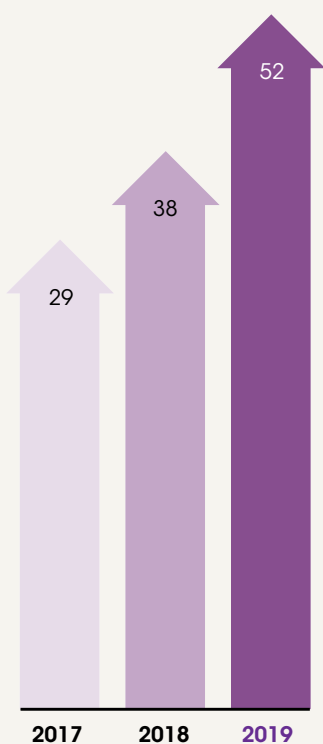
FOUNDATIONS

Labuan IBFC continued to attract affluent investors through its complete suite of wealth management offerings. Riding on the growing trends of High Net Worth Individuals (HNWIs), the number of investment vehicles registered continued to increase. Labuan IBFC offers a choice of investment vehicles of either Common Law's trust vehicles or Civil Law's foundation structures. In addition, these investment vehicles can be established under the Labuan conventional laws or shariah compliant requirements based on the preference of the prospects.

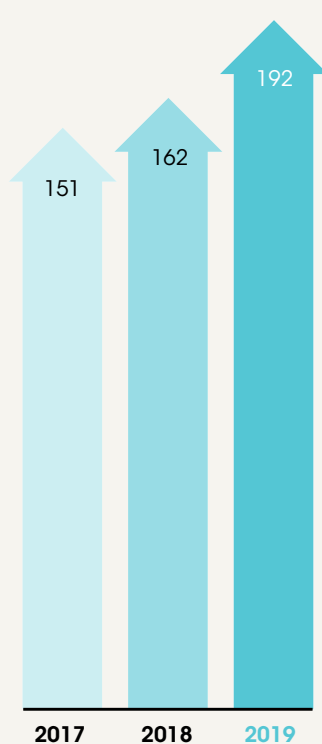
In 2019, registration of new foundations has increased by 36.8% to 52. During the year, there were 25 foundations deregistered while three were re-activated, bringing the total number of active foundations to 192 (2018: 162). Out of the 192 foundations, 163 were established for private wealth preservation purposes.

FOUNDATIONS

NEW REGISTRATIONS



NUMBER OF FOUNDATIONS



ORIGIN OF FOUNDATIONS



TRUSTS

The total number of registered trusts in 2019 remained at 14, comprising five Labuan purpose trusts, three charitable trusts, two protective trusts and four private beneficiary trusts.

LABUAN IBFC INDUSTRY PERFORMANCE

CAPITAL MARKET

The Labuan capital market intermediaries comprising fund managers, fund administrators, custodians and securities licensees provide the ecosystem for capital market activities.

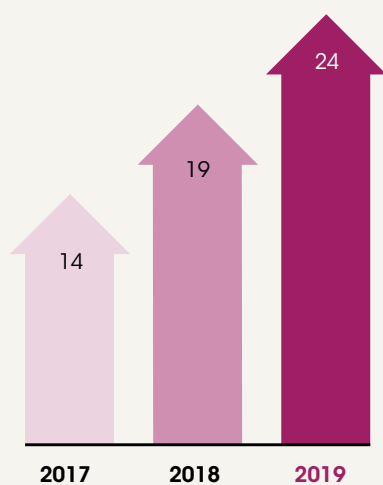
In 2019, seven new fund managers were approved, and two licences were either surrendered or null and void, bringing the total number of fund managers to 24 (2018: 19).

54.1% of the fund managers originated from the Asia and the Pacific region, mainly from Singapore and Malaysia. The remaining 45.9% of fund management companies were from Europe (16.7%), America (16.7%) and Far East (12.5%). Total number of private funds remained at 62 with total approved fund size stood at USD13.1 billion.

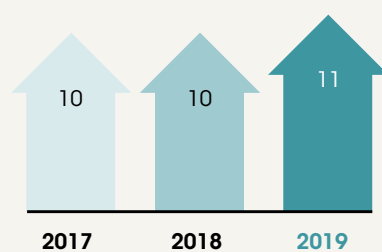
Three new securities licensees were granted while two have surrendered their licences, bringing the total number to 11 (2018: 10).

INTERMEDIARIES

FUND MANAGERS

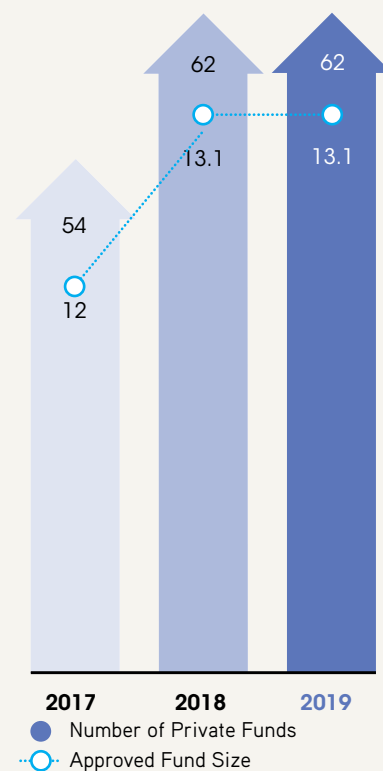


SECURITIES LICENSEES



PRIVATE FUNDS

APPROVED FUNDS SIZE (In USD Billion)

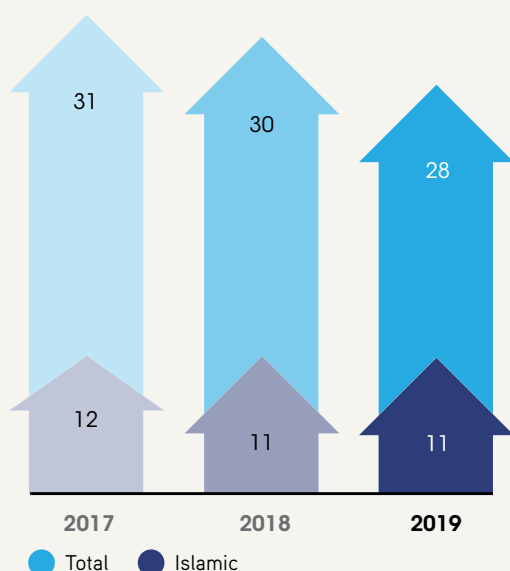


LABUAN IBFC INDUSTRY PERFORMANCE

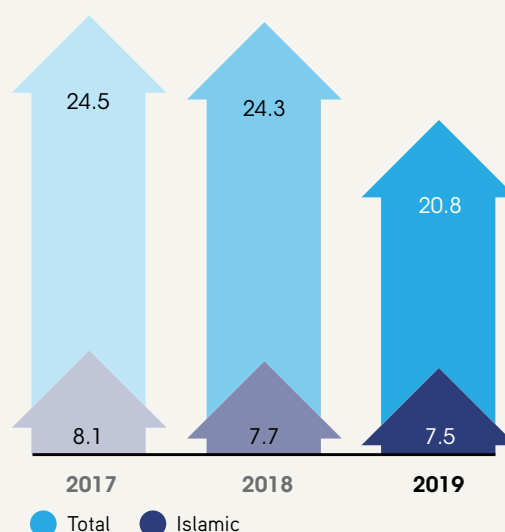
EXCHANGE

In 2019, Labuan International Financial Exchange (LFX) has recorded four new listings, while six instruments were delisted upon maturity, bringing the total listings to 28 (2018: 30). The four new listings worth USD1.3 billion in aggregate were raised through primary issuance for financial and energy business. The total market capitalisation declined by 14.4% to USD20.8 billion (2018: USD24.3 billion). Of the total, 36% or USD7.5 billion (2018: USD7.7 billion) were sukuk issuance.

NUMBER OF ACTIVE LISTINGS



MARKET CAPITALISATION (In USD Billion)



Apart from LFX, Labuan IBFC is also home to Fusang Exchange, offering primary listing of digital securities, such as equities, bonds, derivatives and funds as well as alternative asset classes of real estate. The Exchange also allows secondary market trading of security tokens, crypto and fiat currencies.



POLICY DEVELOPMENT



POLICY DEVELOPMENT

PRUDENTIAL POLICIES DEVELOPMENT

I. Strengthening Financial Resilience of Labuan IBFC Market

Efforts during the year continued to focus on modernising the capital regulations in the insurance sector. 2019 was a milestone year as Labuan FSA embarked on simulation study to gauge the impact of the proposed risk-based capital framework on Labuan (re)insurers as well as rolling out an enhanced capital regulation for Labuan captive insurance. Both policy improvements were undertaken to ensure that Labuan regulations adhere to international standards and are consistent to the best practices of peer markets. Where merited, policy accommodation was considered to ensure that the regulations are business-practical and well-suited to the unique business features of Labuan IBFC.

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

For 2019, Labuan FSA undertook a Quantitative Impact Study (QIS) in order to finalise the ICAF requirements. The QIS was developed together with the market's Working Group comprising representatives from the Labuan insurers and actuarial expertise to:

- (i) assess the impact of the proposed ICAF requirements on Labuan (re)insurers' financial positions;
- (ii) gauge the readiness of Labuan (re)insurers in complying with the proposed capital requirement; and
- (iii) obtain the industry's feedback on any implementation issues as well as recommendations for improvements.

The outcome of the QIS including industry's feedback will be used to calibrate and further refine the Risk Based Capital (RBC) requirements prior to finalising the Guidelines on the same. Labuan FSA will implement ICAF on a phased-in approach as depicted below to allow for the industry to ease in and adapt to the new risk-based capital regime:

TIMELINE	INITIATIVE
2020	Finalisation and issuance of RBC's requirements
2021	Parallel run (reporting on both ICAF and the existing Margin of Solvency requirements)
2022	Full implementation of ICAF

- **Review of Captive Solvency Requirements**

The revised Guidelines on Capital Adequacy Requirements for Labuan Captive Insurance and Takaful Business was issued in 2019. The revised requirement replaces the existing margin of solvency requirements for captive insurance and takaful business effective from 1 January 2021. The revision which entailed upscaling to the solvency requirements to better suit captive businesses, was developed based on the latest international standards expectation and capital regulations of peer jurisdictions. It is expected that the revised requirement would enable the Labuan captives to be continuously resilient and the sector to also be attractive as internationally comparable to prominent captive markets in other regions.

POLICY DEVELOPMENT

II. Enhancing the Outsourcing Risk Management of the Market

To ensure continuous improvement in corporate governance and risk management practices in the banking, insurance and capital market sector, Labuan FSA had developed a policy framework to cater for the outsourcing arrangements of industry players. The outsourcing framework sets out the Authority's expectation and regulatory requirements to be observed by Labuan banking institutions, (re)insurers and fund managers for outsourcing of their material activities. These include ensuring effective management of outsourcing risks, adequate oversight on the outsourcing arrangements, data security as well as business contingencies. The policy will be finalised in 2020 taking into account industry feedback from the exposure draft circulated during the year.

BUSINESS POLICIES DEVELOPMENT

In 2019, Labuan IBFC has embarked on implementing new tax framework to be in line with the international initiatives to combat harmful tax practices in countries with no or nominal corporate tax rates. In essence, the new rules require entities established in Labuan IBFC to demonstrate that they carry out substantial economic activities in the island in order to enjoy the fiscal incentives accorded to them.

Rationalising Operational Requirements

In view of the implementation of new tax framework that have affected how the businesses are being undertaken in the Centre, the Authority have liberalised certain operational requirements to ensure the sustainability and competitiveness of the Centre.

- **Leasing**

The revised Guidelines on the Establishment and Operations of Labuan Leasing Business was issued on 5 March 2019 to ensure consistency with the changes to the Labuan tax framework as well as to facilitate the leasing business operations. The salient amendments made to the Guidelines include updating the substance requirements to make reference to the Labuan Business Activity Tax (Requirements for Labuan Business Activity) Regulations 2018 and rationalised operational requirements relating to lease agreement requirements.

- **Work Permit**

The following guidelines were revised on 2 April 2019 with the aim of providing flexibilities in fulfilling the requirements:

- (i) Guidelines on Work Permit Application in Labuan IBFC for Licensed Entity; and
- (ii) Guidelines on Work Permit Application in Labuan IBFC for Non-licensed Entity.

The salient revisions to the guidelines cover the following:

- (i) Removal of minimum capital requirement for non-licensed entities and partnership;
- (ii) Rationalised the frequency of business plan's submission for non-licensed entities; and
- (iii) Liberalisation of operational requirements which include removal of residential address requirement and the time bar on the validity of work permit recommendation by Labuan FSA.

- **Marketing Office**

The revised Guidelines on the Establishment of Labuan Marketing Office and Frequently-Asked Questions for Guidelines on the Establishment of Labuan Marketing Office were issued on 12 April 2019 and 13 June 2019, respectively. The revisions made to the Guidelines were aimed at liberalising the establishment of marketing office in any part of Malaysia whilst ensuring that the requirements remain relevant and consistent with the prevailing regulations and business environment. The Frequently-Asked Questions provide clarifications on the Guidelines based on the queries made by the industry players.

POLICY DEVELOPMENT

TAX POLICIES DEVELOPMENT

Following the implementation of new Labuan tax regime, effective from 1 January 2019, the Labuan Investment Committee (LIC) which comprised of representatives from the Ministry of Finance (MOF), Inland Revenue Board of Malaysia (IRB) and Labuan FSA was formed mainly to clarify on matters relating to Labuan Business Activity Tax (Requirements for Labuan Business Activities) Regulations 2018 (Substance Regulations). Amongst others, the LIC is also mandated to:

- (i) Recommend business activity requirements for Labuan entities carrying on Labuan business activities to the MOF for consideration and approval;
- (ii) Validate and monitor business activities by Labuan entities for the purpose of complying with Substance Regulations including measures on denial of benefits under the Labuan Business Activity Tax Act 1990 (LBATA) and appeal cases, if any.

Four LIC meetings were held in 2019 of which in one occasion, the key representatives from Labuan industry players have made presentations to the Committee in relation to the implementation issues concerning the new Labuan tax framework. In 2019, the LIC had issued two pronouncements and few circulars to clarify further on the revised substantial activity requirements, treatment of non-deductibility rules, definition of full-time employees, mode of declaration on substantial activity requirements and etc. The tripartite collaboration between MOF, IRB and Labuan FSA as well as continuous engagement with Labuan industry have provided the needed guidance by the market to ensure smooth rolling out the new tax regime in Labuan IBFC.

ISLAMIC FINANCE DEVELOPMENT

In 2019, Labuan FSA continued its commitment to invigorate further the growth of Islamic finance activities in Labuan IBFC, particularly in the sphere of Islamic capital market and wealth management.

Promoting Socially Responsible and Sustainable Investors

Capitalising on the strength of Labuan IBFC as an attractive domicile for sukuk issuance, the Guidance Note on Issuance of Aviation Sukuk as well as Green, Social and Sustainability (GSS) Sukuk are being developed. The Guidance Notes would raise market awareness on the conducive environment in Labuan IBFC for raising funds through sukuk issuance to finance the aviation sector as well as environmentally friendly projects which have gained prominence on the global front.

Nurturing Growth in Islamic Wealth Management

The Guidance Note on Islamic Trust in Labuan IBFC, regarded to be the first in the world, was issued as a comprehensive guidance to the market. This includes the application of Faraidh (Islamic law of inheritance) principles and rulings for an Islamic Trust created by a will and in the event of the revocation of an Islamic Trust. This serves as an important guide for the international clientele in view of increasing demands for Shariah-based estate planning solutions in financial centres such as Labuan IBFC.

Fostering Collaboration with Strategic Stakeholders

The year also witnessed the strategic collaboration between Labuan FSA, the International Islamic Financial Market (IIFM), Islamic Banking and Finance Institute Malaysia (IBFIM) and Labuan Faculty of International Finance, University Malaysia Sabah for the seminar on “Industry Opportunities in Islamic Finance”. The seminar is envisaged to equip Labuan industry players and university students with practical applications of Islamic financial contracts in international finance through interactions with industry experts and practitioners. The intellectual discourse featured certification programmes offered by IBFIM and standardised Islamic financial contracts developed by IIFM as part of the efforts to continuously upscale the technical expertise and skill set in Islamic financial transactions and contracts.

POLICY DEVELOPMENT

ADVISORY GROUPS MEETINGS

During the year under review, Labuan FSA consultative bodies, namely the International Advisory Panel, Shariah Supervisory Council and Financial Stability Committee have conducted several meetings with the identified task force based on the agreed date and timeline. The members of the consultative bodies are mandated to provide valuable insights and advise the Authority on specific areas relating to the business and market development of Labuan IBFC.

(1) International Advisory Panel

In 2019, the International Advisory Panel (IAP) members have deliberated on the following focused areas:

(i) Malaysia's and Labuan IBFC's Financial Technology (FinTech) Developments

In line with the rapid growth of FinTech, the meeting discussed on Malaysia's FinTech offerings and developments and how Labuan IBFC could complement the domestic FinTech industry. With majority dealings with non-Malaysians, Labuan IBFC offers varieties of products and services such as digital asset exchange, digital wallet, Robo-advisory, insurtech and digital bank well-suited for FinTech activities in the region. Building a FinTech ecosystem in Labuan IBFC would primarily requires efforts and integration by all relevant parties to boost the understanding of stakeholders and facilitate their participations with the Labuan FinTech ecosystem. The IAP deliberated on several initiatives that could promote further FinTech developments in Labuan IBFC such as expanding the banking activities to include digital banking, exploring the use of technology-agnostic regulations i.e. RegTech and SupTech in regulating and supervising emerging technologies in the jurisdiction and to look for potential demand for alternative investment and financing opportunities via digital platforms such as crowdfunding and peer-to-peer (P2P) financing platforms.

(ii) Market Developments

The IAP members also provided inputs to enhance further Labuan IBFC industry arising from global developments in key sectors including banking, insurance, Islamic finance as well as emerging market developments. Among the key highlights of the discussion were as follows:

(a) **Banking**

The positive outlook for cross-border banking businesses gives opportunities to the following activities in Labuan IBFC:

- Growing demands from the underserved sectors such as Small and Mid-Sized Enterprises (SMEs) linked to financial inclusion; and
- The digital banking innovations provide alternatives to the current banking services and delivery channels to cater for increasingly techno-savvy clients who prefer easier, seamless and value-added banking services.

(b) **Insurance**

In view of the global industry's current downward trends in 2019, to spur the growth of Labuan insurance industry, there is a need to undertake deep dive assessment of the Labuan insurance market to identify the drivers in achieving market growth.

(c) **Islamic finance**

As Labuan IBFC's existing niche area, this sector could be strengthened further especially by expanding the capital market offerings which include taking advantage of current demands for alternative investment and financing such as crowd funding and venture capital.

POLICY DEVELOPMENT

(iii) New Labuan IBFC Tax Framework

The IAP was briefed on the developments relating to the new Labuan tax requirements especially on measures that has been and would be taken to address implementation issues faced by the market. The IAP applaud the establishment of Labuan Investment Committee and opined that as a multi-agency platform to clarify and tackle uncertainties and issues from Labuan tax incentives, is beneficial to industry and should be continued.

(iv) Promotional Activities by Labuan IBFC Inc.

The IAP members were briefed on promotional activities undertaken and planned by Labuan IBFC Inc. In line with the uprising of digital era, more FinTech events will be organised as part of the marketing strategy plan of Labuan IBFC Inc.

(2) Shariah Supervisory Council

In 2019, the Shariah Supervisory Council (SSC) deliberated on the proposed Guidance Note on Issuance of Aviation Sukuk in Labuan IBFC. The SSC deliberated and proposed enhancements to the Guidance Note, which included, in relation to the maintenance costs of Ijarah sukuk as well as the various Shariah contracts that can be used for aviation sukuk issuance.

On another policy matter, the SSC decided to shorten the timeline for the disposal of Shariah non-compliant asset after the establishment of an Islamic Trust from three years to not more than one year for all asset classes. Notwithstanding this, the SSC allows the Shariah adviser to exercise discretion if there is any circumstance with valid reason which require exemption to this rule.

(3) Financial Stability Committee

The Financial Stability Committee (FSC) had three meetings in 2019 to deliberate matters pertaining to the financial stability of Labuan IBFC. The meetings deliberated on prudential regulations, supervisory issues as well as other matters which are pertinent to Labuan IBFC as follows:

- The prudential policy plan for year 2019 which focused on strengthening capital regulations for the insurance sector including captives as well as enhancing the outsourcing requirements for the key Labuan financial institutions such as banks, insurers and fund managers;
- The supervisory assessment on composite risk rating of key financial institutions in Labuan IBFC for year 2019, which took into account their capital positions, liquidity, governance as well as compliance issues;
- Pertinent market and regulatory developments as part of environmental scanning such as the potential impacts of the transition of London Interbank Offered Rate to Labuan banks;
- Key international assessments on Labuan IBFC such as the outcome of Global Forum on Transparency and Exchange of Information for Tax Purposes by the Organisation for Economic Co-operation and Development as well as the preparatory works for the Asia/Pacific Group on Money Laundering assessment scheduled in 2020;
- Bank Negara Malaysia (BNM)'s surveillance on Malaysia's external debts and borrowings including the overall exposure of Labuan banks; and
- Regulatory sharing by BNM and the Securities Commission Malaysia (SCM) on areas of common interest which serve as Labuan FSA's considerations for its ongoing policy developments as follows:
 - ▶ outsourcing framework and the liberalisation of foreign exchange administration policy by BNM; and
 - ▶ regulatory approach undertaken by SCM for FinTech-related businesses encapsulating areas on licensing, governance and market conduct.

POLICY DEVELOPMENT

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

Increasing Level of Awareness of ML/FT/PF of Labuan Industry Players

Recognising the needs of Labuan players to further increase their awareness and knowledge on money laundering, terrorist financing and proliferation financing (ML/TF/PF) risks, Labuan FSA has collaborated with other law enforcement agencies that are members of National Coordination Committee (NCC) to organise awareness sessions on these subjects. The primary objectives of the sessions were to expose or share the latest ML/TF/PF risks faced by their business and their role in mitigating these risks. The players also took the opportunity to pose questions to the list of credible speakers of related issues that they had on the topics. Moving forward, there will be continuous awareness sessions of various types with focus on AML/CFT/TFS where the Authority sees fit to organise and enlighten the Labuan players.

a) Awareness Session on Terrorism Financing and Targeted Financial Sanctions

Labuan FSA collaborated with Special Branch Counter-Terrorism Division E8 of Royal Malaysia Police and Financial Intelligence and Enforcement Department of Bank Negara Malaysia in organising this session in October 2019. The participants were from Labuan banks, Labuan trust companies, Labuan insurance and insurance-related companies, Labuan money brokers and Labuan foundations. The session covered the following topics:

- i. Overview of Malaysia's terrorism and terrorism financing situation;
- ii. Preventive measures on targeted financial sanctions on terrorism;
- iii. Sanction monitoring on Labuan financial institutions; and
- iv. Red flag indicators and good governance practices for Labuan non-profit organisation sector.

b) Awareness Session on Proliferation Financing

Labuan FSA in collaboration with the Ministry of International Trade and Industry (MITI) organized a session on PF in November 2019. It was attended by targeted participants from Labuan banks, Labuan trust companies, Labuan leasing companies and Labuan international commodity trading companies. Topics presented by MITI cover an overview of the Strategic Trade Act 2010 in relation to targeted financial sanctions relating to proliferation financing. The session also touched on proliferation financing risk assessment on Labuan sectors as well as control measures including best practices.

c) Technical Guidance Workshop on Sanction Reporting and Suspicious Transaction Reporting

The third session conducted in 2019 was specifically organised for Labuan money brokers to provide guidance on the importance of sanctions reporting and suspicious transaction reporting. In addition, the workshop successfully highlighted the significance and process of suspicious transaction reporting when suspicious activities or transactions are detected during their course of business.



SUPERVISORY ACTIVITIES



For further information, please go to:
www.labuanfsa.gov.my

SUPERVISORY ACTIVITIES

SUPERVISION AND MONITORING

THE SUPERVISORY OBJECTIVES OF THE CENTRE CONTINUED TO FOCUS ON THE SAFETY AND SOUNDNESS AS WELL AS MARKET CONDUCT OF LABUAN FINANCIAL INSTITUTIONS (FIs). THE AIM IS TO ENSURE THAT THEY COMPLY WITH REGULATORY REQUIREMENTS INCLUDING ANTI-MONEY LAUNDERING/ COUNTER FINANCING OF TERRORISM (AML/ CFT) REGULATIONS.

In 2019, supervisory activities and resources were accorded to higher risk sectors as identified under the National Risk Assessment and Sectoral Risk Assessment. In addition, closer monitoring and surveillance were undertaken on concerned institutions and specific sectors with emerging risks as observed during supervisory annual review.

Under the risk-based supervisory approach, relationship managers (RMs) were assigned to continuously monitor Labuan Financial Institutions (FIs) and non-financial institutions (NFIs) under their portfolios. In managing allocation of resources and supervisory time, more would be accorded to institutions with higher risk profiles. For banks and insurers, composite risk ratings (CRRs) are assigned to them in accordance to their risk profiles and exposures. The CRRs are reviewed annually based on the findings and observations arising from supervisory activities carried out during the year. These include results from onsite examinations and offsite reviews of the RMs on their respective portfolios. For other sectors, such as trust companies, capital market entities, money brokers and other intermediaries, they are risk profiled based on their respective business status and circumstances, which will reflect their financial standing. The supervisory assessment on the institutions also entails reviews on their periodic regulatory submissions to the Authority. The analysis on the individual institutions' statistical returns, audited financial statements, internal audit reports, actuarial reports, survey responses, will complement the supervisory findings obtained from onsite examinations and engagements.

For the year under review, 77 on-site examinations were carried out (2018: 45). The intensified activities were mainly driven by the expanded supervisory scope to cover regulatory compliance of NFIs. In this regard, a dedicated supervision team was assigned internally to supervise this new area. For the NFIs, 37 on-site examinations were conducted on foundations, leasing companies and international commodity trading companies during the year.

Based on the supervisory activities carried out during the year, main observations amongst the institutions included inadequacy in records keeping, deficiencies in customer due diligence measures, outsourcing without the Authority's prior approvals, conducting activities beyond those permitted for marketing offices as well as capital shortfalls. In response, supervisory letters were issued to respective institutions to address non-compliances.

Where the non-compliances were found to be material, enforcement actions were imposed which included administrative penalties, business restructuring and revocation of licence. Overall, the risk ratings of majority of the banks and insurers were rated as low and moderate. For the few financial institutions which were non-compliant to capital requirements or other key regulations, these were classified as concerned institutions, and are closely monitored. For the specific measures undertaken, restrictions of business were imposed on nine money brokers and one insurance broker for capital deficiencies. The list of the non-compliant institutions was also published on Labuan FSA's website.

In 2019, awareness sessions were also conducted for trust companies, money brokers, fund managers and NFIs focusing on internal audit and AML/CFT. These sessions were aimed at enhancing the effectiveness of LFI's internal audit function and the AML/CFT internal controls. The periodic meetings with the industry associations also served as engagement platforms with the market, particularly to discuss on supervisory expectations and key observations from onsite examinations as well as other concern areas. Consistent with industry developments, training for supervisors on topical development such as FinTech and Cyber Risks were intensified during the year. In addition, a dedicated group was accorded for information technology and operational risks in view of the emerging development that affect the financial institutions.

In view that most of Labuan FIs are part of multinational groups, home-host cooperation with other supervisor authorities continued to be emphasised on by the Authority. During the year, Labuan FSA had attended two supervisory colleges and also hosted attachment programme with personnel from other authorities; namely Guernsey Financial Services Commission and Seychelles Financial Services Authority. Such initiatives will continue to be pursued so as to facilitate information exchange and sharing of best practices amongst supervisors.

SUPERVISORY ACTIVITIES

Going forward for 2020, supervisory focus will continue to be accorded to key areas such as AML/CFT controls, corporate governance practices, outsourcing governance and compliance to substance requirements. Aside from examination, assessment surveys will also be deployed to obtain relevant information and as a basis for supervisory assessment.

ENFORCEMENT ACTIONS

FIRM AND TIMELY ENFORCEMENT ACTIONS CONTINUED TO BE UNDERTAKEN BY THE AUTHORITY FOR NON-COMPLIANCES TO THE PREVAILING RULES AND REGULATIONS IN 2019. THIS IS KEY TO ENSURE CONFORMITY TO THE REGULATORY REQUIREMENTS AND STABILITY IN THE MARKET. THESE ENFORCEMENTS INCLUDE IMPOSITION OF PENALTIES, INVESTIGATIONS AND PROSECUTIONS IN ACCORDANCE TO THE SEVERITY OF THE OFFENCES COMMITTED.

With the robust monitoring and enforcement measures undertaken over the years, there has been a decline of 37.4% in the total number of non-compliances in 2019. Specifically, during the year, there were 231 enforcement cases, revocation of 25 licences as well as issuance of six Disqualification Orders and two Orders for Restriction of Business. In addition, the Authority continued to caution the public against dealing with unlicensed entities and the Investors' Alert List on the Authority's website.

EXCHANGE OF INFORMATION

LABUAN FSA WORKED WITH DOMESTIC AND INTERNATIONAL AUTHORITIES DURING THE YEAR, PARTICULARLY IN RELATION TO EXCHANGE OF INFORMATION. SPECIFICALLY, LABUAN FSA CONTINUED TO COOPERATE WITH MEMBERS OF THE NATIONAL COORDINATION COMMITTEE (NCC) TO SAFEGUARD LABUAN IBFC FROM ML/TF AS WELL AS OTHER FINANCIAL CRIMES.

Such collaboration includes exchange of information with other law enforcement agencies such as the Attorney General's Chambers, Bank Negara Malaysia, Securities Commission Malaysia, Inland Revenue Board of Malaysia and Royal Malaysian Police. During the year, 62 requests for exchange of information from other authorities were fulfilled. This on-going cross-agency information exchange and collaboration is key to facilitate the Authority in carrying out its mandatory regulatory, supervisory and enforcement roles.



FINANCIAL STATEMENTS



For further information, please go to:
www.labuanfsa.gov.my



**CERTIFICATE OF THE AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF
LABUAN FINANCIAL SERVICES AUTHORITY
FOR THE YEAR ENDED 31 DECEMBER 2019**

Certificate on the Audit Of the Financial Statements

Opinion

The financial statements of the Labuan Financial Services Authority which comprise the Statements of Financial Position as at 31 December 2019 of the Group and of the Labuan Financial Services Authority and Statements of Comprehensive Income, Statement of Changes in Reserves and Statements of Cash Flows of the Group and of the Labuan Financial Services Authority for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 9 to 57, have been audited by my representative.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Labuan Financial Services Authority as at 31 December 2019, and of their financial performance and their cash flows for the year then ended in accordance with the Malaysian Financial Reporting System (MFRS) and Labuan Financial Services Authority Act 1996 (Act 545).

Basis for Opinion

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

Independence and Other Ethical Responsibilities

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

Information Other than the Financial Statements and Auditor's Certificate Thereon

The Board of the Labuan Financial Services Authority is responsible for the other information in the Annual Certificate. My opinion on the financial statements of the Group and of the Labuan Financial Services Authority does not cover the other information than the financial statements and Auditor's Certificate thereon and I do not express any form of assurance conclusion thereon.

Responsibilities of the Board for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- a. Identify and assess the risks of material misstatement of the financial statements of the Group and of the Labuan Financial Services Authority, whether due to fraud or error, design and perform audit procedures to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a

material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- b. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and of the Labuan Financial Services Authority's internal control.
- c. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board.
- d. Conclude on the appropriateness of the Board's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Labuan Financial Services Authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I have to draw attention in my Auditors' Certificate to the related disclosures in the financial statements of the Group and of the Labuan Financial Services Authority or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of Auditors' Certificate.
- e. Evaluate the overall presentation of the financial statements of the Group and of the Labuan Financial Services Authority, including the disclosures and whether the financial statements of the Group and of the Labuan Financial Services Authority represent the underlying transactions and events in a manner that achieves fair presentation.
- f. Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the financial statements of the Group. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

We also provide the Board with a statement that we complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Certificate on Other Legal and Regulatory Requirements

In accordance with the requirements of Labuan Financial Services Authority Act 1996 (Act 545), I report that the subsidiaries, of which I have not acted as auditor, are disclosed in Note 11 to the financial statements.

Certificate on Other Legal and Regulatory Requirements

In accordance with the requirements of Labuan Financial Services Authority Act 1996 (Act 545), I report that the subsidiaries, of which I have not acted as auditor, are disclosed in Note 11 to the financial statements.

Other Matters

This certificate is made solely for the Board in accordance with Labuan Financial Services Authority Act 1996 (Act 545) and for no other purpose. I do not assume responsibility to any other person for the content of this certificate.


(PATIMAH BINTI RAMUJI)
ON BEHALF OF AUDITOR GENERAL
MALAYSIA



KOTA KINABALU, SABAH
1 OCTOBER 2020

STATEMENT BY THE MEMBERS OF THE PERKHIDMATAN KEWANGAN LABUAN

We, **OH CHONG PENG** and **DANIAL MAH ABDULLAH**, being two of the Members of **LABUAN FINANCIAL SERVICES AUTHORITY**, state that, in the opinion of the Members of the Authority, the accompanying financial statements are drawn up in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards so as to give a true and fair view of the financial position of **LABUAN FINANCIAL SERVICES AUTHORITY** as at 31 December 2019 and their financial performance and cash flows for the year then ended on that date.

On behalf of the Members of the Authority.



OH CHONG PENG

Chairman



DANIAL MAH ABDULLAH

Director-General

07 AUG 2020

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

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



WAN AHMAD SANUSI MAHMOOD

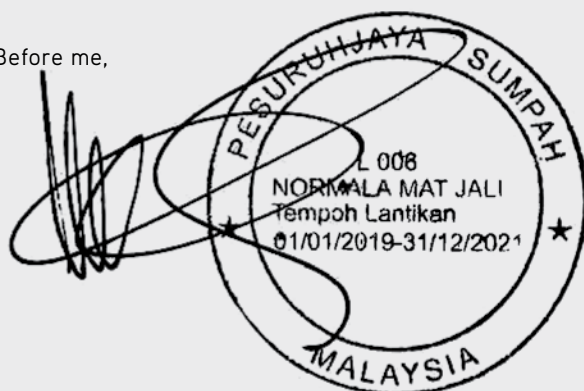
Subscribed and solemnly
declared by the abovenamed

WAN AHMAD SANUSI MAHMOOD

in the Federal Territory of Labuan

on this **07 AUG 2020**

Before me,



**LOT U0031, TINGKAT 1,
JALAN OKK AWANG BESAR,
P.O. BOX 5111 87028 W.P. LABUAN.
TEL: 087-66057, 415057**

STATEMENTS OF FINANCIAL POSITION

AS OF 31 DECEMBER 2019

		THE GROUP		THE AUTHORITY	
	NOTE	2019 RM	2018 RM	2019 RM	2018 RM
ASSETS					
Non-current assets					
Property, plant and equipment	10	86,177,918	83,236,448	84,534,030	82,297,259
Investment in subsidiary	11	-	-	1,397,308	900,000
Deferred tax asset	12	16,019	5,893	-	-
Other receivables	13	577,161	753,376	577,161	753,376
		86,771,098	83,995,717	86,508,499	83,950,635
Current assets					
Fees and receivables	13	17,153,610	15,936,389	19,837,717	19,570,034
Inventories	14	362,112	318,776	-	-
Cash and bank balances	16	78,808,952	73,341,268	67,484,876	60,495,305
		96,324,674	89,596,433	87,322,593	80,065,339
Total assets		183,095,772	173,592,150	173,831,092	164,015,974
RESERVES AND LIABILITIES					
Reserves					
Accumulated surplus		83,085,228	76,806,267	77,650,188	69,892,478
Non-current liabilities					
Deferred income	17	70,335,934	72,012,294	70,335,934	72,012,294
Lease Liability	15	4,240,784	-	3,847,882	-
Government loans	18	-	2,000,000	-	2,000,000
		74,576,718	74,012,294	74,183,816	74,012,294
Current liabilities					
Deferred income	17	2,779,401	2,995,532	2,202,629	2,202,629
Lease Liability	15	1,742,520	-	1,521,992	-
Other payables	19	18,911,905	17,778,057	16,272,467	15,908,573
Government loans	18	2,000,000	2,000,000	2,000,000	2,000,000
		25,433,826	22,773,589	21,997,088	20,111,202
Total liabilities		100,010,544	96,785,883	96,180,904	94,123,496
Total reserves and liabilities		183,095,772	173,592,150	173,831,092	164,015,974

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

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

		THE GROUP		THE AUTHORITY	
	NOTE	2019 RM	2018 RM	2019 RM	2018 RM
Revenue	4	60,303,760	60,288,930	57,435,691	57,400,773
Other operating income					
Government grant	17	1,892,491	2,409,737	1,676,360	2,053,668
Income from investments	6	2,585,518	2,557,752	2,585,518	2,557,752
Other income	7	503,054	777,118	2,045,990	249,987
Other operating expense					
Staff costs	8	(34,516,560)	(32,430,500)	(26,332,560)	(24,921,362)
Depreciation of property, plant and equipment	10	(5,889,748)	(5,228,953)	(5,294,264)	(4,889,291)
Finance cost	5	(251,445)	-	(216,070)	-
Other expenses	7	(18,222,914)	(22,003,538)	(24,050,748)	(27,307,233)
Surplus before tax		6,404,156	6,370,546	7,849,917	5,144,294
Income tax expenses	9	(27,970)	(13,286)	-	-
Net surplus for the year		6,376,186	6,357,260	7,849,917	5,144,294
Other comprehensive income, net of income tax		-	-	-	-
Total comprehensive surplus for the year		6,376,186	6,357,260	7,849,917	5,144,294
Total comprehensive surplus attributable to the Authority		6,376,186	6,357,260	7,849,917	5,144,294

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 2019

	ACCUMULATED SURPLUS RM
THE GROUP	
Opening balance at 1 January 2018	70,449,007
Net surplus for the year	6,357,260
Closing balance at 31 December 2018	76,806,267
Opening balance at 1 January 2019	76,806,267
Effect of adoption of MFRS 16	(97,225)
Balance as of January 1, 2019	76,709,042
Net surplus for the year	6,376,186
Closing balance at 31 December 2019	83,085,228
THE AUTHORITY	
Opening balance at 1 January 2018	64,748,184
Net surplus for the year	5,144,294
Closing balance at 31 December 2018	69,892,478
Opening balance at 1 January 2019	69,892,478
Effect of adoption of MFRS 16	(92,207)
Balance as of January 1, 2019	69,800,271
Net surplus for the year	7,849,917
Closing balance at 31 December 2019	77,650,188

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 2019

	THE GROUP		THE AUTHORITY	
	2019 RM	2018 RM	2019 RM	2018 RM
OPERATING ACTIVITIES				
Net surplus for the year	6,376,186	6,357,260	7,849,917	5,144,294
Adjustments for:				
Income tax expenses / (credit)	(8,543)	512	-	-
Unrealised loss on foreign exchange	33,219	33,030	33,435	26,981
Depreciation of property, plant and equipment	5,889,748	5,228,953	5,294,264	4,889,291
Dividend income	-	-	(2,000,000)	-
Utilisation of government grant	(1,892,491)	(2,324,247)	(1,676,360)	(2,053,668)
Loss/(Gain) on disposal of property, plant and equipment	71,429	(26,078)	24,910	(24,618)
Property, plant and equipment written off	148,500	3,793	148,500	3,792
Finance Cost	251,445	-	216,070	-
Interest income from investments and staff loans	(2,780,130)	(2,184,159)	(2,599,156)	(2,589,674)
Net fair value gain on other receivables	(20,603)	(90,040)	(20,603)	(90,040)
Allowance for impairment losses on fees and trade receivables recognised	3,946,097	3,201,422	3,935,180	3,201,422
Allowance for impairment losses on fees and trade receivables reversed	(3,516,743)	(3,170,249)	(3,450,650)	(3,170,249)
Amount owing by subsidiaries written off	-	-	10,900	11,018
Fees and trade receivables written off	2,850,551	2,600,300	2,850,551	2,600,300
Operating Surplus Before Working Capital Changes	11,348,665	9,630,497	10,616,958	7,948,849
Changes in working capital:				
(Increase)/Decrease in:				
Fees and trade receivables	(3,284,670)	(3,302,802)	(3,313,636)	(3,335,464)
Other receivables	(1,199,899)	620,061	(784,778)	646,091
Inventories	(43,336)	(73,521)	-	-
Amounts due from subsidiaries	-	-	-	-
Increase/(Decrease) in:				
Fees received in advance	1,314,711	(2,851,806)	1,314,711	(2,851,806)
Refundable deposits	429	20,314	-	-
Other payables and accruals	(166,290)	3,141,666	(950,816)	2,995,025
Amount due to subsidiary	-	-	-	(7,000,000)
Cash Generated From/(Used In) Operating Activities	7,969,610	7,184,409	6,882,439	(1,597,305)
Income tax paid	(15,000)	-	-	-
Interest received	152,540	66,059	152,540	76,059
Net Cash From/ (Used in) Operating Activities	8,107,150	7,250,468	7,034,979	(1,521,246)

STATEMENTS OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (BERSAMBUNG)

	THE GROUP		THE AUTHORITY	
	2019 RM	2018 RM	2019 RM	2018 RM
INVESTING ACTIVITIES				
Net increase in fixed deposits with maturity period of more than 3 months	(8,150,227)	(4,000,000)	(4,035,792)	(1,000,000)
Proceeds from disposal of plant and equipment	53,805	51,054	9,253	49,566
Additions of property, plant and equipment	(1,735,798)	(2,442,852)	(1,161,167)	(2,041,755)
Dividend income	-	-	2,000,000	-
Interest received	2,811,849	2,048,054	2,630,875	2,453,569
Net Cash Used In Investing Activities	(7,020,371)	(4,343,744)	(556,831)	(538,620)
FINANCING ACTIVITIES				
Repayment of leased liabilities	(1,484,658)	-	(1,274,864)	-
Interest Paid	(251,445)	-	(216,070)	-
Repayment of government loans	(2,000,000)	(1,500,000)	(2,000,000)	(1,500,000)
Net Cash Used In Financing Activities	(3,736,103)	(1,500,000)	(3,490,934)	(1,500,000)
Net increase / (decrease) in cash and cash equivalents	(2,649,324)	1,406,724	2,987,214	(3,559,866)
Cash and cash equivalents at 1 January	14,341,268	12,967,574	4,495,305	8,082,152
Effect of exchange difference	(33,219)	(33,030)	(33,435)	(26,981)
Cash and cash equivalents at 31 December (Note 22)	11,658,725	14,341,268	7,449,084	4,495,305

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 2019

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 11.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements of the Group and the Authority have been prepared in accordance with Malaysian Financial Reporting Standards (MFRS) issued by Malaysian Accounting Standard Board (MASB) and International Financial Reporting Standards (IFRS).

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

2.2 Changes in accounting policies

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

On 1 January 2019, the Group and the Authority adopted the following new and amended MFRSs and annual improvements mandatory for annual financial periods beginning on or after 1 January 2019.

Descriptions	Effective for annual periods beginning on or after
MFRS 9 Prepayment Features with Negative Compensation (Amendments to MFRS 9)	1 January 2019
MFRS 16 Leases	1 January 2019
MFRS 128 Long-term Interests in Associates and Joint Ventures (Amendments to MFRS 128)	1 January 2019
Annual Improvements to MFRS Standards 2015–2017 Cycle	1 January 2019
MFRS 119 Plan Amendment, Curtailment or Settlement (Amendments to MFRS 119)	1 January 2019
IC Interpretation 23 Uncertainty over Income Tax Treatments	1 January 2019

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies (continued)

Except for MFRS 16, the adoption of these new and amended standards and interpretation above did not have any effect on the financial performance or position of the Group and the Authority. The Group and the Authority applied MFRS 16 for the first time. The nature and effect of the changes as a result of the new accounting policy are described below.

MFRS 16 Leases

MFRS 16 supersedes MFRS 117 Leases, IC Interpretation 4 Determining whether an Arrangement contains a Lease, IC Interpretation 115 Operating Leases-Incentives and IC Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the balance sheet.

Lessor accounting under MFRS 16 is substantially unchanged from MFRS 117. Lessors will continue to classify leases as either operating or finance leases using similar principles as in MFRS 117. Therefore, MFRS 16 did not have an impact on leases where the Group and the Authority is the lessor.

The Group and the Authority adopted MFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group and the Authority elected to use the transition practical expedient to not reassess whether a contract is, or contains a lease at 1 January 2019. Instead, the Group and the Authority applied the standard only to contracts that were previously identified as leases applying MFRS 117 and IC Interpretation 4 at the date of initial application.

The effect of adoption MFRS 16 as at 1 January 2019 (increase/(decrease)) is as follows:

	THE GROUP	THE AUTHORITY
	RM	RM
Assets		
Plant and equipment	5,563,990	4,747,367
Deferred tax assets	1,583	-
Total assets	5,565,573	4,747,367
Liabilities		
Lease liabilities	5,662,798	4,839,574
Total liabilities	5,662,798	4,839,574
Total adjustment on equity:		
Retained earnings	(97,225)	(92,207)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies (continued)

MFRS 16 Leases (continued)

The Group and the Authority has lease contracts for various items of premises and equipment. Before the adoption of MFRS 16, the Group and the Authority classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. Refer Note 2.11 Leases for the accounting policy prior to 1 January 2019.

Upon adoption of MFRS 16, the Group and the Authority applied a single recognition and measurement approach for all leases except for short-term leases and leases of low value assets. Refer to Note 2.11 Leases for the accounting policy beginning 1 January 2019. The standard provides specific transition requirements and practical expedients, which have been applied by the Group and the Authority.

Leases previously classified as finance leases

The Group and the Authority did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under MFRS 117). The requirements of MFRS 16 were applied to these leases from 1 January 2019.

Leases previously accounted for as operating leases

The Group and the Authority recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group and the Authority also applied the available practical expedients wherein it:

- Used a single discount rate for a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application.
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application.
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- Used hindsight in determining the lease term where the contract contains an option to extend or terminate the lease.

Based on the above, as at 1 January 2019:

- Right-of-use assets of RM 4,747,367 were recognised and presented separately in the statement of financial position.
- Additional lease liabilities of RM 4,839,574 were recognised and presented separately in the statement of financial position.
- The net effect of RM 92,207 adjustments had been adjusted to retained earnings.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Standards issued but not yet effective

The standards 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 intends to adopt these standards, if applicable, when they become effective.

Descriptions	Effective for annual periods beginning on or after
Amendments to References to the Conceptual Framework in MFRS standards	1 January 2020
Definition of a Business (Amendments to MFRS 3 Business Combinations)	1 January 2020
Definition of Material (Amendments to MFRS 101 Presentation of Financial Statements and MFRS 108 Accounting Policies, Changes in Accounting Estimates and Errors)	1 January 2020
MFRS 17 Insurance Contracts	1 January 2021
Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred

The directors do not expect any material impact from the adoption of the above standards 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Basis of consolidation (continued)

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.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Subsidiaries

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

- i) Power over the investee (i.e existing rights that give it the current ability to direct the relevant activities of the investee);
- ii) Exposure, or rights, to variable returns from its investment with the investee; and
- iii) The ability to use its power over the investee to affect its returns.

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

2.6 Foreign currencies

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

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Fee income from business (continued)

b) Other fees

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

c) Interest income

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

d) Dividend income

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

e) Rental income

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

2.8 Government grants

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.

When the Group receives non-monetary grants, the asset and the grant are recorded gross at nominal amounts and released to profit or loss over the expected useful life in a pattern of consumption of the benefit of the underlying asset by equal annual instalments. When loans or similar assistance are provided by governments or related institutions with an interest rate below the current applicable market rate, the effect of this favorable interest is regarded as a government grant.

2.9 Taxes

a) Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group and the Authority operate and generate taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

b) Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Taxes (Continued)

b) Deferred tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax liabilities arising from investment properties at fair value are measured based on the tax consequence of the presumption that the carrying amount of the investment properties measured at fair value will be recovered entirely through sale. This presumption is consistent with the management's business model for the Group's investment properties.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognised subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it is incurred during the measurement period or recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing parts of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group and the Authority recognise such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the profit or loss as incurred. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Capital work-in-progress is not depreciated. Capital work-in-progress comprises contractors' payments and directly attributable costs incurred in preparing these assets for their intended use. Depreciation on assets under construction commences when the assets are ready for their intended use.

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 liability

Current financial year

The Group and the Authority assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration

The Group and the Authority as a lessor

The Group and the Authority applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group and the Authority recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Leases liability (continued)

Current financial year (continued)

The Group and the Authority as a lessor (continued)

(i) *Right-of-use assets*

The Group and the Authority recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

The right-of-use assets are also subject to impairment. The policy for the recognition and measurement of impairment losses is in accordance with Note 2.14.

(ii) *Lease liabilities*

At the commencement date of the lease, the Group and the Authority recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including insubstance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and the Authority and payments of penalties for terminating the lease, if the lease term reflects the Group and the Authority exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group and the Authority uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Group and the Authority's lease liabilities are disclosed in Note 15.

(iii) *Short-term leases and leases of low-value assets*

The Group and the Authority applies the short-term lease recognition exemption to its shortterm leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Leases liability (continued)

Current financial year (continued)

The Group and the Authority as a lessor (continued)

Leases in which the Group and the Authority does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Previous financial year

In the previous financial year, the determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

a) As lessee

Finance leases which transfer to the Group and the Authority substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Any initial direct costs are also added to the amount capitalised. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss. Contingent rents, if any, are charged as expenses in the periods in which they are incurred.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group and the Authority will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

b) As lessor

Leases where the Group and the Authority retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Financial instruments

i) Financial assets

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

Initial recognition and measurement

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

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

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

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

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

Subsequent measurement

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

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

Financial assets at amortised cost (debt instruments)

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Financial instruments (continued)

i) Financial assets (continued)

Financial assets at fair value through profit or loss

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

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

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

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

Impairment of financial assets

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Financial instruments (continued)

i) Financial assets (continued)

Derecognition

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

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

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

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

2.13 Fair value measurement

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

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

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

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Fair value measurement (continued)

The Group and the Authority use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group and the Authority determine whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group and the Authority have determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

2.14 Impairment of non-financial assets

The Group and the Authority assess at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group and the Authority estimate the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The Group and the Authority base their impairment calculation on detailed budgets and forecasts which are prepared separately for each of the Group and the Authority's CGU to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the profit or loss in those expense categories consistent with the function of the impaired asset, except for a property previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 Impairment of non-financial assets (continued)

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group and the Authority estimate the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the profit or loss unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

2.15 Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition is accounted for first in, first out basis.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

2.16 Provisions

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

2.17 Employee benefits

Short-term employee benefit

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

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

Defined contribution plans

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

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

In the process of applying accounting policies of the Group, the management is of the opinion that there are no instances of application of judgement which are expected to have a significant effect on the amounts recognised in the financial statements.

3.1 Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

a) Impairment of fees and receivables

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

b) Impairment of fees and receivables

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

c) Deferred tax assets

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

d) Estimated useful lives of property, plant and equipment

The Group and the Authority regularly review the estimated useful lives of property, plant and equipment based on factors such as business plan and strategies and expected level of usage. Future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned above. A reduction in the estimated useful lives of property, plant and equipment would increase the recorded depreciation and decrease the value of property, plant and equipment.

e) Leases – Determining the lease term of contracts with renewal option (Company as lessee)

The Group and the Authority determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised.

f) Leases – Estimating the incremental borrowing rate

The Group and the Authority cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group and the Authority would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group and the Authority 'would have to pay', which requires estimation when no observable rates are available (such as for companies that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the functional currency). The Group and the Authority estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the Company's stand-alone credit rating).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

4. REVENUE

	THE GROUP		THE AUTHORITY	
	2019 RM	2018 RM	2019 RM	2018 RM
Fee income from:				
Licence Fees	334,459,471	34,645,858	34,459,471	34,645,858
Annual Fees	15,783,800	15,587,250	15,783,800	15,587,250
Incorporation & Registration	1,141,500	1,263,550	1,141,500	1,263,550
Marketing/Admin Office	1,753,616	1,510,000	1,753,616	1,510,000
Other fees	7,165,373	7,282,272	4,297,304	4,394,115
	60,303,760	60,288,930	57,435,691	57,400,773

5. FINANCE COST

	THE GROUP		THE AUTHORITY	
	2019 RM	2018 RM	2019 RM	2018 RM
Interest on lease liability	251,445	-	216,070	-

6. INCOME FROM INVESTMENTS

	THE GROUP		THE AUTHORITY	
	2019 RM	2018 RM	2019 RM	2018 RM
Interest received from:				
Fixed deposits	2,446,616	2,513,616	2,446,616	2,513,616
Money at call	138,902	44,136	138,902	44,136
	2,585,518	2,557,752	2,585,518	2,557,752

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

7. OTHER INCOME/(EXPENSES)

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

	THE GROUP		THE AUTHORITY	
	2019 RM	2018 RM	2019 RM	2018 RM
Interest income from staff loans:				
Key management personnel	-	1,499	-	1,499
Others	13,638	30,424	13,638	30,424
Rental income	146,895	373,225	192,000	192,000
Miscellaneous income	216,417	234,451	58,330	29,331
(Loss)/Gain on disposal of property, plant and equipment	(71,429)	26,078	(24,910)	24,618
(Loss)/Gain on foreign exchange:				
Realised	(159,631)	(404)	(159,631)	(404)
Unrealised	(33,219)	(33,030)	(33,435)	(26,981)
Allowance for impairment losses on fees and trade receivables reversed	3,450,650	3,175,675	3,450,650	3,170,249
Operational and marketing expenditure incurred under the government grant*	-	(377,308)	-	(377,308)
Audit fees	(71,545)	(91,230)	(24,245)	(45,730)
Depreciation of property, plant and equipment	(5,889,748)	(5,228,953)	(5,294,264)	(4,889,291)
Rental of premises	(180,311)	(1,924,938)	(180,311)	(1,664,052)
Fees and trade receivable written off	(2,916,614)	(2,660,967)	(2,850,551)	(2,600,300)
Amount owing by subsidiary companies written off	-	-	(10,900)	(11,018)
Members' remuneration	(312,126)	(365,646)	(223,700)	(277,720)
Contributions to Labuan FSA Staff Welfare Fund	(200,000)	(250,000)	(200,000)	(250,000)
Grant to a subsidiary**	-	-	(6,300,000)	(6,900,000)
Lease of machinery and equipment	(64,000)	(142,273)	(64,200)	(142,273)
Tuition fees paid to a subsidiary	-	-	(170,800)	(235,503)
Allowance for impairment losses on fees and trade receivables recognised	(3,946,098)	(3,267,515)	(3,935,180)	(3,201,422)
Net fair value gain/(loss) on other receivables	20,603	90,040	20,603	90,040

*These included the following expenditures:

	THE GROUP		THE AUTHORITY	
	2019 RM	2018 RM	2019 RM	2018 RM
Infrastructure for school building	-	(377,308)	-	(377,308)

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

8. STAFF COSTS

	THE GROUP		THE AUTHORITY	
	2019 RM	2018 RM	2019 RM	2018 RM
Staff costs*	34,516,560	32,430,500	26,332,560	24,921,362

* These included the following staff costs:

Key management personnel:				
Salaries	5,863,071	7,099,457	4,552,788	4,454,778
Allowances	630,235	567,929	569,228	505,229
Employees Provident Fund	4,132,718	4,243,491	3,248,914	3,145,749

9. INCOME TAX EXPENSE

	THE GROUP		THE AUTHORITY	
	2019 RM	2018 RM	2019 RM	2018 RM
Statement of comprehensive income:				
Current Income Tax :				
Malaysian income tax	29,617	12,774	-	-
Under provision in prior year	6,896	-	-	-
	36,513	12,774	-	-
Deferred Tax :				
Relating to origination of temporary differences	(8,126)	3,409	-	-
Overprovision in prior year	(417)	(2,897)	-	-
	27,970	13,286	-	-

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.

Income tax for other subsidiaries is calculated at the statutory tax rate of 24% (2018: 24%) of the estimated assessable profit for the year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

9. INCOME TAX EXPENSE (CONTINUED)

Reconciliation between tax expense and accounting surplus

The reconciliation between tax expense and the product of accounting surplus multiplied by the applicable corporate tax rate for the years ended 31 December 2019 and 2018 are as follows:

	THE GROUP		THE AUTHORITY	
	2019 RM	2018 RM	2019 RM	2018 RM
Surplus before tax	6,404,156	6,370,546	7,849,917	5,144,294
Taxation at Malaysian statutory tax rate of 24% (2018: 24%)	(1,536,997)	(1,528,931)	(1,883,980)	(1,234,631)
Effect of income not subject to tax	3,023,589	2,893,484	1,883,980	1,234,631
Effect of expenses not deductible for tax purposes	(1,551,524)	1,751,174	-	-
Reversal of temporary differences previously not recognised	64,456	378,098	-	-
Under/(Overprovision) of deferred tax in prior year	417	(7,660)	-	-
Deferred tax assets not recognised	(21,015)	2,897	-	-
Under provision of income tax in prior year	(6,896)	-	-	-
Tax expense for the year	(27,970)	(13,286)	-	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

10. PROPERTY, PLANT AND EQUIPMENT

The Group	Leasehold land RM	Buildings RM	Motor vehicles RM	Computers RM	Furniture, fittings, office equipment and renovation RM	Right of Use Assets RM	Work In Progress RM	Total RM
Cost								
At 1 January 2018	442,000	84,506,001	1,270,811	7,415,782	8,274,732	-	2,860,904	104,770,230
Additions	-	-	234,441	331,009	391,481	-	1,485,921	2,442,852
Disposals	-	-	(240,778)	(1,483,561)	(213,887)	-	-	(1,938,226)
Write off	-	-	-	(10,697)	-	-	-	(10,697)
Reclassification	-	-	-	3,094,256	-	-	(3,094,256)	-
At 31 December 2018	442,000	84,506,001	1,264,474	9,346,789	8,452,326	-	1,252,569	105,264,159
Effect of Adopting MFRS 16	-	-	-	-	-	6,587,702	-	6,587,702
At 1 January 2019	442,000	84,506,001	1,264,474	9,346,789	8,452,326	6,587,702	1,252,569	111,851,861
Additions	-	-	240,000	546,176	462,562	1,805,164	487,060	3,540,962
Disposals	-	-	(179,401)	(155,633)	(666,608)	-	-	(1,001,642)
Write off	-	-	-	(24,856)	(136,782)	-	-	(161,638)
Reclassification	-	-	-	-	-	-	(148,500)	(148,500)
At 31 December 2019	442,000	84,506,001	1,325,073	9,712,476	8,111,498	8,392,866	1,591,129	114,081,043
Accumulated depreciation								
At 1 January 2018	10,208	7,698,756	1,217,888	5,514,228	4,277,832	-	-	18,718,912
Charge for the year	700	1,690,120	94,573	2,182,164	1,261,396	-	-	5,228,953
Disposals	-	-	(240,778)	(1,483,534)	(188,938)	-	-	(1,913,250)
Write off	-	-	-	(6,904)	-	-	-	(6,904)
At 31 December 2018	10,908	9,388,876	1,071,683	6,205,954	5,350,290	-	10,908	22,027,711
Effect of Adoption MFRS 16	-	-	-	-	-	1,023,712	-	1,023,712
At 1 January 2019	10,908	9,388,876	1,071,683	6,205,954	5,350,290	1,023,712	-	23,051,423
Charge for the year	701	1,690,119	51,666	1,534,750	1,039,176	1,573,336	-	5,889,748
Disposals	-	-	(179,400)	(155,616)	(575,558)	-	-	(910,574)
Write off	-	-	-	(17,008)	(110,464)	-	-	(127,472)
At 31 December 2019	11,609	11,078,995	943,949	7,568,080	5,703,444	2,597,048	-	27,903,125
Carrying amounts								
At 31 December 2018	431,092	75,117,125	192,791	3,140,835	3,102,036	-	1,252,569	83,236,448
At 31 December 2019	430,391	73,427,006	381,124	2,144,396	2,408,054	5,795,818	1,591,129	86,177,918

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

10. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The Authority	Leasehold land RM	Buildings RM	Motor vehicles RM	Computers RM	Furniture, fittings, office equipment and renovation RM	Right of Use Assets RM	Work In Progress RM	Total RM
Cost								
1 January 2018	442,000	84,506,001	761,925	6,980,755	5,559,413	-	2,860,904	101,110,998
Additions	-	-	140,899	322,324	92,611	-	1,485,921	2,041,755
Disposals	-	-	(240,778)	(1,457,643)	(213,887)	-	-	(1,912,308)
Write off	-	-	-	(8,198)	-	-	-	(8,198)
Reclassification	-	-	-	3,094,256	-	-	(3,094,256)	-
At 31 December 2018	442,000	84,506,001	662,046	8,931,494	5,438,137	-	1,252,569	101,232,247
Effect of Adopting MFRS 16	-	-	-	-	-	5,696,840	-	5,696,840
At 1 January 2019	442,000	84,506,001	662,046	8,931,494	5,438,137	5,696,840	1,252,569	106,929,087
Additions	-	-	-	445,366	228,741	1,805,164	487,060	2,966,331
Disposals	-	-	-	(102,979)	-	-	-	(102,979)
Write off	-	-	-	(17,369)	(133,192)	-	-	(150,561)
Reclassification	-	-	-	-	-	-	(148,500)	(148,500)
At 31 December 2019	442,000	84,506,001	662,046	9,256,512	5,533,686	7,502,004	1,591,129	109,493,378
Accumulated depreciation								
At 1 January 2018	10,208	7,698,756	739,027	5,080,055	2,409,417	-	-	15,937,463
Additions	700	1,690,120	64,550	2,180,258	953,663	-	-	4,889,291
Disposals	-	-	(240,778)	(1,457,644)	(188,938)	-	-	(1,887,360)
Write off	-	-	-	(4,406)	-	-	-	(4,406)
At 31 December 2018	10,908	9,388,876	562,799	5,798,263	3,174,142	-	-	18,934,988
Effect of Adopting MFRS 16	-	-	-	-	-	949,473	-	949,473
At 1 January 2019	10,908	9,388,876	562,799	5,798,263	3,174,142	949,473	-	19,884,461
Additions	701	1,690,119	17,959	1,517,691	717,173	1,350,621	-	5,294,264
Disposals	-	-	-	(102,979)	-	-	-	(102,979)
Write off	-	-	-	(9,523)	(106,875)	-	-	(116,398)
At 31 December 2019	11,609	11,078,995	580,758	7,203,452	3,784,440	2,300,094	-	24,959,348
Carrying amounts								
At 31 December 2018	431,092	75,117,125	99,247	3,133,231	2,263,995	-	1,252,569	82,297,259
At 31 December 2019	430,391	73,427,006	81,288	2,053,060	1,749,246	5,201,910	1,591,129	84,534,030

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

11. INVESTMENTS IN SUBSIDIARY

			THE AUTHORITY	
			2019 RM	2018 RM
Fair value of loan to subsidiary			497,308	-
Unquoted shares, at cost			900,000	900,000
			1,397,308	900,000
			Proportion (%) of ownership interest	
Name	Country of incorporation	Principal activities	2019	2018
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 2019

12. DEFERRED TAX ASSETS

	THE GROUP		THE AUTHORITY	
	2019 RM	2018 RM	2019 RM	2018 RM
At beginning of year	5,893	6,405	-	-
Effect of adopting MFRS 16	1,583	-	-	-
Recognised in the statements of profit or loss	8,543	(512)	-	-
At end of year	16,019	5,893	-	-

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

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

	THE GROUP		THE AUTHORITY	
	2019 RM	2018 RM	2019 RM	2018 RM
Unutilised tax losses	-	1,512	-	-
Other deductible temporary differences	93,577	-	-	-
	93,577	1,512	-	-

The unutilised tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of this item because it is not probable that future taxable profits will be available against which the Group can utilise the benefits there from.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

13. FEES AND RECEIVABLES

	THE GROUP		THE AUTHORITY	
	2019 RM	2018 RM	2019 RM	2018 RM
Current				
Fees and trade receivables	16,372,900	15,958,782	16,346,752	15,883,668
Less: Allowance for impairment	(3,558,186)	(3,128,832)	(3,547,269)	(3,062,739)
Fees and trade receivables, net	12,814,714	12,829,950	12,799,483	12,820,929
Other receivables:				
Amount due from subsidiary	-	-	2,995,452	4,033,971
Staff housing loans	41,332	62,052	41,332	62,052
Staff vehicle loans	51,971	75,032	51,971	75,032
Staff advances/ sundry debtors	1,476,916	179,809	1,401,389	58,768
Refundable deposits	644,680	702,846	436,438	433,752
Interest receivable	1,800,252	1,984,511	1,800,252	1,984,511
Prepayments	317,200	101,989	311,400	101,019
Tax Refundable	6,545	-	-	-
Others	-	200	-	-
	4,338,896	3,106,439	7,038,234	6,749,105
Less: Allowance for impairment	-	-	-	-
	4,338,896	3,106,439	7,038,234	6,749,105
	17,153,610	15,936,389	19,837,717	19,570,034
Non-current				
Other receivables:				
Staff housing loans	513,987	590,765	513,987	590,765
Staff vehicle loans	63,174	162,611	63,174	162,611
	577,161	753,376	577,161	753,376
Total fees and other receivables (current and non-current)	17,730,771	16,689,765	20,414,878	20,323,410

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

13. FEES AND RECEIVABLES (CONTINUED)

a) Fees and Trade Receivables

Aging analysis of fees and trade receivables

The ageing analysis of the Group and the Authority fees and trade receivables are as follows:

	THE GROUP		THE AUTHORITY	
	2019 RM	2018 RM	2019 RM	2018 RM
Neither past due nor impaired	12,814,714	12,829,950	12,799,483	12,820,929
More than 31 days past due but not impaired	-	9,021	-	-
Impaired	3,558,186	3,128,832	3,547,269	3,062,739
	16,372,900	15,967,803	16,346,752	15,883,668

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 no fees and trade receivables during the year (2018: RM 9,021) that are past due at the reporting date but not impaired.

Receivables that are impaired

The Group's and the Authority's fees and trade receivables that are impaired at the reporting date and the movement of allowance accounts used to record the impairment are as follows:

	COLLECTIVELY IMPAIRED		INDIVIDUALLY IMPAIRED		TOTAL	
	2019 RM	2018 RM	2019 RM	2018 RM	2019 RM	2018 RM
The Group						
Fees and trade receivables						
- nominal amounts	1,297,668	1,365,982	2,260,518	1,762,850	3,558,186	3,128,832
Less: Allowance for impairment	(1,297,668)	(1,365,982)	(2,260,518)	(1,762,850)	(3,558,186)	(3,128,832)
	-	-	-	-	-	-
The Authority						
Fees and trade receivables						
- nominal amounts	1,297,668	1,299,889	2,249,601	1,762,850	3,547,269	3,062,739
Less: Allowance for impairment	(1,297,668)	(1,299,889)	(2,249,601)	(1,762,850)	(3,547,269)	(3,062,739)
	-	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

13. FEES AND RECEIVABLES (CONTINUED)

a) Fees and Trade Receivables (Continued)

Movement in allowance account:

	THE GROUP		THE AUTHORITY	
	2019 RM	2018 RM	2019 RM	2018 RM
At 1 January	3,128,832	3,092,233	3,062,739	3,031,566
Impairment losses recognised	3,946,097	3,267,515	3,935,180	3,201,422
Impairment losses reversed	(3,516,743)	(3,230,916)	(3,450,650)	(3,170,249)
At 31 December	3,558,186	3,128,832	3,547,269	3,062,739

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

b) Staff housing and vehicle loans

Staff housing and vehicle loans are repayable over a maximum period of 30 years and 9 years respectively (2018: 30 years and 9 year respectively). The interest charged on these loans ranges from 2% to 3% (2018: 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.

14. INVENTORIES

	THE GROUP		THE AUTHORITY	
	2019 RM	2018 RM	2019 RM	2018 RM
At cost:				
Books and stationeries	163,963	110,265	-	-
Uniforms, fabrics and t-shirts	198,149	208,511	-	-
Inventories written off	362,112	318,776	-	-
	-	-	-	-
	362,112	318,776	-	-

During 2019, RM194,412 (2018:RM148,177) was recognised as an expense for inventories carried at net realisable value.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

15. LEASE LIABILITY

Group as a lessee

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	THE GROUP RM		
At 31 December 2018	-		
Effect of adopting MFRS 16	7,467,961		
As at 1 January 2019 (restated)			
Accretion of interest	251,445		
Payments	(1,736,102)		
As at 31 December 2019	5,983,304		
	INTEREST RATE	MATURITY	RM
Current	4.5%	2020	1,742,520
Non-current	4.5%	2024	4,240,784
			5,983,304

The following are the amounts recognised in profit or loss:

	THE GROUP 2019 RM
Depreciation expense of right-of-use assets	1,573,336
Interest expense on lease liabilities	251,849
Total amount recognised in profit or loss	1,825,185

The Group had total cash outflows for leases of RM1,736,102 in 2019.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

15. LEASE LIABILITY (CONTINUED)

Authority as a lessee

Set out below are the carrying amounts of lease liabilities and the movements during the period:

			THE AUTHORITY RM
At 31 December 2018			-
Effect of adopting MFRS 16			6,644,737
As at 1 January 2019 (restated)			
Accretion of interest			216,070
Payments			(1,490,933)
As at 31 December 2019			5,369,874
	INTEREST RATE	MATURITY	RM
Current	4%	2020	1,521,992
Non-current	4%	2024	3,847,882
			5,369,874

The following are the amounts recognised in profit or loss:

	THE AUTHORITY 2019 RM
Depreciation expense of right-of-use assets	1,350,621
Interest expense on lease liabilities	216,070
Total amount recognised in profit or loss	1,566,691

The Authority had total cash outflows for leases of RM 1,490,933 in 2019.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

16. CASH AND BANK BALANCES

	THE GROUP		THE AUTHORITY	
	2019 RM	2018 RM	2019 RM	2018 RM
Cash on hand and at banks	8,658,725	14,341,268	4,449,084	4,495,305
Fixed deposits with licensed banks	70,150,227	59,000,000	63,035,792	56,000,000
Cash and bank balances	78,808,952	73,341,268	67,484,876	60,495,305

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 2019 for the Group and the Authority were 4.10% (2018: 4.10%) per annum with maturity period of 30 to 365 days (2018: 30 to 365 days).

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

	THE GROUP		THE AUTHORITY	
	2019 RM	2018 RM	2019 RM	2018 RM
Cash at banks:				
United States Dollar	2,589,174	752,797	2,589,174	752,797
Hong Kong Dollar	124,848	124,939	-	-

17. DEFERRED INCOME

Deferred income comprises the followings:

		THE GROUP		THE AUTHORITY	
		2019 RM	2018 RM	2019 RM	2018 RM
Grant related to income	(a)	1,103,041	1,319,172	526,269	526,269
Grant related to assets	(b)	72,012,294	73,688,654	72,012,294	73,688,654
		73,115,335	75,007,826	72,538,563	74,214,923

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 RM1,892,491 and RM1,676,360 (2018: RM 2,324,247 and RM 2,053,668) respectively.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

17. DEFERRED INCOME (CONTINUED)

The expected utilisation of the grants as at 31 December 2019 are as follows:

	THE GROUP		THE AUTHORITY	
	2019 RM	2018 RM	2019 RM	2018 RM
Within 12 months	2,779,401	2,995,532	2,202,629	2,202,629
After 12 months	70,335,934	72,012,294	70,335,934	72,012,294
	73,115,335	75,007,826	72,538,563	74,214,923

a) Grant related to income

The grant related to income is recognised in the profit or loss on the basis of the expenses incurred relating to projects undertaken by the Group and the Authority under the Tenth Malaysia Plan.

	THE GROUP		THE AUTHORITY	
	2019 RM	2018 RM	2019 RM	2018 RM
At 1 January	1,319,172	1,967,059	526,269	903,577
Received during the financial year	-	-	-	-
Less: Recognised in profit or loss	(216,131)	(647,887)	-	(377,308)
At 31 December	1,103,041	1,319,172	526,269	526,269

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

17. DEFERRED INCOME (CONTINUED)

b) Grant related to assets

	THE GROUP		THE AUTHORITY	
	2019 RM	2018 RM	2019 RM	2018 RM
Grant related to assets:				
At 1 January	82,753,798	82,753,798	82,753,798	82,753,798
Received during the financial year	-	-	-	-
At 31 December	82,753,798	82,753,798	82,753,798	82,753,798
Cumulative credits:				
At 1 January	(9,065,144)	(7,388,784)	(9,065,144)	(7,388,784)
Credited to statements of profit or loss during the year	(1,676,360)	(1,676,360)	(1,676,360)	(1,676,360)
At 31 December	(10,741,504)	(9,065,144)	(10,741,504)	(9,065,144)
Net carrying amount:				
Current	1,676,360	1,676,360	1,676,360	1,676,360
Non-current	70,335,934	72,012,294	70,335,934	72,012,294
	72,012,294	73,688,654	72,012,294	73,688,654

18. GOVERNMENT LOANS

Government loans represent the balance of RM2 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	
	2019 RM	2018 RM
Within 12 months	2,000,000	2,000,000
After 12 months	-	2,000,000

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

19. OTHER PAYABLES

	THE GROUP		THE AUTHORITY	
	2019 RM	2018 RM	2019 RM	2018 RM
Fees received in advance	9,500,462	8,185,753	9,500,462	8,185,753
Refundable deposits	1,077,732	1,079,503	602,200	602,200
Retention payables	2,171,016	1,123,073	2,171,016	1,123,073
Accruals	1,604,503	1,760,234	819,720	1,388,518
Others	4,537,230	5,629,494	3,179,069	4,609,029
Income tax payable	20,962	-	-	-
Total other payables	18,911,905	17,778,057	16,272,467	15,908,573

a) Fees received in advance

These comprise annual and license fees paid in advance by Labuan banks, Labuan insurance companies and other Labuan licensed entities.

b) 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.

c) Others

These comprise amounts outstanding for ongoing costs.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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	
	2019 RM	2018 RM	2019 RM	2018 RM
Rental income received from a subsidiary	-	-	180,000	180,000
Tuition fees paid to a subsidiary	-	-	107,800	(235,503)
Contribution to Labuan Financial Services Authority Staff Welfare Fund	(200,000)	(250,000)	(200,000)	(250,000)
Marketing fees paid to a subsidiary	-	-	(5,750,000)	(7,500,000)
Grant to a subsidiary	-	-	(6,300,000)	(6,900,000)

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

b) Transactions with key management personnel

	THE GROUP		THE AUTHORITY	
	2019 RM	2018 RM	2019 RM	2018 RM
Salaries	5,863,071	7,099,457	4,552,788	4,454,778
Allowances	630,233	567,929	569,228	505,229
Employee Provident Fund	1,066,416	1,110,930	901,855	878,444
	7,559,720	8,778,316	6,023,871	5,838,451

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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 2019 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.

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	
	2019 RM	2018 RM	2019 RM	2018 RM
United States Dollar	258,817	75,280	258,817	75,280
Hong Kong Dollar	12,485	12,494	-	-

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

21. FINANCIAL INSTRUMENTS (CONTINUED)

d) Liquidity risk

The Group and Authority practice liquidity risk management to minimise the mismatch of financial assets and liabilities and to maintain sufficient credit facilities for contingent funding requirement of working capital.

Analysis of financial instruments by remaining contractual maturities

The table below summarises the maturity profile of the Group's and the Authority's financial assets and financial liabilities at the reporting date based on contractual undiscounted amount.

	THE GROUP			
	On demand or within one year RM	One year To five years RM	Over five years RM	Total RM
2019				
Non-derivative financial assets:				
Fees and other receivables	16,846,080	374,817	397,023	17,617,920
Cash and bank balances	82,123,119	-	-	82,123,119
Total undiscounted non- derivative financial assets	98,969,199	374,817	397,023	99,741,039
Non-derivative financial liabilities:				
Government loans	2,000,000	-	-	2,000,000
Other payables	9,291,441			9,291,441
Total undiscounted non- derivative financial liabilities	11,291,441	-	-	11,291,441
Total net undiscounted non- derivative financial assets/(liabilities)	87,677,758	374,817	397,023	88,449,598
2018				
Non-derivative financial assets:				
Fees and other receivables	15,834,399	15678,081	551,367	17,063,847
Cash and bank balances	76,311,589	-	-	76,311,589
Total undiscounted non- derivative financial assets	92,145,988	678,081	551,367	93,375,436
Non-derivative financial liabilities:				
Government loans	2,000,000	2,000,000	-	4,000,000
Other payables	8,510,026	-	-	8,510,026
Total undiscounted non- derivative financial liabilities	10,510,026	2,000,000	-	12,510,026
Total net undiscounted non- derivative financial assets/(liabilities)	81,635,962	(1,321,919)	551,367	80,865,410

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

21. FINANCIAL INSTRUMENTS (CONTINUED)

d) Liquidity risk (continued)

	THE AUTHORITY			
	On demand or within one year RM	One year To five years RM	Over five years RM	Total RM
2019				
Non-derivative financial assets:				
Fees and other receivables	19,535,987	374,817	397,023	20,307,827
Cash and bank balances	70,349,609	-	-	70,349,609
Total undiscounted non-derivative financial assets	89,885,596	374,817	397,023	90,657,436
Non-derivative financial liabilities:	-	-	-	-
Government loans	2,000,000	-	-	2,000,000
Other payables	6,652,003	-	-	6,652,003
Total undiscounted non-derivative financial liabilities	8,652,003	-	-	8,652,003
Total net undiscounted non-derivative financial assets/(liabilities)	81,233,593	374,817	397,023	82,005,433
2018				
Non-derivative financial assets:				
Fees and other receivables	19,469,014	678,081	551,367	20,698,462
Cash and bank balances	62,945,365	-	-	62,945,365
Total undiscounted non-derivative financial assets	82,414,379	678,081	551,367	83,643,827
Non-derivative financial liabilities:				
Government loans	2,000,000	2,000,000	-	4,000,000
Other payables	7,722,820	-	-	7,722,820
Total undiscounted non-derivative financial liabilities	9,722,820	2,000,000	-	11,722,820
Total net undiscounted non-derivative financial assets/(liabilities)	72,691,559	(1,321,919)	551,367	71,921,007

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

21. FINANCIAL INSTRUMENTS (CONTINUED)

d) Liquidity risk (continued)

Fair Values of Financial Assets and Financial Liabilities

The carrying amounts of short-term financial assets and financial liabilities recognised at amortised cost in the financial statements approximate their respective fair values due to the relatively short-term maturity of these financial instruments.

Loans and receivables is measured subsequent to initial recognition at amortised cost using the effective interest rate method (EIR), less impairment.

The fair value and significant assumptions used in determining the fair value of fees and receivables classified as loans and receivables as follows:

	THE GROUP AND THE AUTHORITY	
	2019 RM	2018 RM
Loans and receivables carried at fair value		
Staff housing and vehicle loans	670,464	890,460

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	THE GROUP AND THE AUTHORITY			
	Level 1 RM	Level 2 RM	Level 3 RM	Level 4 RM
2019				
Staff housing and vehicle loans	-	670,464	-	670,464
2018				
Staff housing and vehicle loans	-	890,460	-	890,460

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 2019

22. CASH AND CASH EQUIVALENTS

	THE GROUP		THE AUTHORITY	
	2019 RM	2018 RM	2019 RM	2018 RM
Cash on hand and at bank	8,658,725	14,341,268	4,449,084	4,495,305
Fixed deposits placed with licensed banks	70,150,227	59,000,000	63,035,792	56,000,000
	78,808,952	73,341,268	67,484,876	60,495,305
Less: Fixed deposits with maturity period of more than 3 months	(67,150,227)	(59,000,000)	(60,035,792)	(56,000,000)
Cash and cash equivalents for statements of cash flows purposes	11,658,725	14,341,268	7,449,084	4,495,305

23. AUTHORISATION OF FINANCIAL STATEMENTS FOR ISSUE

The financial statements were authorized for issue by the Members of the Authority on 7 August 2020.



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