Labuan FSA
Financial Services Authority

ANNUAL REPORT 2020

www.labuanfsa.gov.my

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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

It is a pleasure and privilege to present this annual report as the new Chairman of Labuan FSA. A pleasure because, since its establishment, Labuan FSA has grown from strength to strength in its commitment to maintain Labuan IBFC as the preferred international business and financial centre of high integrity and repute.

I am both humbled and honoured to be given the trust and opportunity by the Ministry of Finance to helm Labuan FSA, a reputable and respected Authority, on 1 May 2021. As the new Chair of the Authority, I would like to thank Datuk Azizan Abdul Rahman for his invaluable contributions and leadership during his tenure. I look forward to working closely with my fellow Authority members and the Management team of Labuan FSA and continue to build the organisation and further develop Labuan IBFC.

Datuk Siti Zainab Omar
Chairman

CHAIRMAN'S STATEMENT

Indeed, the year 2020 had been challenging and extremely trying. It started with an unprecedented incident of a global proportion as the world was swept by the COVID-19 pandemic. At the time of my writing this Statement, the pandemic had already plunged the world into a new, unprecedented landscape – one where freedom of travels is replaced with movement restrictions and quarantines, social gatherings are prohibited whilst social distancing is promoted, and instead of face-to-face meetings, we now have to resort to online discussions and video conferencing. The pandemic has indeed shifted the way we do things and is still changing it as we speak, ushering in a more sedentary personal lifestyle while creating a more cautionary business climate.

Similar to other international financial centres, regulatory response to the pandemic had been a major focus for the Authority in 2020. This entailed proactively identifying market vulnerabilities so as to assess impact from external shocks to the market during the year. The Authority had undertaken its analytics study to the next level by simulating possible scenarios looking at past trends for each sector and examined the various adverse effects of the pandemic across businesses. This then served as a basis for the Authority to provide regulatory reliefs where required and on temporary basis so as to ensure that the industry is not materially impacted and market stability is maintained.

Recognising the disruptive risks due to the viral outbreak, from the start of the year, the Authority had been proactively advocating sound business continuity and the importance of contingency planning to the market. Both the Authority and the industry had triggered their respective organisational-wide resumption plans which include leveraging on digital solutions to ensure business operations continue uninterrupted.

Despite the travel and movement restrictions, Labuan IBFC continued to operate with minimal disruptions to serve its international-based clientele. Digital channels of communication were used to interact with the stakeholders including the market to overcome the limited physical engagements during the lockdown. The tactile nimbleness was made possible through the culmination of digitisation efforts pursued by the Authority and the market over the years. For Labuan IBFC, the digital technology wave transcends beyond operational applications as we also saw rapid business growth in the offering of innovative digital financial services. To complement this, we will continue to enhance the regulatory requirements so as to foster a commercially vibrant and orderly environment of which fintech can thrive in the Centre while meeting the region's increasing demands for sophisticated financial products.

In managing the market changing dynamics, it is important for there to be policy certainty in order to secure strong confidence and business optimism from amongst industry players and investors. In this regard, the Authority has been actively co-managing with the other relevant authorities on the application of the new Labuan tax requirements especially relating to economic substance. On the latter, the Authority had garnered much traction in facilitating the market to address operational issues as well as assist in providing clarity for any grey areas that were raised by affected Labuan entities. I foresee the Authority would continue to play this facilitative role so as to assist the market in complying with the new tax regulations, including mediating between the market, and the Ministry of Finance and the Inland Revenue Board of Malaysia on any emerging tax issues faced by the industry.

2020 was also regarded as a significant year as Labuan IBFC commemorated its 30th anniversary. Over the decades, Labuan IBFC continued to grow and play a larger role, not just to intermediate businesses within the region but also served as a catalyst for Labuan Island's own economic growth. As Labuan IBFC grew, it has also generated economic spillover to the Island's developments over the years; so much so that the market had already become a significant component of the Island's economy with a contribution of more than half its GDP.

Labuan IBFC is currently home to more than 17,000 companies and the financial businesses currently employ more than 6,000 people. With the economic substance requirements introduced in 2019, we should see more meaningful economic contribution from Labuan entities in terms of fiscal contributions, employment and local spending to the Island and the nation as a whole. Going forward, the Authority will continue to enhance the economic synergy between Labuan IBFC and the Island's developments, so that as the Centre expands, it will grow in tandem with Labuan's economic development.

Looking ahead to 2021, with the rollout of the COVID vaccine programme globally, it has lifted much of the dark cloud from the market. However, the post pandemic economic fallout is expected to still persist in the near future. In this challenging environment, Labuan IBFC is forging ahead with new developments through its laws, regulations and product innovations to further enhance its intermediary role within the region. Although I am new to my role in the Authority, I am already convinced and optimistic of the growth potentials of Labuan IBFC looking at what it has achieved over the last 30 years. Going forward, as the region's recovery is back on track and regains its pre-pandemic economic vibrancy, the Centre will be agile as ever to capture opportunities in the horizon and expands further as it moves into its fourth decade journey.

While carrying out its mandate as the regulator for Labuan IBFC, Labuan FSA will continue to uphold its corporate social responsibilities and contribute to the wellbeing of the Labuan local community through various programmes. For 2020, I am pleased to see the Labuan FSA-Labuan industry partnership which successfully pooled more than RM800,000 worth of financial relief intended for various local vulnerable groups especially those whom are socially and economically impacted by the COVID-19 pandemic. On this note, I would like to thank the industry for their contributions to the COVID reliefs and especially for the frontliner staff's efforts, who deserve our highest commendation for tirelessly serving the community in its time of need.

Moving forward, the Authority will continue to strive for the best whilst serving as the role model to the market with the highest ethical standards. As Chairman, I am committed to enhancing the performance standards of the Authority further by bringing together the experience, skills and wisdom of the collective Authority members to shape Labuan IBFC's future path for the next decade.

On behalf of the members of the Authority, I would like to take this opportunity to extend our appreciation to the advisory groups of Labuan FSA, government departments and the industry for their unwavering support during this trying periods. Also, my gratitude to Datuk Danial Mah Abdullah, former Director General for his contributions and guidance, which had set us on course towards our shared goal of building upon the strengths of Labuan IBFC during his tenure with the Authority. I would also like to extend a warm welcome to Datuk Dr. Mohd Daud Bakar, Dr. Wong Huei Ching, Ms. Goh Ka Im, Ms. Adawiyah Ahdan, Mr. Steven Choy Khai Choon and Dato' Raja Segaran S Krishnan, as new members of the Authority.

My appreciation also goes to the staff of Labuan FSA, whom I have high trust on their strong dedications to drive the organisation to greater heights. The path ahead for the Centre remains challenging but with firm commitment and perseverance, I am confident we will pull through this challenging time and emerge more resilient and agile than ever to better tackle future obstacles.

DIRECTOR GENERAL'S REPORT

OVERVIEW

Labuan IBFC had its 30th anniversary in 2020 and it proved to be a very challenging year. It was a year of tactile agility as the market manoeuvred between the international business volatility and tax policy uncertainties while being impacted by the business dampening effects of COVID-19 pandemic. When the pandemic challenges became evident in March 2020, much of our 2020 business plan needed to be reprioritised with immediate tasks of:

1. Intensifying our regulatory surveillance to ensure market stability vis-a-vis the pandemic's pressures to the business environment;
2. Providing facilitation to ensure businesses remain viable and operate in a prudent manner despite the pandemic's disruptions and movement restrictions; and
3. Adapting to the new norms by adjusting the way we do our work prioritising on our staff well-being and safety.

Nik Mohamed Din Nik Musa
Director General

During the year, the Authority had been extra vigilant to sense out potential systemic impact of the pandemic to preserve the Centre's stability and business viability. Our policy focus was to detect and address immediate-to-medium term vulnerabilities via stress testing across different sectors. The simulations were useful to reveal areas which required regulatory adjustments that would then ensure that the market's financial standing remains sound despite business shocks.

Based on the surveillance findings, immediate policy response was developed in the form of temporary regulatory reliefs (TRRs). The intention was to offer some flexibilities to the market to keep businesses viable during the trying times. The TRRs covered relaxations on administrative governance, market conduct as well as technical requirements to ensure practicality in view of the prevailing market situation. These had to a large extent, alleviated the regulatory burden of Labuan financial institutions and ensured that their services to their clients remained uninterrupted.

It was important for communication channels to remain intact despite the physical restrictions arising from the pandemic. The Authority had established a dedicated e-channel during the pandemic to convey and emphasise regulatory dos and don'ts emphasising on the need for Labuan entities to manage their operations prudently. This included reminders to businesses, to appropriately effect their resumption plans and assess any emerging risks so that their operations are not disrupted; as well as on the need for them to ensure that governance and internal controls remain effective despite working remotely. With this, the Centre continued to operate with minimal interruptions serving clients globally throughout the lockdown period.

Despite the activity restrictions during 2020, the Authority had adapted its operations accordingly and was able to carry out its regulatory, supervisory and market-facilitative mandate without major interruptions. The tactile shift was seamless as Labuan FSA's functions and services are predominantly provided via on-line platforms – all made possible from the culmination of previous years' digitisation efforts. In fact, during the movement control order period, all communications and engagements with the industry were undertaken virtually without having to rely solely on face-to-face physical meetings.

Market Development

Labuan IBFC continued to make its presence in Asia with more than 70% of the market are Asian business establishments, of which more than 800 are financial institutions. In terms of performance, there were moderation across major sectors during the year:

- New company incorporations showed a decline of 32.3%, which when coupled by the slightly higher deregistration of 5.8% in 2020, brought the total operating companies to 5,802. Due to the persisting pessimism in business outlook followed by market uncertainties on the implementation of the tax regulatory changes prior to 2020, potential investors were more cautionary resulting in deferments of investments into the Centre. Notwithstanding this, the Centre continued to receive interests from investors during the year, particularly for the banking and insurance sectors. It was clear that Labuan IBFC's business prominence was not solely dependent on its tax efficient system but also driven by its low cost-operating environment, modern legislations, fit-for-purpose regulatory framework, and stable market conditions. In short, we are still an attractive market of choice for international business setups.
- As for Labuan banking sector, the financing and investments were impacted by the loan

provisioning and investment impairments leading to a moderated profitability of USD120.1 million - a similar market experience in many financial centres. Due to business pessimism during the COVID-19 period, loan portfolios also contracted by 2.7% to USD25 billion, particularly for resident financing. Nevertheless, the banking sector remained resilient and upbeat as evident in the increased demands for digital banking setups in the Centre during the year.

- The leasing sector which was already impacted by tax uncertainties in 2019, experienced further contraction due to economic slowdown caused by the pandemic. The Labuan aviation leasing was significantly affected by the travel restrictions and business disruptions to the tourism activities. Consequently, the total leased assets of the industry declined by 9.9% to USD40.7 billion. Despite this, oil and gas-related leasing remained vibrant as this represented the majority of the new leasing setups and subsequent transactions which were approved in 2020.

- For commodity trading sector, similar domino effect from the economic slowdown had impaired its business performance during the year. In terms of bottom line, the sector registered a loss of USD1.6 billion, mainly attributable to declined revenues due to global oil price volatility, coupled with higher provisioning for asset impairments.

Despite the generally sombre market performance in 2020, the Centre's growth prospect remained positive for some sectors as these business lines showed encouraging trends and business expansions:

- The insurance sector expanded further with 15 new licensees in 2020 comprising two (re) insurers, five intermediaries and eight captives while recording a higher total gross premium volume of USD1.6 billion. This 6.7% premium growth is mainly observed in the captive and reinsurance business lines. The sector's profitability significantly improved by 87.1% to USD364.1 million-buoyed by favourable underwriting performance results in tandem with better claim experience. Future prospect of the sector is expected to be enhanced further due the hardening of reinsurance market, in tandem with the increasing demands for (re)insurance protection due to the pandemic as well as the preference for captives as an alternative risk mitigation tool. Labuan IBFC currently houses 55 captives which is the second largest market for South East Asia and represented a quarter of all captives in the Asia-Pacific and Middle East and North Africa (MENA) region.

- The Centre continued to attract financial technology innovations as evident by the influx of digital financial business setups. In 2020, the total number of digital financial services doubled with 30 new licences granted. Indeed, this segment will be the game changer to the Centre as more innovative financial solutions can be offered to meet the region's expanding digital demands. In fact, the Labuan Digital Banking Framework which was issued by the Authority during the year was intended to inject further vibrancy in the conventional banking sector. With this, suitable international institutions can now offer unique digital banking solutions to the region via the Centre.

Regulatory Developments & Supervisory Activities

Although not the competent authority for fiscal matters, Labuan FSA continued to act as the mediator between the industry players and relevant authorities, including the Inland Revenue Board of Malaysia ("IRB"), to facilitate the industry's transition into the new Labuan tax regime. In this regard, Labuan FSA had initiated steps to establish a working-committee with relevant units within IRB to address the operational issues faced by the industry. Various efforts have been expended by the Authority during the year to engage with industry players on substantial requirements, which included:

- Clarified the requirements for pure equity holding entities with regard to their activity scope, full-time employees and board meeting requirements during the pandemic; and

- Recommended the proposed changes to the substantial activity requirements which were then subsequently approved.

To sustain the growth impetus and expand business potentials in Labuan IBFC, the Authority had continued to holistically review the relevant business regulations and policies for various sectors. This is to ensure regulatory consistencies with the current requirements such as those of the new tax framework. Licensing guidelines on banking, insurance and company management activities were enhanced so as to inject business modernisation into these sectors.

The Authority continued to carry out prudential regulatory upscaling as means of ensuring market safety and soundness which included:

- Issuance of a set of principle-based risk management standards on outsourcing arrangements for Labuan banking and (re) insurance business. This is to further enhance the operational risk management within these sectors for business functions which are managed by third party services providers;

- Development of new regulations based on the findings from the impact study on the COVID-19 effects to the Labuan industry. These relates to prudential requirements on Business Continuity Management as well as cyber governance to ensure financial institutions continued to be resilient in managing disruptions and digital risks.

In 2020, intensified efforts were made to heighten the Anti-Money Laundering and Counter Financing Terrorism (AML/CFT) monitoring especially on emerging risks globally which include complex trade-based money laundering, cyber fraud and data leaks. Continuous communication was also made to the industry to instil vigilance amongst reporting institutions for potential money laundering and terrorism financing risks as well as to strengthen the AML/CFT compliance during the pandemic. Risk assessments on key segments of the market were also undertaken as part of Authority's surveillance and gap analysis. The findings gathered served as inputs for specific regulatory enhancements or higher monitoring intensity for the relatively higher risk sectors identified. Other initiatives relate to preparatory works for the upcoming assessments by Financial Action Task Force and Asia/Pacific Group on Money Laundering such as:

- enhancements to the AML/CFT sectoral guidelines;
- development of beneficial ownership framework; and
- requirements for electronic KYC for digital financial services.

During the pandemic, the supervisory and enforcement approach had also been realigned and adaptive to the current limitations due to movement restrictions. Key initiatives undertaken included:

- Emphasis on desktop supervisions and regular supervisory engagements with players through digital channels, in view of lesser on-site examinations.

- Firm enforcement actions continued to be undertaken on non-compliances to ensure the credibility and integrity of the businesses in the Centre.

During the year, the Authority continued to maintain close relationship with peer regulators and enforcement agencies to supervise cross-border business activities especially for Labuan entities with presence in other markets. In 2020, the Authority facilitated more than 70 information requests from 11 jurisdictions.

The Authority is an active member of various international multi-lateral organisations of regulators by participating in their global forums and plenaries to ensure the Authority is always kept abreast of regulatory and supervisory developments. This includes partaking in forums organised by 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 on Anti-Money Laundering. In 2020, a MOU on regulatory cooperation was signed with the Guernsey Financial Services Commission.

Going Forward

With its 3-decade anniversary in 2020, it is imperative that Labuan IBFC assesses its accumulated experience and charts the way forward to ensure continual relevancy vis-a-vis the new norms prevalent in the international business environment. In this regard, strategic plans have been developed to enhance the sustainability and relevancy of Labuan IBFC moving forward which comprised:

(i) *Expanding and strengthening Labuan IBFC's financial ecosystem:* entailing the need for regulatory infrastructure and policies to promote digital business space as well as new business potentials. Intra-business initiatives would also be promoted as means of generating self-perpetuating business growth within the Centre;

(ii) *Regulatory and supervisory modernisation:* relating to applying more proportionality in the manner of which different businesses are regulated and monitored by the Authority;

(iii) *Visibility enhancement and branding strategy:* according greater efforts to increase the Centre's prominence via greater participation in international forums and bodies of which the Authority is a member of. Targeted prospecting would also be undertaken so as to have more strategic promotion; and

(iv) *Enhance organisational reputation and delivery efficiencies:* employing greater digital sophistication into the Authority's functions via regtech and suptech improvements.

Financial Standing

On the financial performance of Labuan FSA, I am pleased to announce that for the year ended December 31, 2020, Labuan FSA recorded an increase in total income of RM66.15 million as compared to RM63.74 million in 2019, while its surplus correspondingly increased to RM15.77 million.

Conclusion

Before I end, on behalf of the management of Labuan FSA, I would like to thank the Authority Chairman and members of Labuan FSA for their unfailing wisdom and continued support. My gratitude also goes to the Labuan financial community for their support during this challenging period. The energy and vigour that had been shown and put forth all these years were pivotal towards reaching our success today and I am sure this cooperation will continue in the years ahead. Lastly, I would also like to express my sincere thanks to the staff of Labuan FSA and its subsidiaries for their dedication which continues to stand us in good stead.

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 & 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.

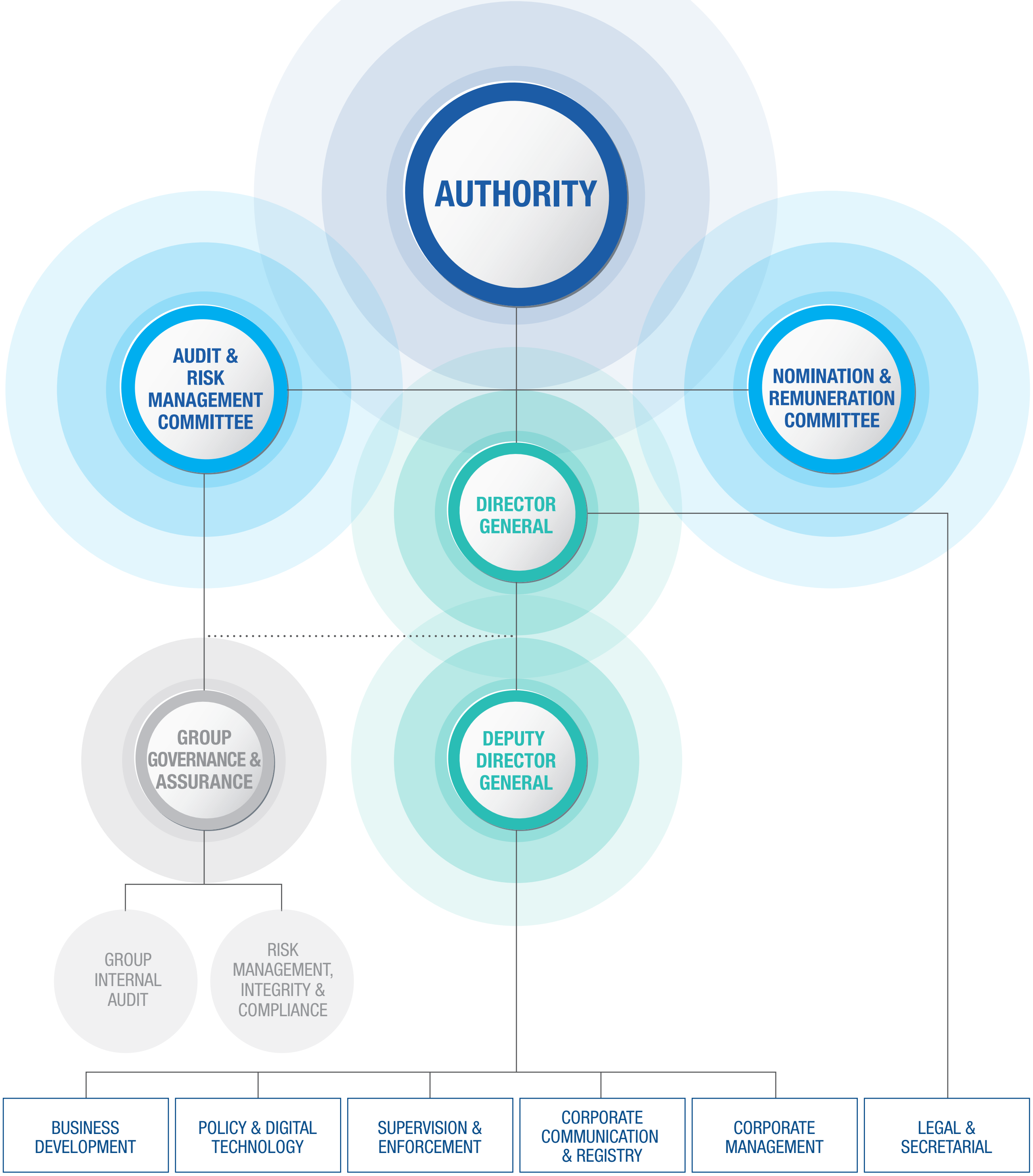
FUNCTIONS OF LABUAN FSA

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.

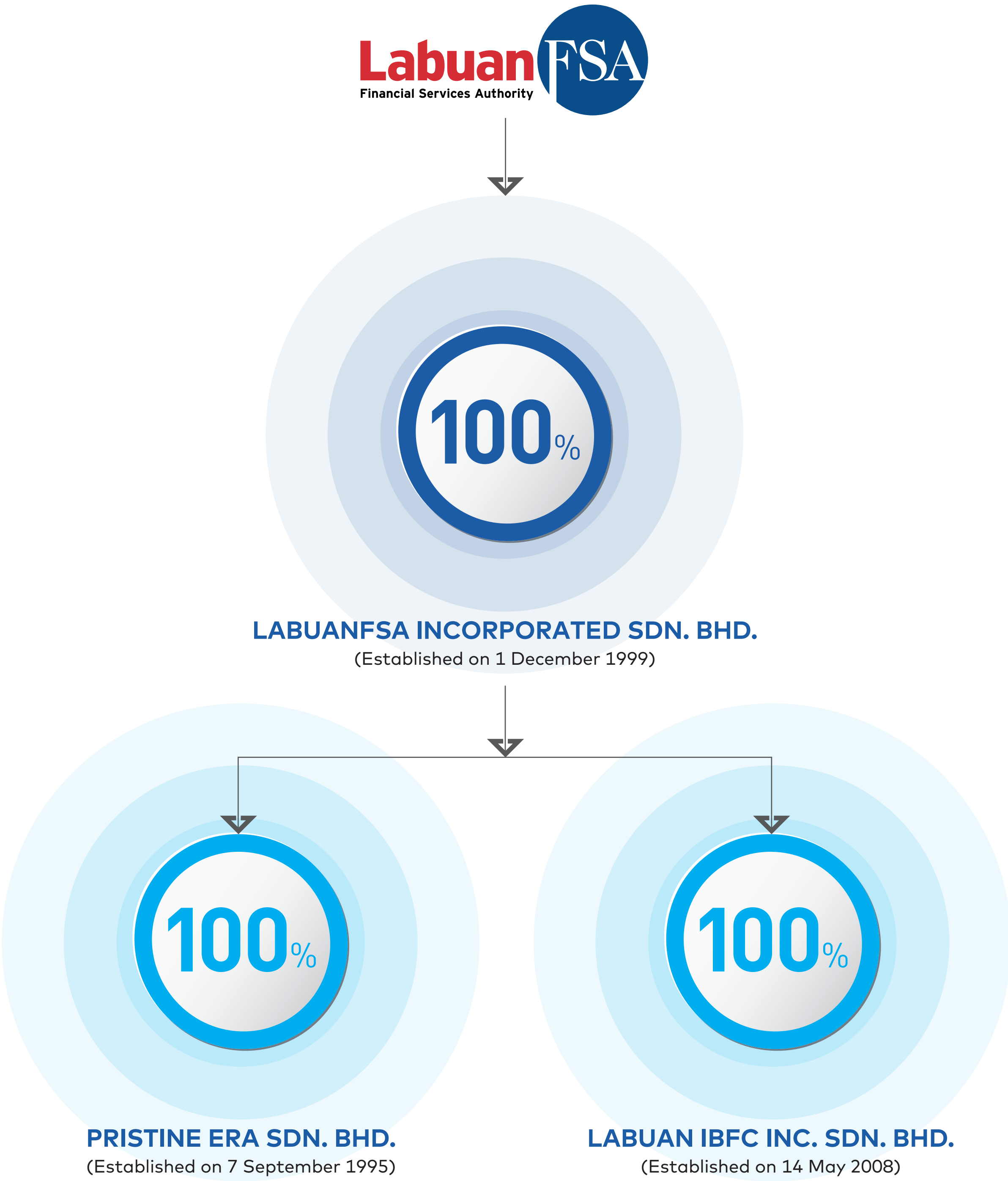
ORGANISATIONAL STRUCTURE

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 and Labuan IBFC Inc. Sdn. Bhd. is to promote the Labuan International Business and Financial Centre.



AUTHORITY MEMBERS OF LABUAN FSA

Datuk Siti Zainab Omar
Chairman

Datuk Siti Zainab binti Omar is the Solicitor General II of Malaysia. Prior to this post she was the Head of the Advisory Division at the Attorney General's Chambers of Malaysia.

She read law and obtained an LL.B.(Hons) from the University of Essex, United Kingdom, in 1985. She was admitted to the Bar of England & Wales (Grays's Inn) in 1986 and in 1998 she was admitted to the Malaysian Bar as an Advocate & Solicitor.

YBhg. Datuk Siti Zainab started her career in the Judicial and Legal Service of Malaysia from 1987 as a Deputy Public Prosecutor in the Prosecution Division of the Attorney General's Chambers handling criminal cases punishable with death penalty which include murder, kidnapping, firearms and drug related offences.

From there she served as a Federal Counsel and a Senior Federal Counsel in the Advisory Division of the Attorney General's Chambers and other Ministries such as the Ministry of Energy, Telecommunication and Posts and the Ministry of Work handling privatization cases, construction cases and disciplinary cases.

She has also served as the Deputy Treasury Solicitor and Treasury Solicitor in the Ministry of Finance. In 2007 she was appointed as the State Legal Advisor of Malacca.

Datuk Siti Zainab has wide legal experiences with emphasis on areas of constitutional law, finance and Islamic finance law, land law and contract law. In her current position she is responsible in advising the Government in many corporate, contractual, constitutional and international matters. She is also involved in many international negotiations representing the Government.

During her tenure, she was entrusted to hold special posts including directorships in governmental statutory bodies and companies such as Syarikat Perumahan Negara Berhad, Usahasama SPNB-LTAT Sdn Bhd and Sepang International Circuit Sdn Bhd. She was also appointed as one of the committee members in the Law Harmonisation Committee in Islamic Finance established by Central Bank of Malaysia. She is now a member of the Board of Retirement Fund (Incorporated) and a member of the Board of Directors of Malaysia Rail Link (MRL) Sdn. Bhd. and 1Malaysia Development Berhad (1MDB).

AUTHORITY MEMBERS OF LABUAN FSA

Mr. Nik Mohamed Din Nik Musa
Director General

Mr. Nik Mohamed Din is the Director General of Labuan FSA. Prior to his appointment, Mr. Nik Mohamed Din was the Director of Money Services Business Regulation, Bank Negara Malaysia (BNM) since 2016.

At his previous post, he was responsible for the regulation, supervision, policy-making and development of cross-border remittance, currency exchange and currency wholesale business in Malaysia. He joined BNM in 1991 and had served in various areas within the Central Bank, including bank regulation, Islamic banking and takaful as well as market development of international finance of the Labuan IBFC.

Mr. Nik Mohamed Din is the Vice Chairman of International Islamic Financial Market (IIFM). He is also Chairman of the Financial Stability Committee of Labuan FSA and a board of director of Financial Park (Labuan) Sdn. Bhd.

Besides holding a Chartered Banker certificate from the Asian Institute of Chartered Bankers, Mr. Nik Mohamed Din holds a Bachelor of Science in Economics and Accounting from the University of Bristol and a Master's degree in Business Administration from the University of Warwick.

Mr. Adnan Zaylani Mohamad Zahid

Mr. Adnan Zaylani is the Assistant Governor of Bank Negara Malaysia who is 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, Strategic Management Committee and Reserve Management Committee of Bank Negara Malaysia.

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

Tan Sri Dr. Mohd Daud Bakar

Tan Sri 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 the Securities Commission Malaysia and the Shariah Supervisory Council of Labuan Financial Services Authority.

Tan Sri Dr. Mohd Daud Bakar 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.

Tan Sri 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.

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.

AUTHORITY MEMBERS OF LABUAN FSA

Ms. Goh Ka Im

Ms. Goh was 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 of Shearn Delamore & Co until her retirement at the end of 2020.

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

Ms. Goh who became a partner of Shearn Delamore & Co in 1997, 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.

Ms. Adawiyah Ahdan

Ms. Adawiyah Ahdan is the Head of Loan Management and Monitoring Unit under the Strategic Investment Division of the Ministry of Finance Malaysia.

Previously, she has served in various government agencies including portfolios under Ministry of International Trade and Industry, Department of National Training Services and the Ministry of Tourism.

Ms. Adawiyah holds a Diploma in Banking from Universiti Teknologi MARA, a bachelor's degree in International Business from UiTM. She obtained an International Master's Degree through the Asia-Europe small and medium enterprise institute program, University of Malaya.

Dato' Raja Segaran S Krishnan

Dato' Raj Krishnan is an Advocate and Solicitor of the High Court of Malaya, and is a member of the Malaysian Bar, specialising in cross border personal and corporate ownership, business and personal succession planning and asset protection structures. He was the Director of the Financial Services Institute (FSI) of the British Virgin Islands (BVIs), and a Director and an approved Trust Officer of Labuan Borneo Trustees Limited, a licensed Labuan Trust Company.

Dato' Krishnan is a Senior Consultant with GRC Advantage Pty Ltd, (governance, risk and compliance consulting company based in Australia), and is currently serving on the Boards of HWGG Capital Ltd (a licensed digital asset company in Labuan) and Pronumeris Training Centre Ltd (Mauritius). He is a Committee Member of the Disciplinary Panel, Society of Trust and Estate Practitioners (STEP) Worldwide and is an Adviser of Family Trust Legal Affairs Centre (FLTAC) of King & Capital Law Firm, Beijing, China. He is also a Visiting Lecturer (Law and International Financial Services) at Nankai University, Tianjin, Beijing, China.

Dato' Krishnan holds a Bachelor of Economics from the National University of Malaysia, a Bachelor of Law and Masters in Law (Advance Company Law) with Merit from the University of London. He has also successfully completed the Certificate of Legal Practice from the Legal Qualifying Board Malaysia and holds a Diploma in Education, and is a professional member of the General Teaching Council of Scotland (GTCS). He also holds a STEP Diploma in International Trust Management, STEP Advanced Certificate in Family Business Advising, STEP Advanced Certificate in Trust Disputes and a Diploma in International Compliance (International Compliance Association, UK). Dato' Krishnan is a full member of STEP Glasgow, Scotland and a Fellow of the International Compliance Association, UK.

Mr. Steven Choy Khai Choon

Mr. Steven Choy is currently the Chairman of Zurich General Insurance (M) Bhd, Independent Non Executive Chairman of Zurich Life Insurance Malaysia Bhd, Deputy Chairman and member of the Audit Committee and Nomination & Remuneration Committee of Deutsche Bank Malaysia Bhd. He serves on the Board of Hap Seng Plantations Holdings Bhd, Bond and Sukuk Information Platform Sdn Bhd and Asian Banking School Sdn Bhd. Mr. Choy is also the Independent Director and Risk & Audit Committee Chairman of Malaysia Marine & Heavy Engineering Bhd and MSM Malaysia Holdings Bhd, as well as a Public Interest Director at the Federation of Investment Managers Malaysia.

Previously, he held senior positions at several financial institutions and served as President/CEO of Cagamas Berhad for six years before retiring in March 2012.

Mr. Steven Choy graduated with a Bachelor of Commerce degree from the University of New South Wales, Australia in 1982 and holds a Master's degree in Business Administration from Oklahoma City University, USA in 1988. He is a Fellow of CPA Australia and a member of the Malaysian Institute of Accountants.

SENIOR MANAGEMENT OF LABUAN FSA

Mr. Nik Mohamed Din bin Nik Musa
Director General

Datuk Iskandar bin Mohd Nuli

Mr. Mohd Rizlan bin Mokhtar

Mr. Azuddin bin Jasin

Mr. Wan Ahmad Sanusi bin Mahmood

Mr. Syahrul Imran bin Mahadzir

Mr. Jaffree bin Ismail

Mr. Syed Fadhil Hanafi bin Syed A Rahman

LABUAN FSA CONSULTATIVE BODIES

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, appointed by the Chairman of Labuan FSA, comprises prominent individuals from international and domestic markets, each with unique industry experience and expertise.

IAP Members:

1. Tan Sri Mohammed Azlan bin Hashim – Chairman
2. Mr. Michael Troth
3. Dato' Mohammad Faiz Azmi
4. Tan Sri Dr. Mohd Daud 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. Tan Sri Dr. Mohd Daud Bakar – Chairman
2. Dr. Mohamad Akram Laldin – Deputy Chairman
3. Dr. Mohamed Ali Elgari Bineid
4. Dr. Engku Rabiah Adawiah binti Engku Ali
5. Dr. Sheikh Nedham Yaqoobi
6. Dr. Syed Musa Syed Jaafar Al-Habshi

FINANCIAL STABILITY COMMITTEE

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

FSC Members:

1. Mr. Nik Mohamed Din Nik Musa, 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.

CORPORATE GOVERNANCE

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

STATEMENT OF CORPORATE GOVERNANCE

Corporate governance refers to the way Labuan Financial Services Authority (Labuan FSA) is administered and includes the framework and administrative processes within which the Authority and the management functions to maintain integrity and sound business operations in congruent with relevant laws and regulations. As the regulator of Labuan IBFC, Labuan FSA is committed to ensuring **accountability, integrity and transparency** in its governance and stakeholder management.

Governance Framework for long term sustainability

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

ACCOUNTABILITY

An **accountability** structure that produces effectiveness, clarity, responsiveness and responsibility

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

GOVERNANCE FRAMEWORK

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

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

GOVERNANCE

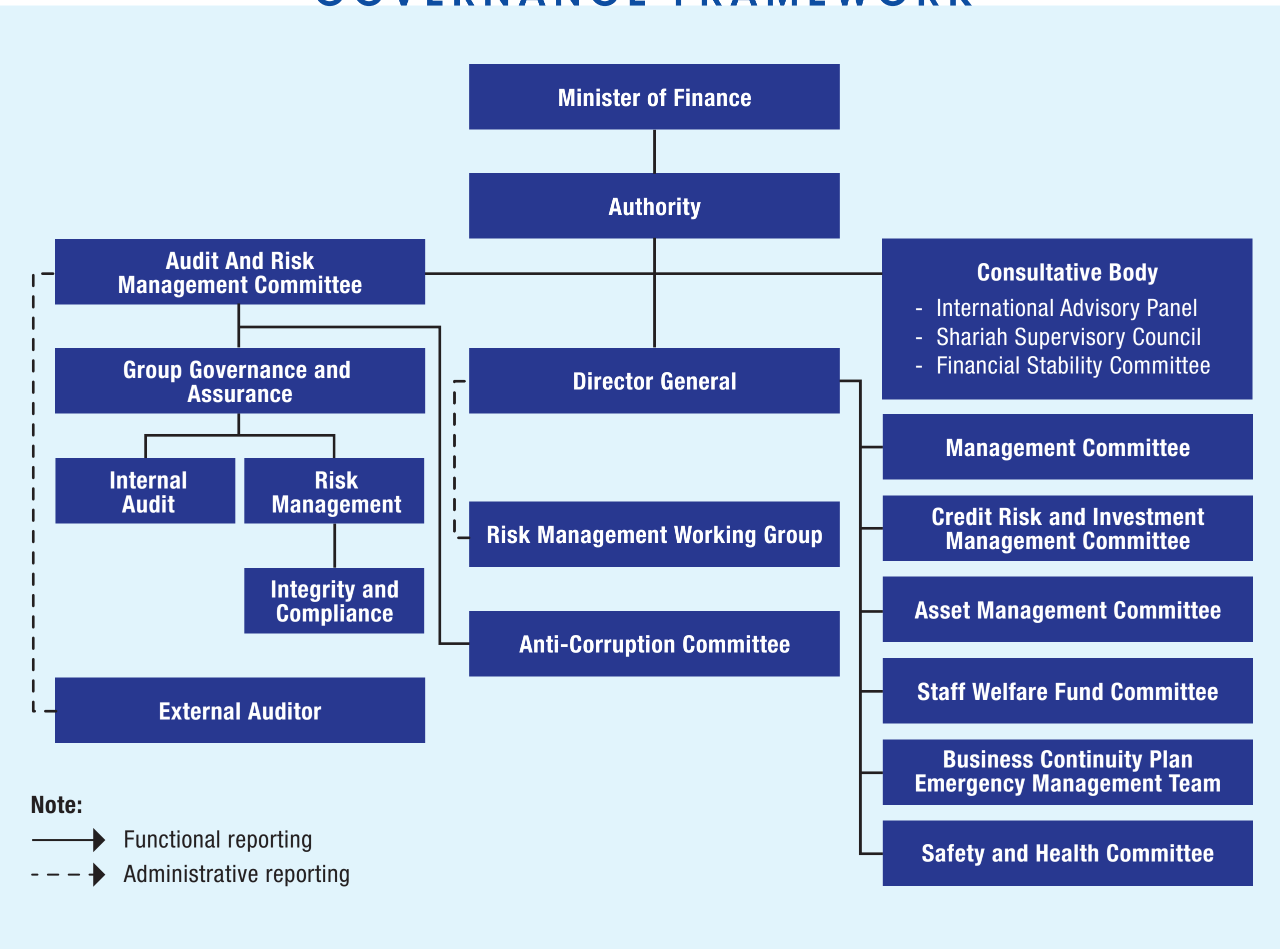
Labuan FSA accepts accountability for its actions and is assured of the soundness of judgements because of the support of various decision-making structures and the strength of internal resources. Adequate checks and balances are in place and remained effective, responsive and responsible as the Authority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

The Authority

In the hierarchy of Labuan FSA, the Authority is the highest decision-making body. It comprises nine prominent members with backgrounds in business, financial, regulatory, legal, 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. The Authority is assisted by the Audit and Risk Management Committee in fulfilling its supervisory and oversight 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.

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 that are 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



STATEMENT OF CORPORATE GOVERNANCE

The Authority held six meetings during the year 2020. A schedule of Authority meetings for the whole year is prepared before the end of the preceding financial year, to facilitate the members in discharging their responsibilities at the Authority meeting.

The composition and attendance of the members at the meeting are set out below:

AUTHORITY MEMBERS	ATTENDANCE
Datuk Azizan Abd Rahman (Chairman) (Appointed as Authority Chairman w.e.f. 1 November 2020)	2/2
Encik Adnan Zaylani Mohamad Zahid	5/6
Datuk Danial Mah Abdullah	6/6
Tan Sri Dr Mohd Daud Bakar (Appointed on 1 January 2020)	4/6
Dr Wong Huei Ching (Appointed on 1 January 2020)	6/6
Ms Goh Ka Im (Appointed on 1 January 2020)	5/6
Ms Adawiyah Ahdan (Appointed on 1 August 2020)	2/2
Mr Steven Choy Khai Choon (Appointed on 1 November 2020)	2/2
Datuk Oh Chong Peng (Retired on 16 August 2020)	4/4
Dato' Mohammed Azlan Hashim (Retired on 16 August 2020)	4/4
Dato' Ooi Kok Seng (Retired on 16 August 2020)	4/4
Dato' Hazim Jamaluddin (Retired on January 2020)	–

In 2020, 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;
- ✓ appointment of advisory committee members;
- ✓ authorised procurement of goods or services valued at more than RM250,000;
- ✓ reviewed appeal for the application of licenses; and
- ✓ provided guidance to the management on the implementation of Labuan IBFC's new tax regime.

The Authority was also continuously updated on matters discussed at the Audit and Risk Management Committee meetings relating to 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 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 2020, the ARMC convened five 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.

The composition and attendance of the members at the meetings are set out below:

ARMC MEMBERS	ATTENDANCE
Mr Steven Choy Khai Choon (Chairman) (Appointed on 17 November 2020)	1/1
Ms Goh Ka Im (Appointed on 25 February 2020)	4/4
Datuk Azizan Abd Rahman (Appointed on 17 November 2020)	1/1
Ms Adawiyah Ahdan (Appointed on 17 November 2020)	1/1
Datuk Ooi Kok Seng (Retired on 16 August 2020)	4/4
Datuk Oh Chong Peng (Retired on 16 August 2020)	4/4
Dato' Mohammed Azlan bin Hashim (Retired on 16 August 2020)	4/4
Dr Wong Huei Ching (Retired on 17 November 2020)	3/3

During the year 2020, the ARMC carried out the following activities in discharging its function and duties:

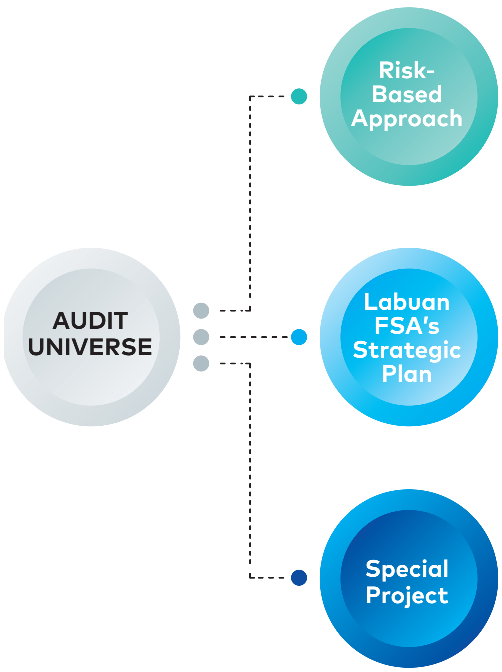
- Reviewed and approved the Annual Audit Plan for 2021 and provide oversight on the work performed by the Group Internal Audit throughout the year.
- Deliberated on Internal Audit Reports and recommendations made by Group Internal Audit.
- Reviewed the corrective actions taken by Management to address and resolve the audit findings identified in the audit reports.
- Deliberated and advised on legal and supervisory actions on concerned institutions and proceedings involving Labuan FSA and its subsidiaries.
- Reviewed the accounting and financial reports including key issues raised by the internal and external auditors and Auditor-General's office.
- Reviewed financial reports including quarterly and annual financial statements.

- Reviewed and advised the Authority on the 2021 budget proposal.
- Reviewed and advised on the status of risk issues and its management as they relate to the strategic, financial, operational, legal and reputational risks of Labuan FSA.
- Reviewed the Business Continuity Plan and its implementation.
- Reviewed the measures undertaken by Labuan FSA during COVID-19 and the Movement Control Order (MCO).
- Reviewed the development and activities of the Group Internal Audit Integrity Unit and Labuan FSA Anti-Corruption Committee.

INTERNAL AUDIT

The Group Internal Audit (GIA) supports the ARMC in discharging its responsibilities by providing an independent, objective assurance and advisory to add value and improve the governance as well as the operations of Labuan FSA and its subsidiaries. The achievement of strategic objectives is facilitated through 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 risk assessment and strategic directions.



Risk-based aligned with Enterprise Risk Management (ERM) Assessment:

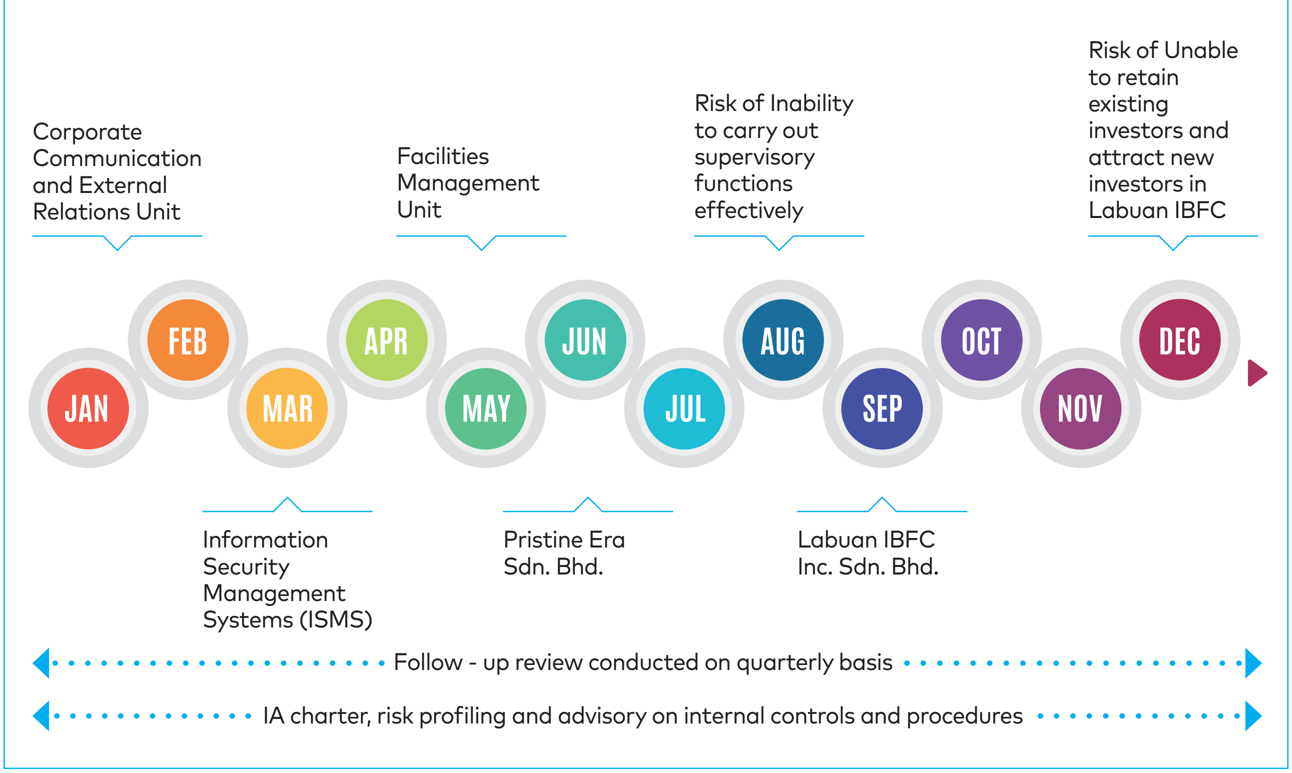
- Risk rated as "High" and "Moderate" are audited as per the recommended audit cycle.
- Operational audit of the effectiveness of units/departments' operations.

Aligned with the corporate objectives of Labuan FSA and supported by the following strategic thrusts:

- Business focused.
- Strong regulatory and supervisory regime.
- Strengthen financial sustainability of the organization and its subsidiaries.
- Upscaling talent, infrastructure and facilities in Labuan FSA.
- Increase Labuan FSA's visibility.
- Maintain good stakeholder relationship.

- Case to case basis.
- Investigation.

Audit Activities 2020



During the year, the assurance provision cycle was vigorously effected by GIA and Undertaken the following programmes:

- Conducted seven audit reviews;
- Follow-up reviews on eight previous audit projects; and
- Continuous engagements with auditees to resolve audit findings.

As of December 2020, 83% of the audit findings were resolved. The audit follow up and commitment from the management ensured that the corrective actions have been successfully implemented and the risks highlighted have been mitigated.

Internal Controls

Recognising the need to instill clear lines of accountability in each functional unit within the organisation, GIA continuously reviews and provide advisory comments on status of internal controls through the audit reviews and enterprise risk management. The ultimate objective is to enhance the efficiency and effectiveness of key controls, simplify procedures and strengthen internal systems that support Labuan FSA's overall governance. In 2020, a total of three procedure manuals were reviewed to ensure operations are being managed more effectively, which resulted in an improvement in the overall performance of the organisation.

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

Competencies and Professionalism

In order to meet the expectation in terms of functions, roles and responsibilities, Labuan FSA's internal auditors are continuously trained and developed to ensure they are equipped with the necessary knowledge, skills and core competencies to enhance their professionalism.

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

The organisation 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. The MC provides direction on Labuan FSA's overall business strategy, facilitates the management and supervision of its operations, and authorises purchase of goods or services up to RM250,000. In 2020, MC conducted 56 meetings, chaired by the DG, to deliberate various matters including business and prudential policies, cases of concerned institutions with policy and legal risk. 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 its management.

Other Management Committees

In addition to the Board Committees, management committees have been established to support the execution of various responsibilities 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 the critical risks of Labuan FSA. The RMWG has 13 members comprising the DG as Chairman, seven Directors and five Deputy Directors. During the period under review, continuous engagements were effected by the RMWG to identify potential events and to ensure risks which could materially impact Labuan FSA, are sufficiently addressed, including global slowdown, COVID-19 pandemic and cyber threats.

ii. Anti-Corruption Committee

The Anti-Corruption Committee (Jawatankuasa Anti-Rasuah or JAR) was established in line with "Arahan YAB Perdana Menteri No. 1 Tahun 2018 Pemantapan Governans, Integriti Dan Anti-Rasuah Dalam Pengurusan Pentadbiran Kerajaan Malaysia". The JAR comprises seven Directors including the DG as the Chairman and the Integrity Officer who acts as the Secretariat. The committee discusses issues of integrity, governance and anti-corruption based on four terms of reference namely Law and Regulatory Policy; Standard Operating Procedure; Strengthening Governance and Integrity; and Detection, Compliance, Punitive and Recovery. A total of five meetings were held in 2020, chaired by the DG, to deliberate the Organisational Anti-Corruption Plan and integrity and governance other concerned matters.

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 Authority Act 1996 to assist Labuan FSA to review and recommend to the DG for approval or rejection of any application for licence, consent, registration or approval and other operational matters pursuant to the relevant laws and guidelines related to Labuan entities. The Committee members consist of a Chairman and five other members from the relevant departments or units within the organisation. In 2020, 13 meetings were held, 146 licence applications and operational matters deliberated by CRIMCO.

iv. Asset Management Committee

The Asset Management Committee (AMC) is responsible to assess, advise and decide on purchase of goods and services up to RM100,000. The Committee is also overseeing all aspects of asset management in the best interest of Labuan FSA. In 2020, eight meetings were held with 35 proposals were deliberated.

v. Staff Welfare Fund Committee

The Committee reviews and recommends to the DG for approval or rejection of staff personal loan applications. In 2020, the Committee approved two staff personal loan applications.

vi. 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 to ensure business operations of Labuan FSA continues in the event of disasters, be it internal or external as well as to minimise the financial losses. The year 2020 has been a challenging year for Labuan FSA due the COVID-19 pandemic, with mobility restrictions and compliance to the SOP that are critical in preventing the COVID-19 from spreading. Nevertheless, despite the unprecedented events, Labuan FSA has ensured minimal disruptions to the critical operations of Labuan FSA through implementation of several key measures. These measures include activation of business continuity plan, implementation of Work from Home arrangement and availability of remote working tools and ICT infrastructure technical supports.

vii. Safety and Health Committee

The Safety and Health Committee (SHC) was established to guide, advise and assist Labuan FSA on safety and health matters at the workplace covering both employees and visitors. The SHC is mandated with the following responsibilities:

- Provides and preserves a workplace with a safe and healthy working system;
- Ensures that activities are carried out in a safe and healthy environment;
- Nurtures a work culture that emphasises safety through education and training; and
- Reviews and improves on the policy whenever necessary.

In 2020, the SHC had identified and developed safety preventive measures for for the workplace. During the pandemic, the Committee had issued a Support CARE Framework which aims to provide practical assistance operating procedure for the Committee to assist staff and families during the period. This is part of the management's strong commitment in ensuring that the staff's well-being is taken care of. In addition, the Committee had organised a Mental Health Awareness Month to raise awareness on mental health, especially in these challenging times.

INTEGRITY

Labuan FSA recognises that integrity contributes significantly towards creating an environment of trust within Labuan IBFC which, in turn, would build up the confidence and trust of investors. In order to build such an environment of integrity, Labuan FSA itself has to be a model of integrity in which ethics and honesty both support and are supported by good governance. In the day-to-day operations of Labuan FSA, staff are guided by the following shared values:

Integrity, Commitment and Professionalism	Open and Honest Communication	Teamwork	Business and Stakeholder Oriented	Continuous Learning
To uphold the highest principles and core values of professionalism and be exemplary to others; as persons of depths and character, integrity, hard work, and discipline.	To communicate clearly and promptly, applying open and honest two-way communication.	To strengthen Labuan FSA's team collaboration, based on mutual respect, energetic and unrestrained support to create a conducive, positive and vibrant work environment.	To enhance the business friendly environment and to have a closer collaboration and cooperation with stakeholders and international counterparts.	To undertake continuous learning and self enhancement, support training roadmaps & contribute towards a knowledge based organisation.

The following measures further enhance good governance practice in Labuan FSA.

- Terms and Conditions
- Procedure Manuals
- Audit Review
- Enterprise Risk Management
- Decision by Committee
- IT Based System
- Corporate Integrity Pledge
- Integrity Pact
- Whistle Blowing Policy
- Gift Policy
- Asset Declaration
- Secrecy Undertaking
- Staff Vetting
- Personal Data Protection Act
- Awareness Programmes

As part of the ongoing efforts to maintain high standards of integrity and to promote a culture of good governance in our business and activities, Labuan FSA has developed the Organisation Anti-Corruption Plan (OACP) that provides the strategic direction for establishing an organisation that upholds the highest standards of ethical practices, integrity and anti-corruption principles. The Jawatankuasa Anti Rasuah (Anti-Corruption Committee or JAR) oversees the implementation of the OACP to ensure the identified initiatives are successfully implemented.

The vision of the OACP is to make Labuan FSA free from corruption by focusing on three missions:

i. To promote culture on integrity and anti-corruption;
ii. To create highly professional and competent workforce; and
iii. To formulate and implement policies that embrace best standards and practices.

The OACP is summarised as follows:

MISSIONS	GOALS	PRIORITY AREAS	STRATEGIES
Promote Culture on Integrity and Anti-Corruption	Minimise Disciplinary Breaches	Governance and Administration	Promote Good Governance and Enhance Transparency and Accountability
Create Highly Professional and Competent Workforce	Enhance Customer Satisfaction	Procurement	Improve and Streamline Procurement Process
Formulate and Implement Policies that Embrace Best Standards and Practices	Zero Fraud and Corruption	Business, Supervisory and Enforcement	Strengthen Policies and Actions on Anti-Corruption
			Zero Tolerance Attitude on Fraud and Corruption

ENTERPRISE RISK MANAGEMENT

The Enterprise Risk Management (ERM) framework outlines the process for identifying, assessing, monitoring and managing risks within the Labuan FSA. This is to ensure that Labuan FSA recognises that risk management and sound internal controls are integral to achieving the Group's goals and objectives. Labuan FSA adheres to the ERM framework, which adopts ISO31000:2018 Risk Management Principles and Guidelines to align with industry best practices. The key elements of an effective ERM processes under the ERM framework are shown in Diagram 1.

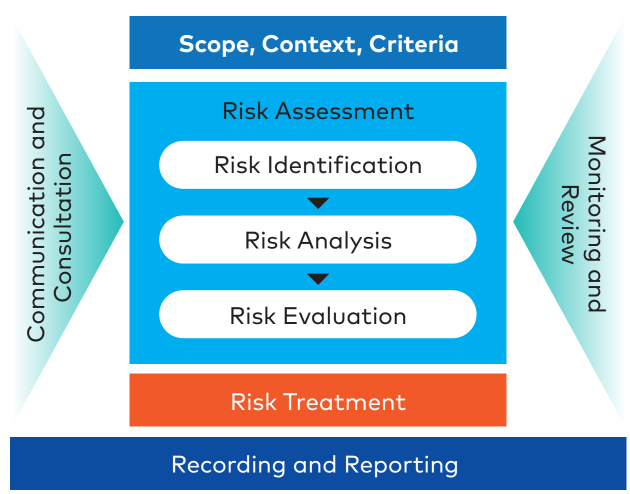


Diagram 1: ERM Processes

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

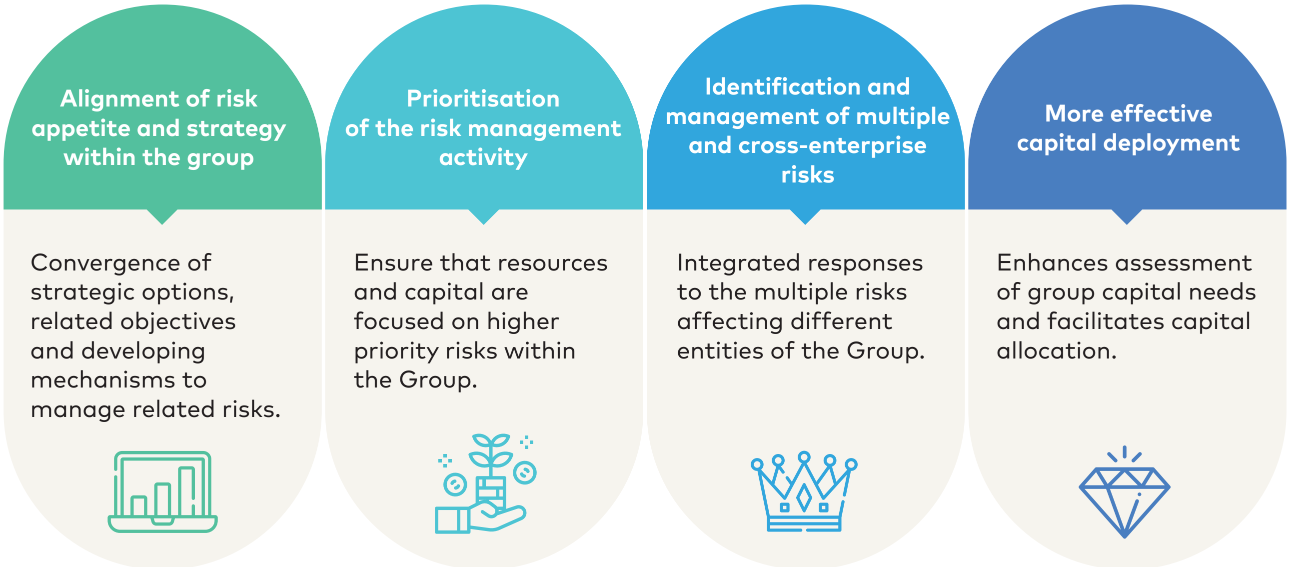


Diagram 2: Labuan FSA's Approach to Risk Management

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 3.

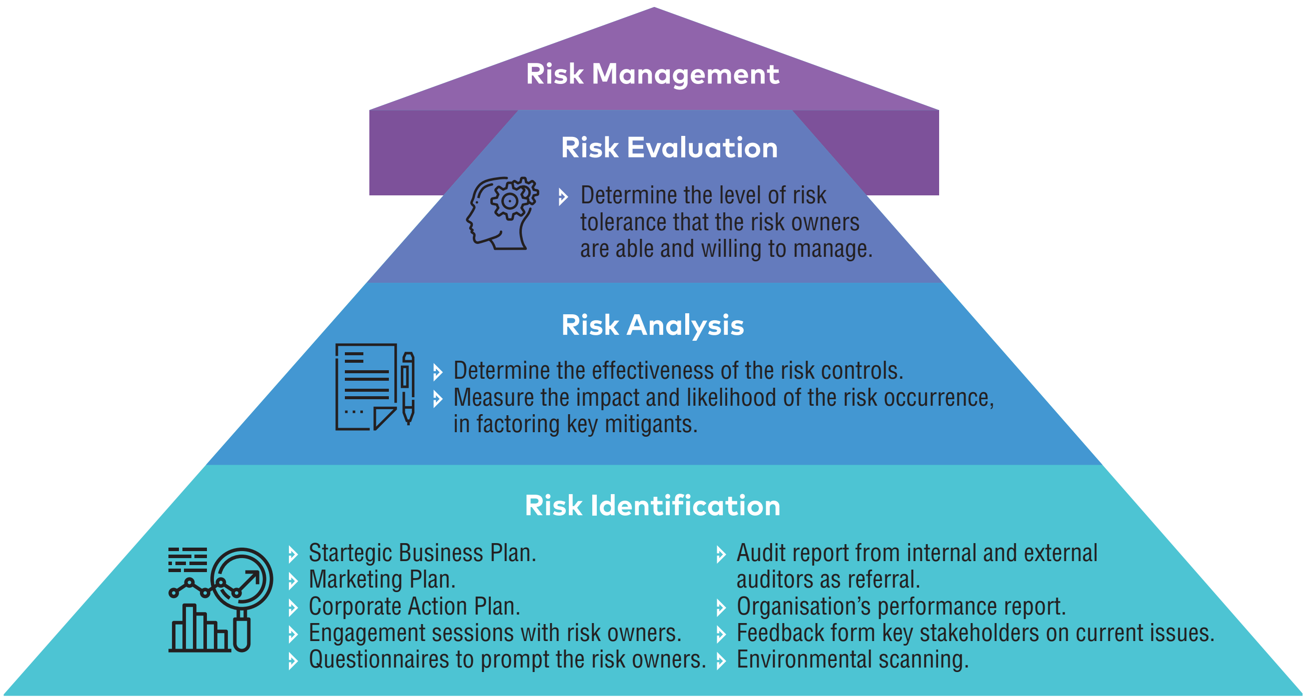


Diagram 3: Risk Management Process

The Management of Labuan FSA is responsible for ensuring the implementation of the risk management framework and practices across all functions within Labuan FSA. The ERM process involves participation of the Risk Management Unit (RMU) and the respective Head of Units/Departments as the risk owners. The Risk Management Working Group (RMWG) meetings will be held periodically to deliberate the ERM risk assessment, driving risk management process and coordinating decision making for the purpose of reporting to the Audit and Risk Management Committee (ARMC) and the Authority on the measures taken to mitigate the significant risks of Labuan FSA. The key actions are illustrated in Diagram 4.

UNIT/ DEPARTMENT

- Review of risk profiles risk owners.
- Engagement with the risk owners on the risk controls and action plans to mitigate risk.
- Prepare risk assessment report.
- Present the ERM risk assessment report to RMWG for endorsement.

RISK MANAGEMENT WORKING GROUP

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

AUDIT AND RISK MANAGEMENT COMMITTEE

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

AUTHORITY MEMBERS

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

Diagram 4: ERM Framework – Relationship of RMU with Key Stakeholders

The global uncertainties and vulnerabilities in 2020 materially impacted the activities in Labuan IBFC. During the year, the Management and RMWG had reviewed key risks that had affected the objectives and strategic goals as well as operational, financial and cyber security risks of Labuan FSA. These were then escalated to the ARMC and Authority. Engagement sessions were conducted across the Group which enabled mitigation 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 subsidiaries are similar to the Group as depicted in Diagram 4. The results of the risk assessment are discussed at their respective board meetings prior to presenting at the ARMC for endorsement.

Labuan FSA embraces ERM as it emphasises a top-down holistic approach for effective risk management for the entire organisation, the same process will also be applicable to the subsidiaries. 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. Labuan FSA's risks fall under three main groups, namely strategic, operational, and financial with nine sub-risks as shown in Diagram 5 below:

Diagram 5: Labuan FSA Risk Grouping

Significant Risks

The identification of emerging risks is undertaken vigorously, adopting a vertical and horizontal approach involving head of units/department, senior management, RMWG and ARMC. Labuan FSA has also looked at the risk that affects the organisation's strategic goals, business strategies, resources and quality of implementation as well as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and system or from external events.

During the year under review, Labuan FSA implemented various strategies and focused to address the business and financial risks due to the unprecedented COVID-19 pandemic, including activating business continuity plan to ensure minimal disruption to critical activities and to further enhance the safety features for employees, visitors and clients. The significant risks and Labuan FSA's responses in managing and mitigating these risks are as follows:

Business Risk

Business risk refers to the risk of occurrences, activities and events that may impact on the development and growth of business activities in Labuan IBFC and cause Labuan FSA to deviate from attaining its strategic business goals. During 2020, the most challenging events that impacted Labuan FSA were the COVID-19 pandemic outbreak, slowdown of the global economy as well as deterioration of activity in major economies that challenged the growth of Labuan IBFC. Nevertheless, Labuan FSA managed to address the following:

RISK	RISK RESPONSE
Business	Labuan FSA had activated its Business Continuity Plan which resulted in minimal disruption to the critical business operations including business licensing and authorisation, and company registration during the various stages of MCO.
	The rules and guidelines on Labuan banking and investment banking activities were liberalised and enhanced to accommodate for business growth opportunity as well as to attract new financial institutions to Labuan IBFC.
	Labuan FSA promoted more intra-market business through strategic collaboration among the industry players.

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. During the year, one of the major concerns relates to the impact of the COVID-19 pandemic and global slowdown on financial stability, as well as the potential vulnerabilities from fraud and cyber-attack occurrences on Labuan entities. Concurrently, conformance to international supervisory and regulatory standards remains a key priority for Labuan FSA. Several measures were implemented to address these concerns.

RISK	REGULATORY RESPONSE
Regulatory	Supervisory approach during the MCO were adjusted to accommodate the restrictions on movement and physical contact. In this regard, more emphasis was placed on offsite supervisory activities, including conducting virtual engagement sessions and impact surveys in place of onsite and physical engagements.
	Flexibility was given in the area of regulatory, supervisory and accounting frameworks while continuing to uphold minimum prudential standards in its efforts to be market emphatic.
	Communications with Labuan entities on expectations on continuous and uninterrupted services, to have in place appropriate safeguards such as business contingency arrangements, risk management and internal control, as well as on cyber security.
	Temporary Regulatory Reliefs ("TRRs") were accorded to Labuan entities, intended to reduce administrative burden of regulatory compliance and financial reliefs to the Labuan entities for them to continue to provide uninterrupted services to their clients and the markets that they serve during this challenging time.
	Established COVID-19 Assessment Working Group Committee to identify and assess emerging risks and counter measures that will ensure the stability and business continuity of Labuan entities.
	Labuan FSA finalised its preparation for assessment by the Financial Action Task Force and Asian/Pacific Group on AML/CFT in preparation for the upcoming APG Assessment.

Information and Technology Risk

Information Technology (IT) and IT-related risks refers to the risk that the IT infrastructure could not support the systems in Labuan FSA which may lead to disruption of business and service operations delivery. In this regard, during the year, Labuan FSA has implemented the following measures to address the risk.

RISK	RISK RESPONSE
IT	Enhancement of the ICT infrastructure to facilitate remote working, such as providing a more secure and reliable platform for remote access, improved virtual conferencing facilities, online submission/monitoring system, cloud sharing as well as increased storage capacity.
	Improvement to ICT support through issuance of guidelines in remote working and helpdesk.
	Enhanced ICT control such as firewall deep monitoring, end-point security system monitoring and protection to detect and prevent cyber-attack.
	More awareness programmes to remind and alert staff to be more vigilant in managing corporate email accounts from cyber-attack.

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. During the year under review, the risk correlates to business risks where a slowdown in growth of business due to mobility restrictions and COVID-19 pandemic have impacted the revenue and profitability of Labuan FSA.

RISK	RISK RESPONSE
Financial	Group-wide budget review to take into account changing business outlook, reduced incorporation and licensing activities as well as expenditure and CAPEX requirements.

Key Activities Undertaken by the Risk Management Unit in 2020

i. Review of Risk Profiles

In 2020, 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, accordingly.

ii. Review of the Procedure Manuals of Labuan FSA Group

The procedure manuals of Labuan FSA and its subsidiaries were reviewed to ensure the operations are being managed more effectively, which resulted in an improvement in the overall performance of the organisation. In 2020, a total of five procedure manuals were reviewed in ensuring that the adequate controls in place in addressing risks.

iii. Awareness Initiatives

During 2020, the RMU conducted initiatives to enhance awareness on risk management including engagement sessions with risk owners to identify emerging risks and mitigation measures as well as issuance of bilingual risk bulletins and snippets for internal circulation to staff.

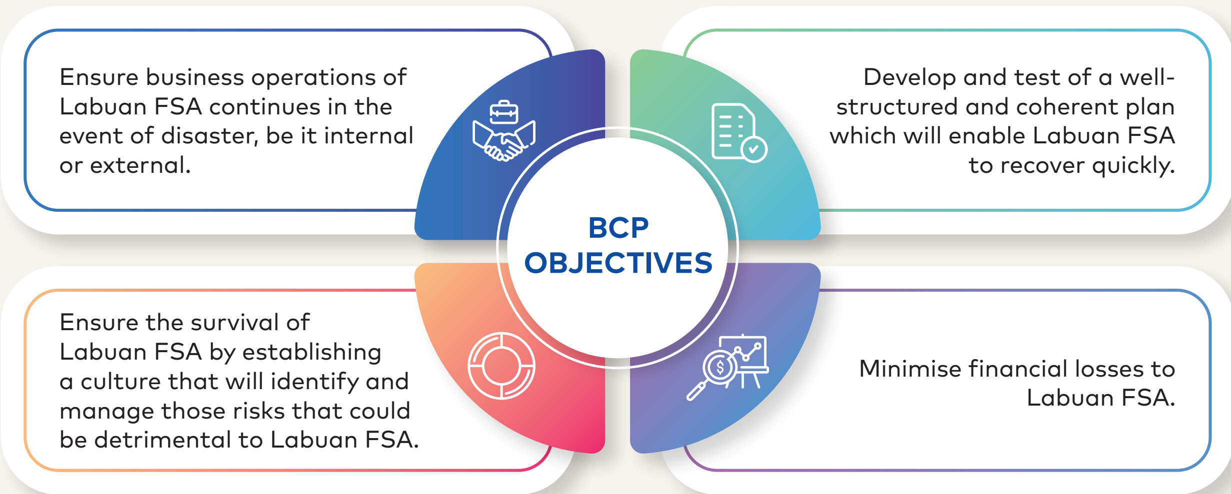
iv. Business Continuity

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. The BCP framework provides the necessary processes to ensure that Labuan FSA is able to maintain or recover its critical services when facing adverse events such as natural disasters, technological failures, human errors or damage to its offices. Over the years, Labuan FSA has continuously tested and enhanced its BCP in preparation for any contingency or disruption to critical operations.

In 2020, the outbreak of the COVID-19 pandemic presented a significant challenge to Labuan FSA in ensuring disruption to critical operations was minimal and the provision of services to stakeholders is effectively maintained. Following the declaration of the MCO througout the nation, Labuan FSA was able to provide an immediate and effective response to the risk of business disruption by activating its BCP, albeit in a work from home setting.

Labuan FSA was able to continue providing services during office hours due to its BCP readiness and availability of ICT remote working facilities that enabled the critical operations i.e. Registrar of Companies, Finance, HR, Facilities Management and ICT to continue operating from alternate site. In addition, Labuan FSA has the capabilities to process applications for licences, company registrations, conduct supervisory functions, online meetings as well as its daily administrative operations.

Based on these, Labuan FSA believed that it has achieved its BCP objectives while emphasising five areas of focus in ensuring the successful implementation of its BCP. The Diagram 6 depicted the BCP objectives and its focus areas.



1. Communication

- Strengthen the business continuity by ensuring Labuan FSA gave great communication among the internal and external stakehoders.
- Closely work with the staff in developing emergency communications plans to ensure a proper coordination on external and internal communications.

2. Information Management

- Focus emergency content on relevant information by providing the available facts proactively, keep updates with latest orders, resolved incorrect information and keep relevant parties informed.

3. Decision Making

- Decision made based on the current situations and orders from relevant authorities.
- The flow of decisions making was made accordingly.

4. Logistic

- Facilities team continuously facilitates staff in ensuring the business run smoothly without any disruptions.

5. ICT

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

Diagram 6: Labuan FSA's Business Continuity Objectives and focus areas

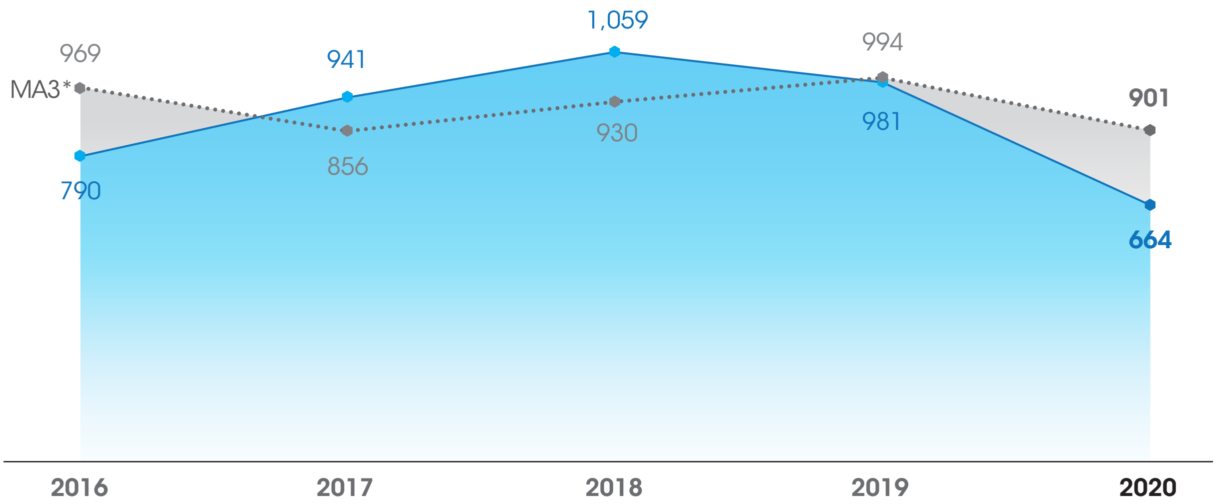
LABUAN IBFC INDUSTRY PERFORMANCE

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

LABUAN IBFC INDUSTRY PERFORMANCE

COMPANIES

NEW INCORPORATIONS



** 3-Year Moving Average*

NEW INCORPORATIONS BY TYPES

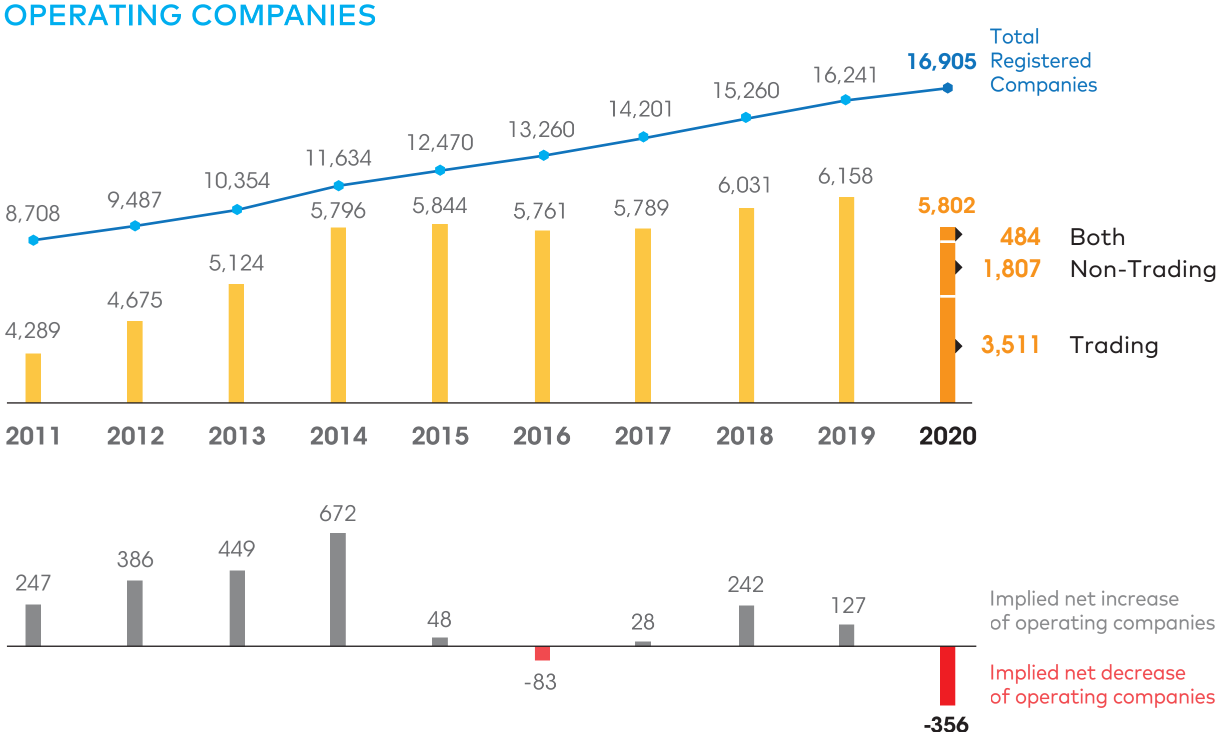
70.0% TRADING

24.4% NON-TRADING

5.6% BOTH

- Labuan companies comprise trading and non-trading entities. In 2020, new incorporations declined by 32.3% to 664, recording fewer new trading companies.
- More than half of the new incorporations were from Malaysia, China and Japan; with 40.4%, 7.8% and 5.4% share of total incorporations, respectively.
- During the year, the number of deregistration increased sharply to 1,020 which was attributable to business rationalisations in response to the Labuan tax changes. As a result, operating Labuan companies declined by 5.8% to 5,802 entities.

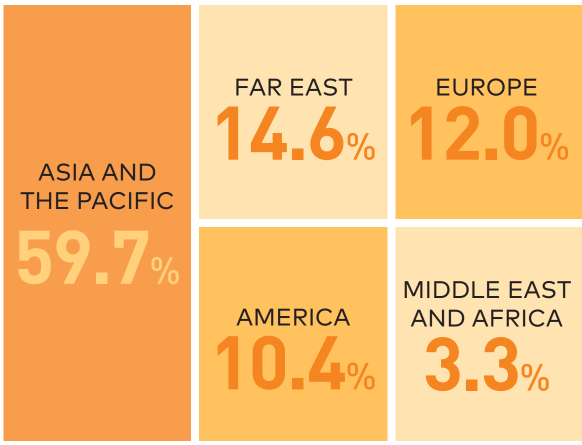
OPERATING COMPANIES



By Country

Countries	Market Share
Malaysia	43.0%
Singapore	6.2%
Japan	5.1%
Virgin Islands, British	4.7%
China	4.2%
United Kingdom	3.5%
Hong Kong	2.4%
Australia	2.2%
India	2.1%
Taiwan, Province of China	1.7%
Others	24.9%

By Region



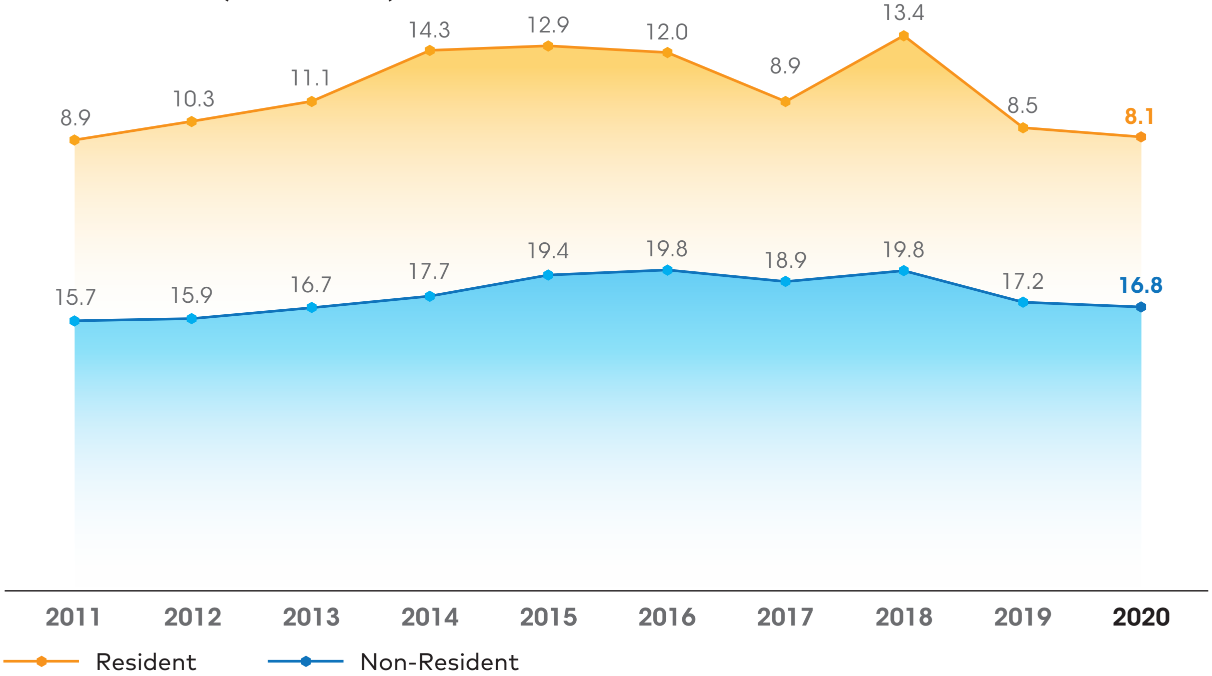
- Labuan trading companies constituted 68.8% or 3,995 entities. The remaining 1,807 entities were set up for the purpose of investment holding.

- Asia and the Pacific region remained as the major market segment; mainly from Malaysia, Singapore, Australia, India and Indonesia.

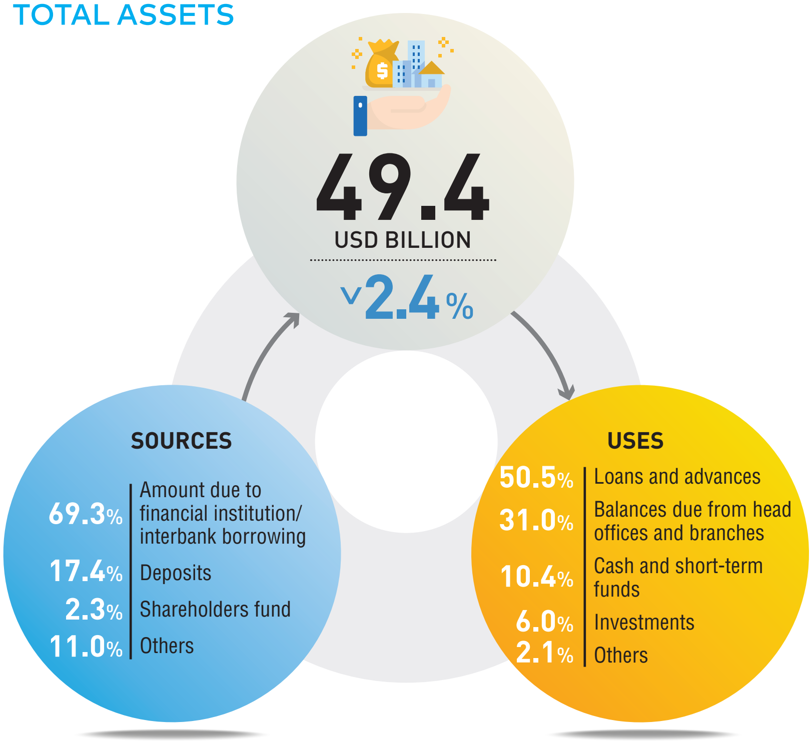
BANKING

The banking industry further expanded with granting of eight new banking licences. These comprised two commercial banks and six investment banks, bringing the total number of bank to 61.

TOTAL LOANS (In USD Billion)



TOTAL ASSETS



- Total assets reduced by 2.4% to USD49.4 billion, due to lower interbank placement.
- Borrowings from head offices and financial institutions remained as key sources of funding for Labuan banks. This amounted to 69.3% or USD34.2 billion of the total funding with a slight 4.7% decrease (2019: USD35.9 billion). Cash and short-term funds increased by 52.2% to USD5.1 billion (2019: USD3.4 billion).
- The COVID-19 situation has caused the Labuan banks to exercise higher prudency. With greater holding of more liquid assets (e.g. cash and short-term funds), the banks have improved the medium to long term sustainability of their investments.
- The sector's growth prospect is expected to be positive, supported by continued interest in the establishment of Labuan banking business.

ORIGIN OF BORROWER
BY REGION (In %)

ASIA AND THE PACIFIC
66.0%

EUROPE
19.4%

AMERICA
9.7%

FAR EAST
3.8%

MIDDLE EAST AND AFRICA
1.1%

LOAN EXPOSURES
BY REGION (In %)

ASIA AND THE PACIFIC
75.2%
Main Sectors
Manufacturing
Utilities
Transport and Communication

EUROPE
15.2%
Main Sectors
Property
Financial Services
Transport and Communication

AMERICA
4.4%
Main Sectors
Trading
Transport and Communication
Agriculture

FAR EAST
3.6%
Main Sectors
Other Services
Property
Financial Services

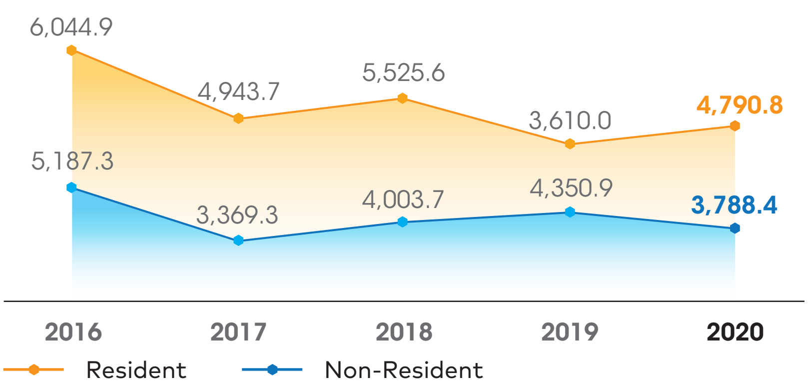
MIDDLE EAST AND AFRICA
1.6%
Main Sectors
Mining
Utilities
Transport and Communication

BY SECTOR

Market Share	Sector
22.0%	Manufacturing
17.3%	Property
12.1%	Miscellaneous
10.0%	Transport and Communication
9.9%	Financial Services
9.9%	Utilities
7.8%	Mining
4.8%	Agriculture
3.9%	Trading
2.3%	Other Services

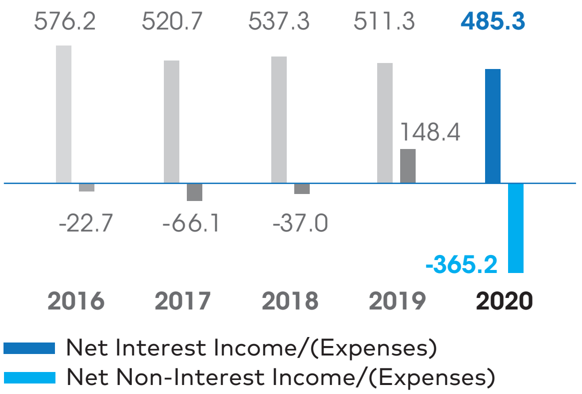
- The total loan portfolios contracted by 2.7% to USD25 billion with non-resident borrowings contributing 67.5% or USD16.8 billion of the total portfolios.
- Financing to all major sectors declined, with the exception of property sector that grew by 25.7%, mainly for commercial and residential projects.

DEPOSITS (In USD Million)

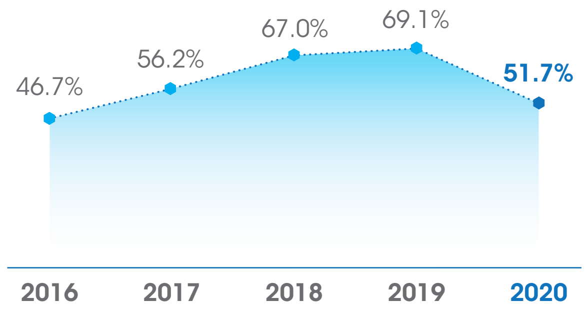


- The total customer deposits increased by 7.8% to USD8.6 billion due to additional resident deposits amounting to USD4.8 billion. This constituted 55.8% of the industry's total deposits.

NET INTEREST AND NON-INTEREST INCOME/(EXPENSES) (In USD Million)



INTEREST EXPENSES TO INTEREST INCOME RATIO (In %)



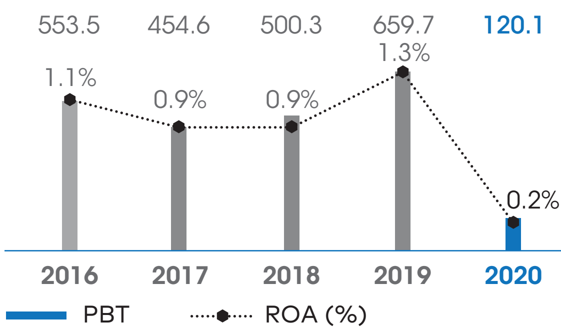
NON-INTEREST INCOME (In USD Million)

Market Share	Description	Amount	Growth
100.0%	**Non-interest Income**	548.2	-11.2%
43.3%	Gains on Financial Instruments	237.2	-13.9%
24.8%	Other Comprehensive Income before Taxation	136.0	446.1%
17.1%	Fee and Commission Income	93.7	-25.5%
10.1%	Impairment Reversals	55.2	-57.8%
4.7%	Others	26.1	-57.0%

NON-INTEREST EXPENSES (In USD Million)

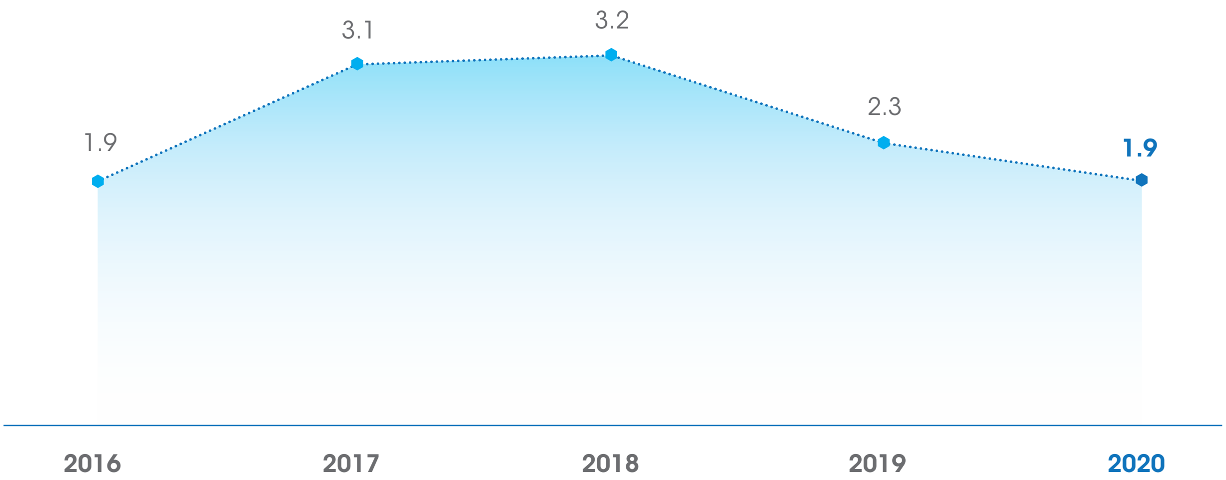
Market Share	Description	Amount	Growth
100.0%	**Non-interest Expenses**	913.4	94.60%
44.7%	Losses on Financial Instruments	408.5	91.5%
36.5%	Impairment Losses	332.8	160.7%
7.7%	Administration Costs	70.3	8.9%
5.7%	External Service Arrangement Costs	52.3	305.2%
5.4%	Others	49.6	-2.5%

PROFITABILITY (In USD Million)

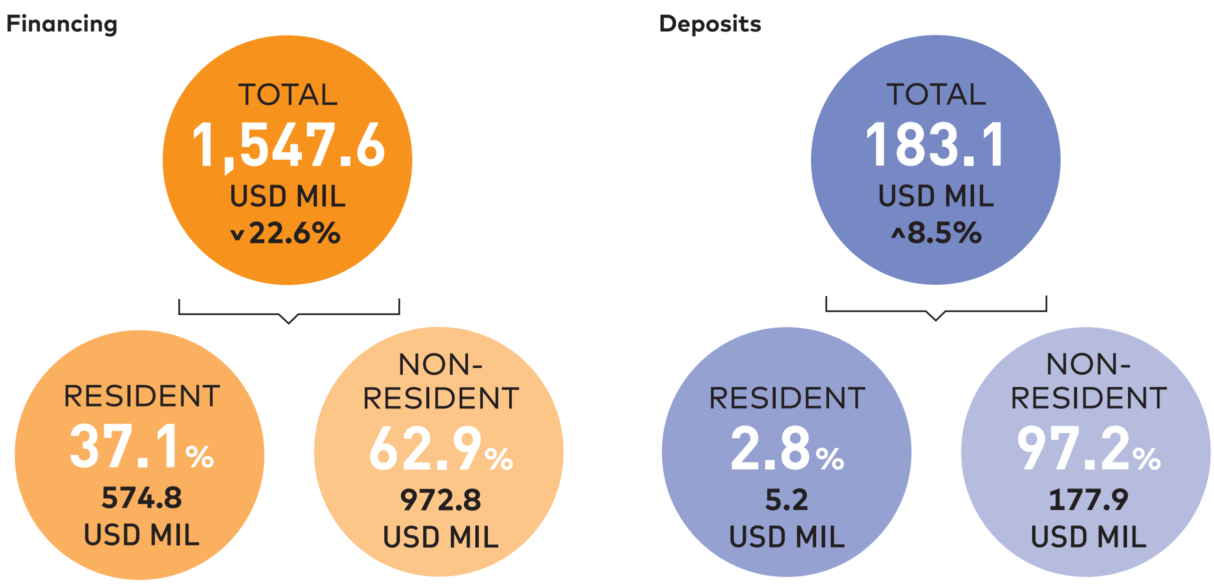


- The banking sector's profitability declined to USD120.1 million due to higher provisioning for investment impairments as well as loss on sale of securities and derivatives.

TOTAL ISLAMIC ASSETS (In USD Billion)



- Islamic banking assets declined to USD1.9 billion due to business rationalisation of certain banks.

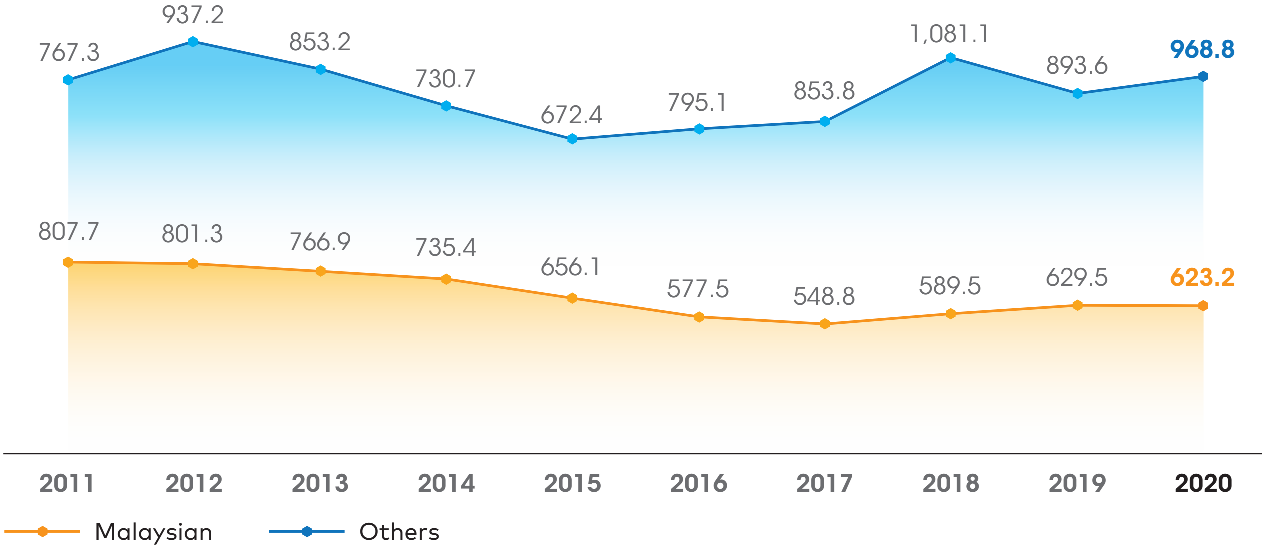


- The total financing of the Labuan Islamic banks decreased by 22.6% to USD1.5 billion (2019: USD1.9 billion); non-resident borrowings accounted for 62.9%.
- The total Islamic deposits increased by 8.5% to USD183.1 million (2019: USD174.2 million) with non-resident deposits contributing 97.2% of the total.

INSURANCE

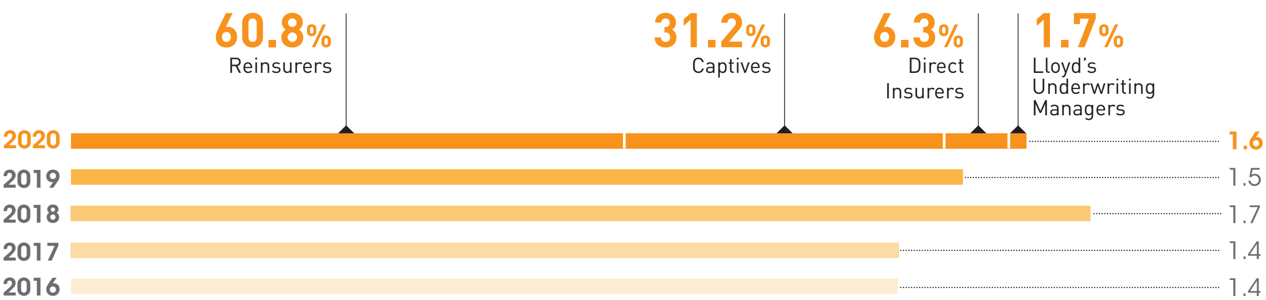
In 2020, 15 new entities were approved, comprising eight captives, four brokers, two general (re)insurers and one underwriting manager. Thirteen entities surrendered or revoked their licences, thus bringing the total number of insurance and insurance-related entities 221.

TOTAL GROSS PREMIUMS (In USD Million)

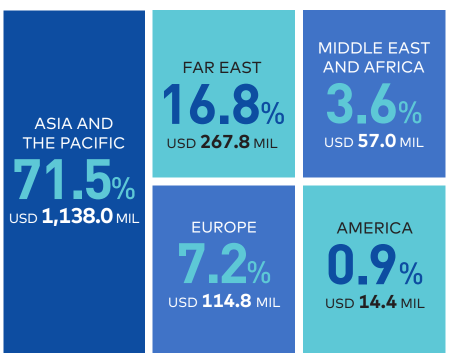


- Total gross premiums recorded a marginal growth of 4.5% to USD1.6 billion, mainly from (re)insurance business.
- Foreign business forms the larger share of 60.9% or USD968.8 million of the underwritten premiums.

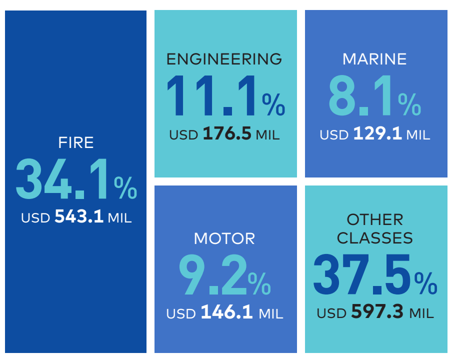
TOTAL GROSS PREMIUMS (In USD Billion)



By Region



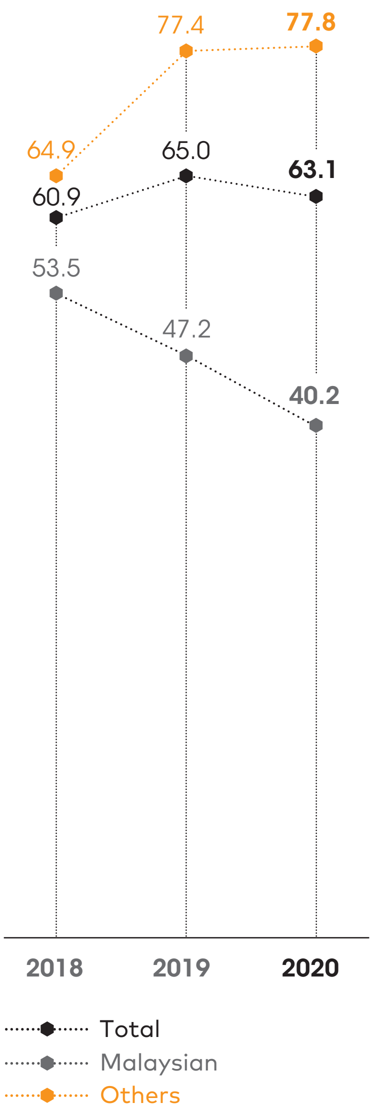
By Sector



- The Fire sector remains the largest business with 34.1% market share or USD543.1 million of the total premiums underwritten.
- Under the Other Classes sector, general liability continued to show a growth of 9.2%, with USD197.1 million of premiums recorded (2019: USD180.4 million).

NET RETENTION RATIO

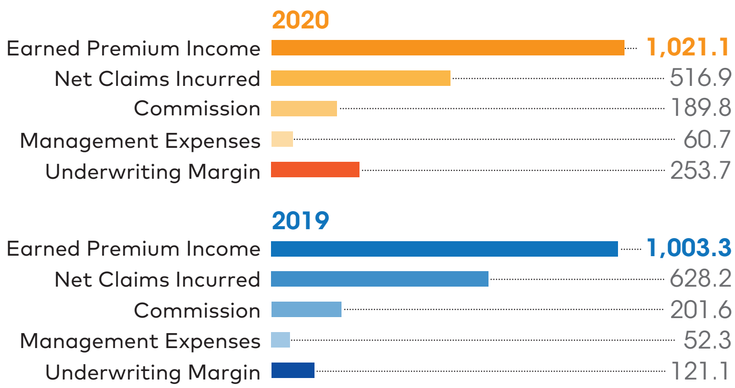
(In %)



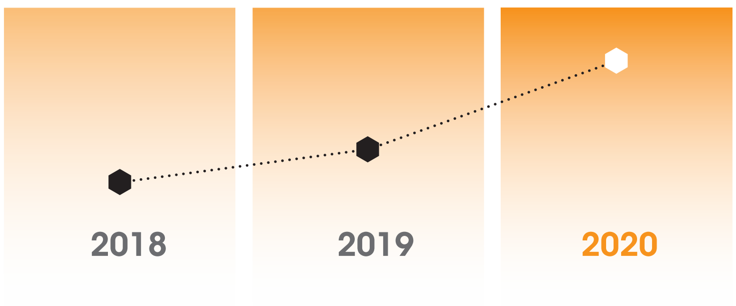
- The industry's net retention ratio remained stable at 63.1%, with lower retention in Motor and Other Classes sectors.
- Premium income of USD1,021.1 million was recorded in 2020, mainly due to better claims experience. This resulted in doubling of underwriting profits amounting to USD253.7 million.

UNDERWRITING MARGIN

(In USD Million)

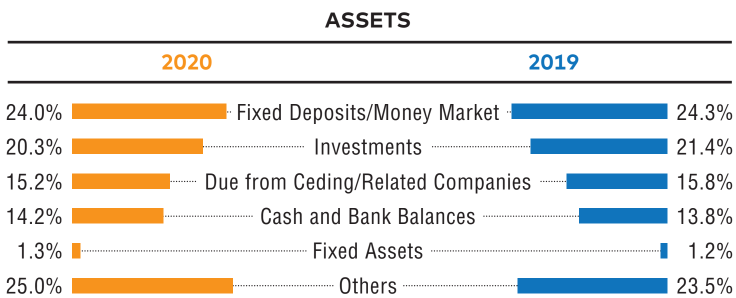


PROFITABILITY



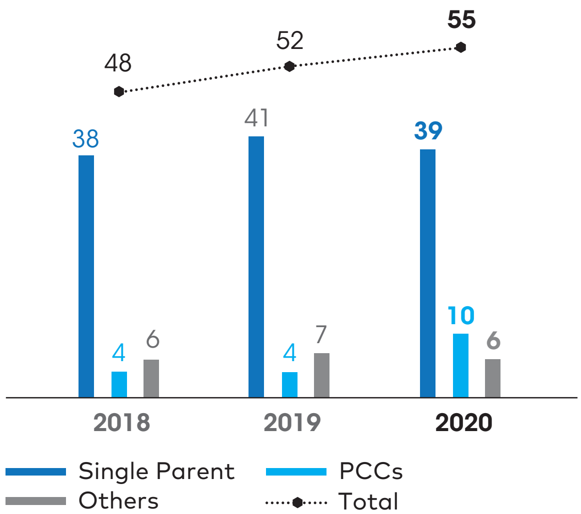
- The industry's overall profitability improved by 87.1% to USD364.1 million in 2020 (2019: USD194.6 million) buoyed by favourable underwriting performance.

TOTAL ASSETS



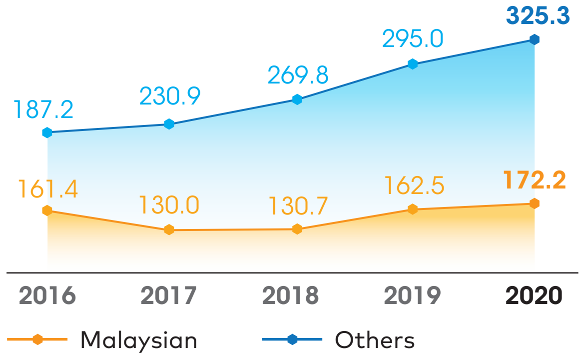
- Total insurance assets grew by 9.9% to USD5.1 billion which was mainly attributable to higher investments in fixed deposits and money market instruments.
- Fixed deposits and money market instruments remained the largest asset share of 24% or USD1.2 billion.

NUMBER OF CAPTIVES



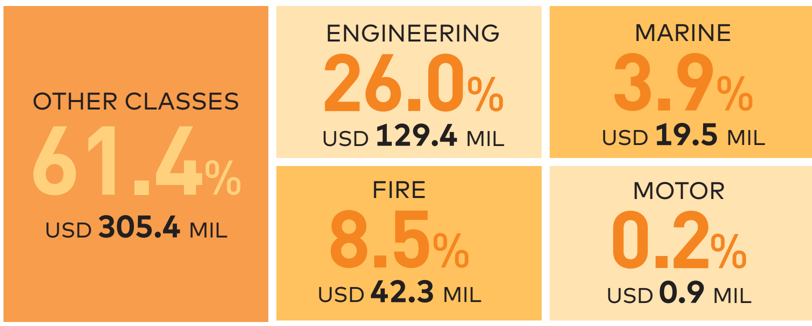
- Progressively showing upward trend in new captive formation over the past three years.

TOTAL GROSS PREMIUMS (In USD Million)



- Increasing trend in captive premiums underwritten continued in 2020, with total premiums increased by 8.7% to USD497.5 million (2019: USD457.5 million).
- Premiums from the captive business are dominated by the international markets with a share of 65.4%.

DISTRIBUTION OF GROSS PREMIUMS

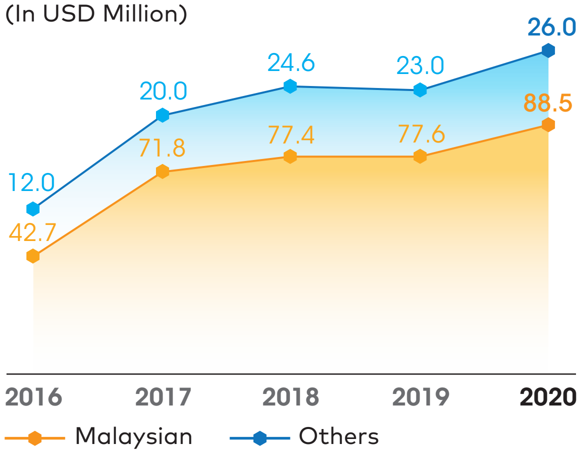


- The Other Classes sector accounted for more than half of the total captive gross premiums, of which general liability continued to be the main business class. The gross written premiums for the business stood at USD159.1 milllion (2019: USD148.6 million).

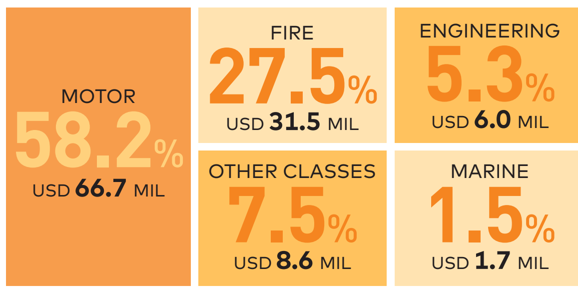
[1] *Captive Managers Survey 2019, Captive Review December 2020*
[2] *Captive Review, World Domicile Update 2020*

TOTAL GROSS CONTRIBUTIONS

(In USD Million)



DISTRIBUTION OF GROSS CONTRIBUTIONS

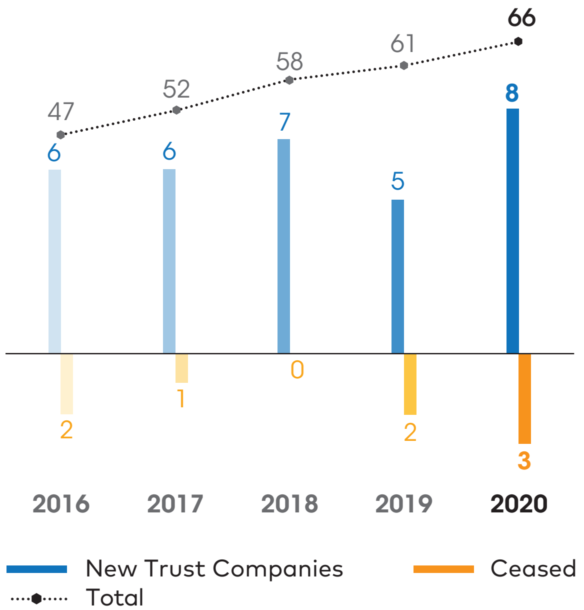


- The general (re)takaful industry showed encouraging business growth of 13.8% to USD114.5 million in 2020 (2019: USD100.6 million), led primarily by the motor sector at 58.2% or USD66.7 million (2019: USD55.3 million).

TRUST COMPANIES

The total number of Labuan Trust Companies (LTCs) increased by 8.2% to 66. Eight new LTCs were approved comprising four full-fledged trust companies, three managed trust companies and one private trust company.

NUMBER OF TRUST COMPANIES



- Majority of the LTCs were from the Asia and the Pacific region.

THE ORIGIN OF TRUST COMPANIES

(In %)

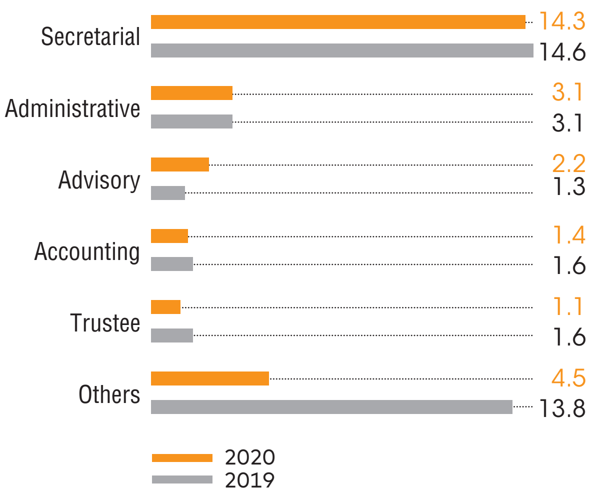
ASIA AND THE PACIFIC
83.3%

AMERICA
6.1%

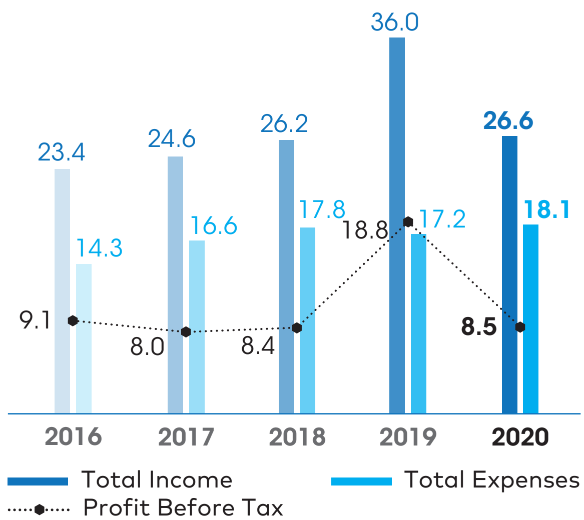
FAR EAST
6.1%

EUROPE
4.5%

SOURCE OF INCOME (In USD Million)



PROFITABILITY (In USD Million)

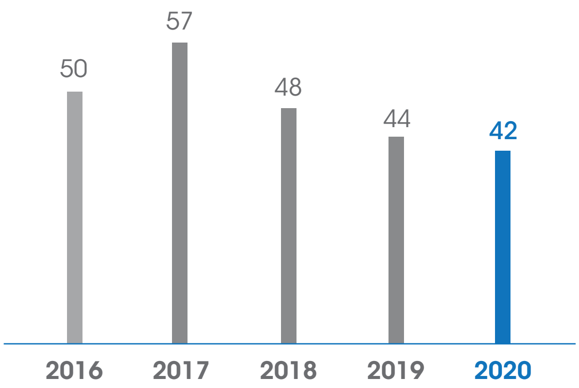


- Total income declined by 26.2% to USD26.6 million with profitability of USD8.5 million.

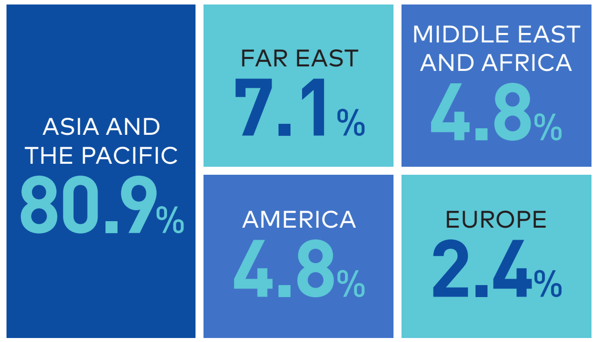
INTERNATIONAL COMMODITY TRADING

During the year, five Labuan International Commodity Trading Companies (LITCs) were approved and seven surrendered or revoked, bringing the total number to 42.

TOTAL LITCs

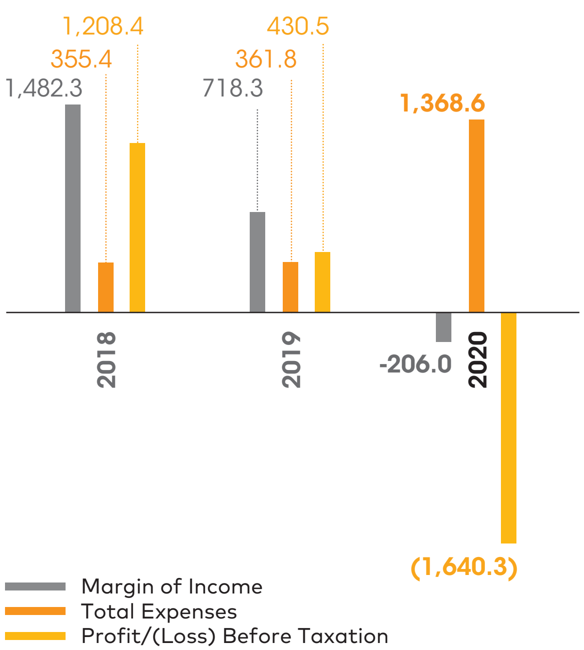


THE ORIGIN OF LITCs



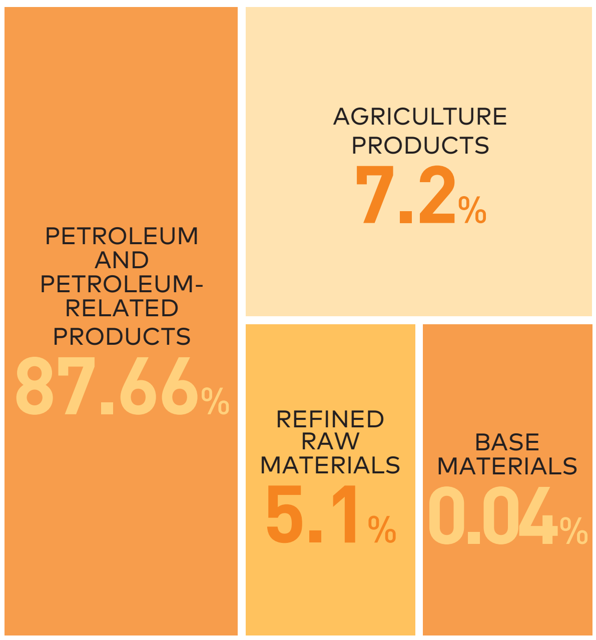
- Majority of the LITCs were from Asia and the Pacific, mainly from Malaysia and Singapore. The remaining 19.1% were spread throughout, with the most from the Far East region.

PROFITABILITY (In USD Million)



- In 2020, the industry recorded a loss of USD1.6 billion which was attributable to the following:
  - Total margin of income declined due to deteriorating oil prices.
  - Total expenses increased significantly to USD1.4 billion mainly due to higher provisioning for asset impairments.

COMMODITIES TRADED BY TYPES

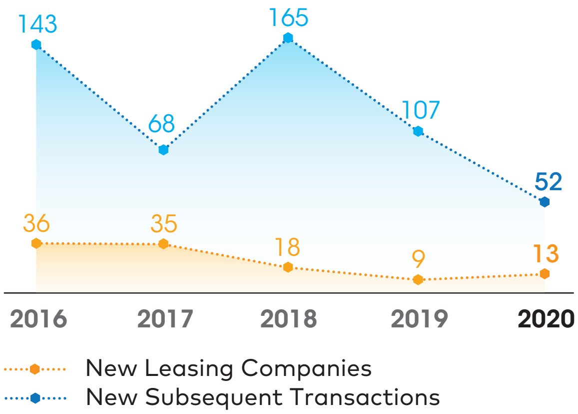


- There was a 25.9% decline in total commodities traded, down to USD22.7 billion.
- Petroleum and petroleum-related products constituted 87.7% of the total commodities traded. The agriculture products and refined raw materials contributed 7.2% and 5.1% share of the total, respectively.

LEASING

In 2020, 13 new leasing companies and 52 new subsequent transactions were approved, of which majority were for the oil and gas sector.

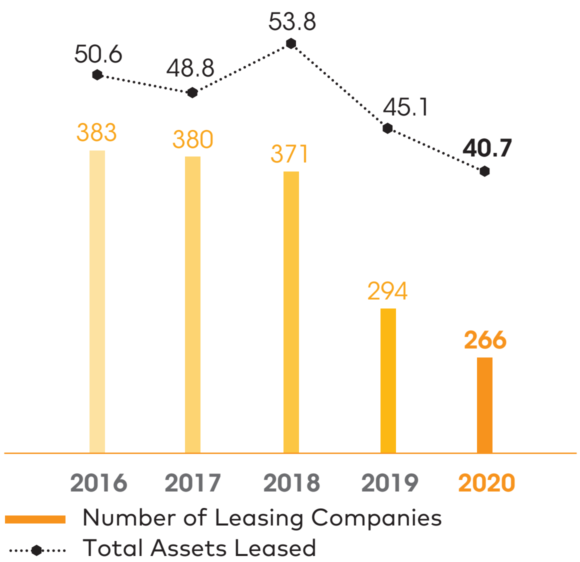
NUMBER OF NEW APPROVALS



NEW ASSETS LEASED			
2020 **1,837.4** USD MIL	Aviation	17.7%
	Oil and Gas	80.7%
	Others	1.6%
2019 **3,753.4** USD MIL	Aviation	85.1%
	Oil and Gas	13.3%
	Others	1.6%

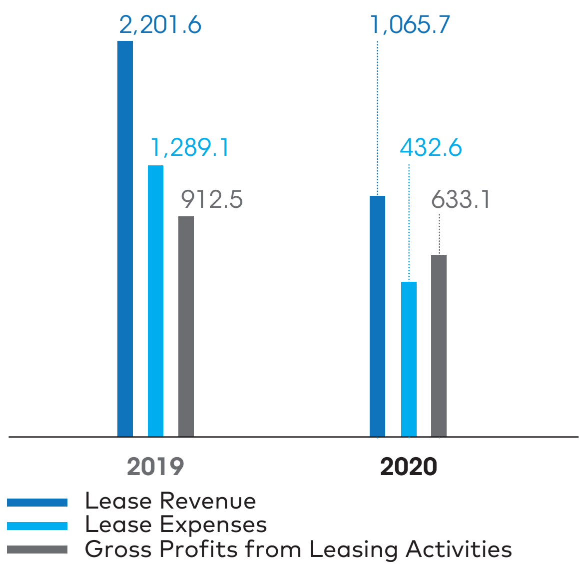
- New assets leased to the oil and gas sector grew 196.5% to USD1.5 billion.

TOTAL ASSETS LEASED (In USD Billion)



- Total industry leased assets declined by 9.9% to USD40.7 billion. Oil and gas, and aviation leasing contributed market share of 56.7% and 42.3%, respectively.

PROFITABILITY (In USD Million)

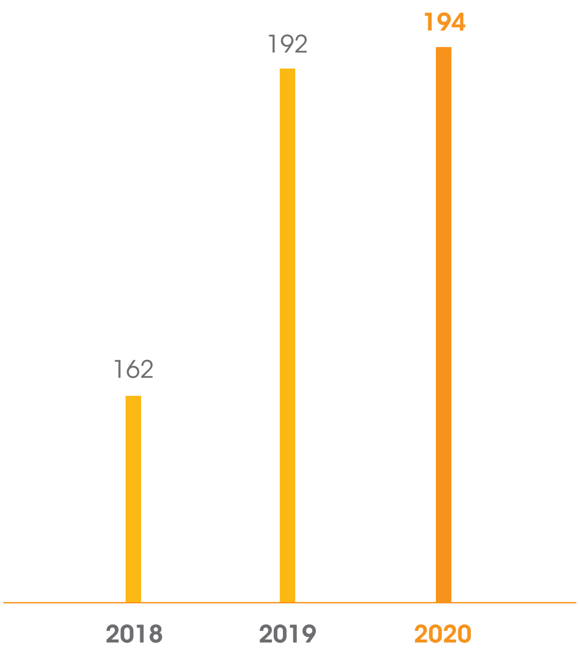


- The business performance of leasing companies was affected by numerous business and operational challenges.
- Since the early stages of the COVID-19 pandemic, entities have taken counter-measures that include renegotiating lease rentals rates and payment schedules, postponement of projects, cost containment measures, short-term financing, and cash flow management.
- The gross profits reduced from USD912.5 million to USD633.1 million in 2020.

WEALTH MANAGEMENT

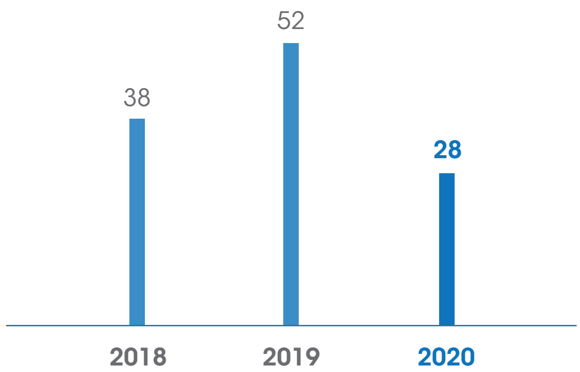
FOUNDATIONS

TOTAL FOUNDATIONS



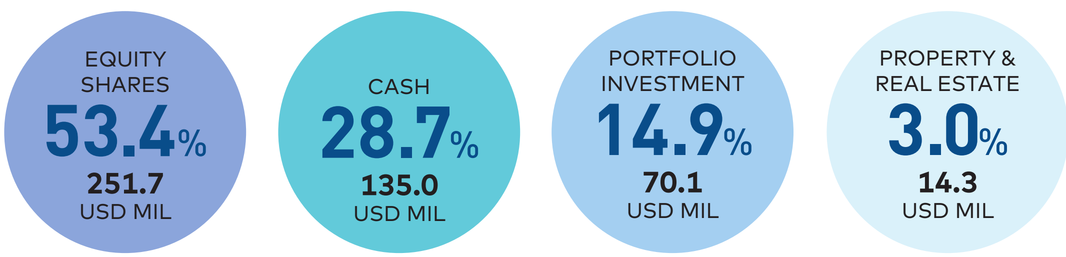
- For 2020, there were 194 foundations in operation.
- Of the total foundations, 166 were non-charitable.
- 7 were Shariah-compliant foundations, of which 1 was non-charitable.

NEW REGISTRATIONS



- Registration of new foundations decreased by 46.2% to 28.

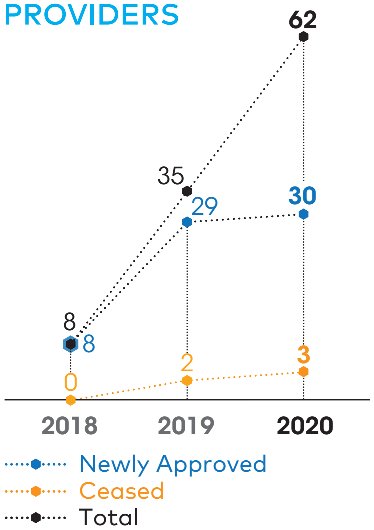
TOTAL ENDOWMENT



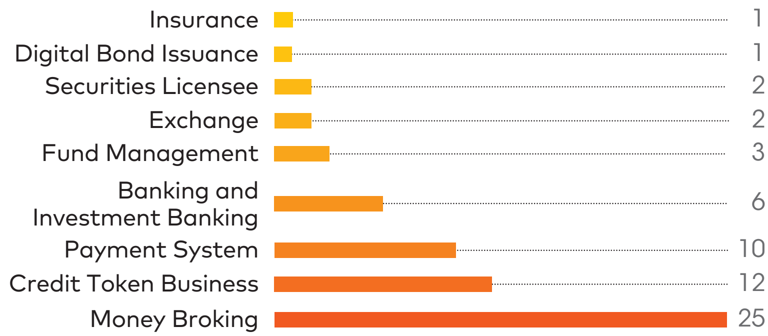
- Total assets endowed amounted to USD471 million, and the majority were in non-cash assets.
- Of the total non-cash assets, 74.9% or USD251.7 million was in the form of equities, while the remainder in properties and other investments.

DIGITAL FINANCIAL SERVICES (DFS)

NUMBER OF DIGITAL FINANCIAL SERVICES PROVIDERS

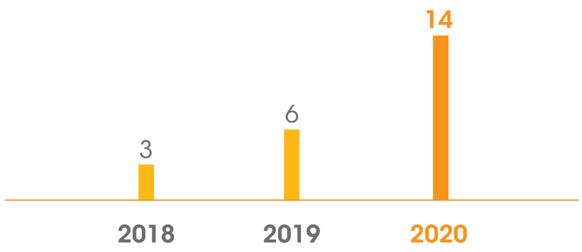


DIGITAL FINANCIAL SERVICE PROVIDERS



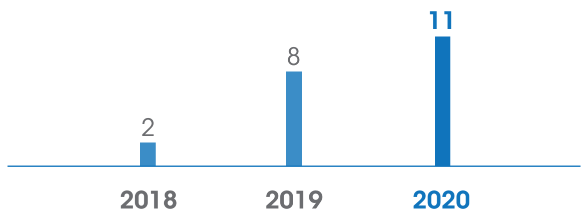
- 30 licences were approved for DFS business, bringing the total number to 62 providers.
- Out of the total DFS providers, majority were licensed to provide digital currency trading platform, credit token business, and e-payment system.

CREDIT TOKEN



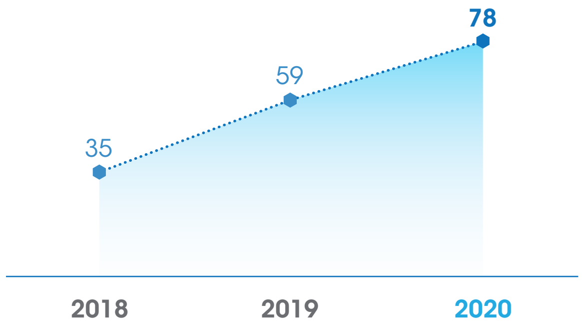
- More than two-fold increase was observed in 2020 which included nine new licences approved for tokenisation of asset-backed securities.

PAYMENT SYSTEM



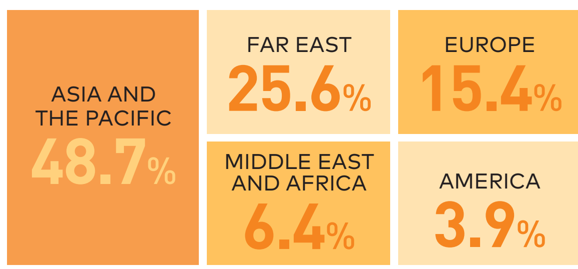
- Four new payment systems were approved to facilitate fund clearing and settlements.

MONEY BROKER



- During the year, 24 new money brokers were approved and five surrendered or revoked, bringing the total number to 78. Of the total, 25 were engaged in DFS business.

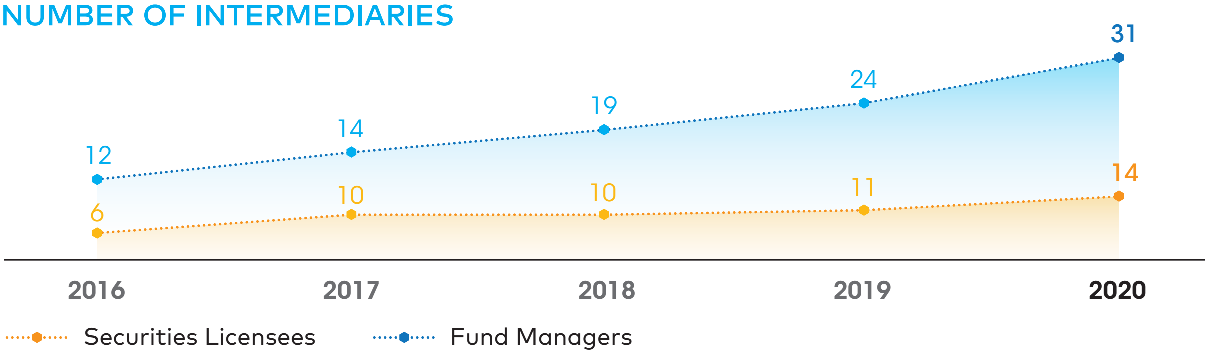
BY REGION (In %)



- 74.3% of Labuan money brokers were from Asia (Asia-Pacific and the Far East), mainly from Malaysia, Singapore and India.

CAPITAL MARKET

NUMBER OF INTERMEDIARIES



FUND MANAGER

BY REGION (In %)

ASIA AND THE PACIFIC 61.3%

EUROPE 16.1%

FAR EAST 12.9%

AMERICA 9.7%

- Ten new fund managers were approved bringing the total number to 31.
- 61.3% of the fund managers were from the Asia and the Pacific region, mainly from Malaysia and Singapore.

SECURITIES LICENSEE

BY REGION (In %)

ASIA AND THE PACIFIC 57.2%

EUROPE 21.4%

FAR EAST 14.3%

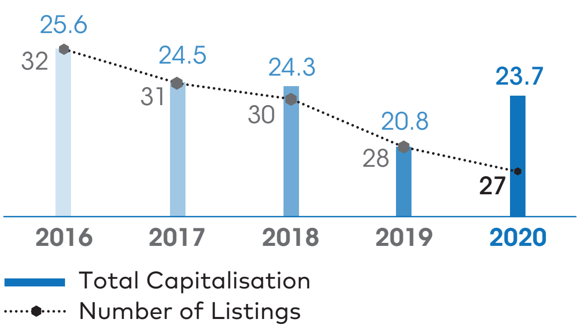
AMERICA 7.1%

- Five new securities licensees were approved bringing the total number to 14.
- 57.2% of the securities licensees were from the Asia and the Pacific region, mainly from Malaysia and Singapore.

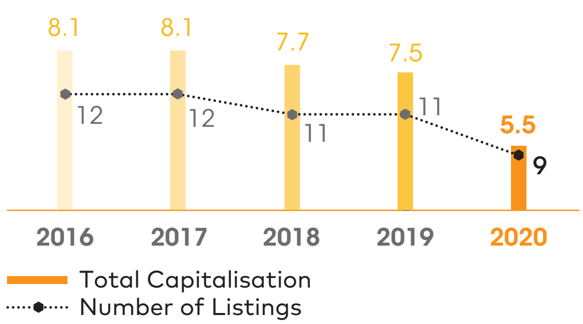
FINANCIAL EXCHANGES

NUMBER OF LISTINGS AND MARKET CAPITALISATION (In USD Billion)

Total



Islamic



- In 2020, three new listings worth USD6 billion were raised through the Labuan International Financial Exchange, with a range of 10-40 years maturity, by a domestic oil and gas operator.
- The total market capitalisation increased by 14.1% to USD23.7 billion. Of the total, 23.1% or USD5.5 billion were Sukuk issuance.

POLICY DEVELOPMENT

For further information, please go to:
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POLICY DEVELOPMENT

PRUDENTIAL POLICY DEVELOPMENT

For 2020, the efforts to modernise the capital adequacy standards and improve governance as well as risk management practices for the key financial institutions continued to be the agenda of regulatory upscaling. With the market impacted from the COVID-19 pandemic, efforts were accorded towards maintaining market stability and operational resilience of the Labuan financial institutions (LFIs). In this regard, policy response measures were effected to cushion the adverse impact of the pandemic had onto the market.

The year 2020 marked the final-phase of prudential upscaling which began in 2013. As the capital enhancement initiatives were being finalised, the Authority had seen the successful implementation of the first phase relating to valuation requirements of insurance/takaful risks in 2015 and 2016 respectively as well as the rolling out of the revised capital adequacy requirements for Labuan captive business in 2019. On the banking business front, the transition into Basel II and III capital regime was implemented in 2018. The policy upscaling efforts would continue as the market evolves with the new norms due to disruptions from increasing digital waves and the COVID-19 market adversities.

I. Modernising capital regulations for Labuan insurance market

The initiative to modernise the insurance capital adequacy framework continued to be pursued in 2020. Following the first simulation study undertaken in the prior year, further enhancements were incorporated onto the proposed risk-based capital framework. In 2020, the Authority had embarked on the Quantitative Impact Study 2 (QIS 2) to further assess and evaluate the impact of the proposed requirements under the Insurance Capital Adequacy Framework (ICAF) on Labuan (re)insurers. The QIS 2 was conducted by a Joint Working Group comprising representatives of the Authority and the industry's market practitioners and actuaries. The study was focused on assessing the impact arising from recalibrations of certain technical parameters within ICAF which included the following:

(i) Reduction of the threshold for the computation of operational risk in line with the international standard and market practices;
(ii) Application of risk-free yield that is consistent with the currency denomination of the risks and streamlining of the stress approach for the computation of interest rate risk charges;
(iii) Adjustments of the investment and individual counterparty limits for all insurance business portfolios;
(iv) Standardisation of the risk charges for general insurance liabilities and the stress factors for life insurance liabilities; and
(v) Rationalisation of the rating category for the computation of counterparty credit risk capital charges.

II. Strengthening market governance and risk management practices

With the continued efforts to promote good corporate governance and risk management practices in market, several policy thrusts were developed during the year to ensure pertinent risk exposure such as outsourcing, major operational disruptions and cyber risks are appropriately managed and mitigated. The policy frameworks, which cover both conventionally set-up entities and digital financial-related services comprised the following areas:

- ***Development of External Service Arrangements Requirements for Key Labuan Financial Institutions***

  The Authority issued the Guidelines on *External Service Arrangements for Labuan Financial Institutions* on 30 April 2020. The guidelines set out the Authority's expectation and regulatory requirements to be observed by LFIs for outsourcing of material activities in terms of ensuring effective management of outsourcing risks, oversight on the outsourcing arrangements, data security as well as business contingencies.

- ***Development of Guiding Principles on Business Continuity Management***

  The Authority issued the exposure draft on the Guiding Principles for Business Continuity Management (BCM) on 12 November 2020. The development of the BCM guiding principles is intended to provide greater details on the minimum principles that should be adhered to for business resumption planning. In addition, the best practice recommendations on other advanced applications of the BCM are also outlined under the guiding principles whereby LFIs are encouraged to adopt them as their business operations grow and mature over time. The release of the guiding principles was regarded as timely too as it provides the key parameters that LFIs would need to have in place to avoid any operational disruptions arising from the COVID-19 pandemic outbreak.

- ***Development of Digital Governance and Cyber Resilience Framework***

  The Authority issued the exposure draft on *Digital Governance and Cyber Resilience Framework* on 1 December 2020. The framework is aimed at strengthening the LFIs' cyber resilience through good governance and risk management practices to manage exposures to digital-related risks and threats. It promotes effective cyber and digital governance oversight with the adoption of systematic and consistent approach to preserve data confidentiality, system security and resilience. Furthermore, it is also intended to ensure that the LFIs' security controls and assessment are robust and commensurate with the risk and complexity of their digital operation and services.

III. Cushioning the pandemic's impact to the market

To ensure that LFIs were able to remain operational under the adverse pandemic situation, the Authority had undertaken several facilitative measures in the form of three-pronged approach as follows:

(i) Communicating regulatory expectations on LFIs during pandemic:

- LFIs are required to be prudent and vigilant in their operations during the pandemic situation.
- Appropriate precautionary measures and safeguards are to be undertaken to ensure safe and stable operating and working environment.
- Reminders for LFIs to ensure that their key internal controls remained effective especially with regard to cyber security and AML/CFT.

(ii) Providing relaxations for certain regulatory requirements:

- Temporary reprieves from non-critical requirements were given to ensure that LFIs are operationally and financially viable to continue servicing their clients. With this, it was reasonably expected that the LFIs would be able to better support their own clients with regard to their business arrangements during the challenging period.
- The regulatory relaxations provided were in relation to specific administrative or financial requirements for a limited period. The relaxations were initially made applicable for the 2020 but was extended for another year in view of the continued market adversities observed.

(iii) Assessing the market adversity for pre-emptive measures and policy planning comprising:

- Stress testing analysis and market simulations were undertaken for key sectors as proxy impact for the overall market.
- Financial trends and emerging risks arising from the pandemic were identified and simulated to assess the extent of financial impact to the market.
- Assessment of the business climate through surveying the industry's experience on the key challenges faced during the pandemic.
- Identification of possible pre-emptive action plans moving forward based on the market feedback gathered. This includes closer monitoring for the impacted sectors and LFIs and developing additional regulatory controls or guidance to strengthen the LFIs' internal controls and operational resilience going forward.

BUSINESS AND TAX POLICY DEVELOPMENT

The introduction of economic substance regulations across the globe in countries with no or nominal corporate tax rates in order to comply with international initiatives to combat harmful tax practices is an on-going process. Labuan IBFC is of no exception to this new substance rules where entities established in the Centre need to demonstrate that they carry out substantial economic activities in the Island in order to enjoy the fiscal incentives accorded to them.

Similar to other jurisdictions, pragmatic approach has been applied in view of many major businesses are affected by the new tax substance regulations, coupled with the economic challenges pressured by the pandemic COVID-19 affecting businesses worldwide. In ensuring the sustainability and competitiveness of the Centre, the Authority had undertaken certain measures including liberalisation of operational requirements to facilitate existing market players to remain in operations and/or to attract new prospective investors to start off their businesses in Labuan IBFC.

The amendment made to existing policies of certain key sectors in Labuan IBFC is seen as a way forward to ensure Labuan IBFC remains the preferred jurisdiction that could cater for diversified business offering with robust regulatory and supervisory frameworks within Asian region.

Banking

In tandem with the emergence of digital technology, international banking industry is influenced by the shifting in demands towards serving numbers of affluent clients, specifically in developing countries within Asia. Based on this development, Labuan FSA has developed two policies as follows:

(a) The Revised Guidelines on the Establishment of Labuan Investment Banking Business in Labuan IBFC was issued on 2 March 2020. The salient focus of revision is on the eligibility criteria enhancement which is to allow qualified investment banking applicants with strong value propositions, possess good track records and sound financial performances to offer investment banking solutions in Labuan IBFC.

(b) The Labuan Digital Banking Framework was issued on 7 December 2020 to embrace the digital innovations by further expanding the offerings of banking products and services in Labuan IBFC, primarily or wholly through digital or other forms of electronic channels. The framework was issued to complement the existing policy that is applicable to Labuan banks under the Labuan Financial Services and Securities Act 2010 or Labuan Islamic Financial Services and Securities Act to conduct Labuan banking business as defined under these legislations. The framework clarifies operational requirements including, amongst others, eligibility, minimum capital, governance and market conduct, AML/CFT as well as exit mechanism plan.

Commodity Trading

The Revised Guidelines on the Establishment of Labuan International Commodity Trading Company (LITC) under the Global Incentives for Trading (GIFT) Programme was issued on 17 April 2020 to liberalise the permissible commodity trading activities. This included the scoping in of the non-petroleum and petroleum-related products into the GIFT Programme and which would attract international non-petroleum commodity traders to be licensed as LITC.

Insurance

The Clarification on Permissible Life Insurance Business with High Net Worth Malaysian Individuals was issued on 7 October 2020 to provide clarity that all Bank Negara Malaysia's approved financial advisers and approved insurance brokers are allowed to continue negotiation with Labuan insurers on the sale of foreign currency denominated ordinary life and investment-linked insurance policies to high net worth individuals based in Malaysia, subject to additional safeguards imposed by Bank Negara Malaysia on financial consumer protection.

Others

Due to the changes in the Labuan tax framework where mandatory preparation of audited accounts is required, the demand for audit services by Labuan entities has increased in momentum. The issuance of circular on Clarification on Application by Foreign Audit Firms on 30 June 2020 was intended to clarify to the market that any qualified foreign audit firms may apply to be registered as a Labuan approved auditor to provide audit services to these Labuan entities.

Labuan Investment Committee

Since its establishment, the Labuan Investment Committee (LIC) comprised representatives from Ministry of Finance (MOF), Inland Revenue Board of Malaysia (IRB) and Labuan FSA, have issued three LIC Pronouncement and six circulars up to 2020 arising from the approved policy decisions on Labuan substantial activity requirements. The issuance of pronouncements/circulars were emphasized, amongst others, on the clarification for the pure equity holding entities in relation to the "management and control" requirements, full time employee exemption as well as the board meeting requirement.

The Committee will continue to ensure consistency and certainty in implementing the new Labuan substantial activity requirements to be able to support the sustainable developments to the Island from creation of the needed economic spinoff arising from the new requirements.

Islamic Finance Developments

In 2020, 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 Islamic digital based financial solutions.

Stimulating Growth in Islamic Capital Market

As Labuan IBFC offers a suitable environment for sukuk issuance, the Guidance Note on Issuance of Green, Social and Sustainability Sukuk was issued to provide comprehensive guidance to the market on the green, social and sustainability sukuk that can be offered out of Labuan IBFC. This is in tandem with the growing prominence of sustainable finance in international financial markets. Financial products such as green sukuk, social-impact sukuk and sustainability sukuk have become globally recognised as an effective means of directing investment capital towards climate change mitigation as well as climate change resilience and adaptation projects. Green sukuk, social-impact sukuk and sustainability sukuk have also emerged as viable financial instruments that can support infrastructure financing demands in emerging markets and developing economies to promote sustainable and climate-resilient growth. In addition, social-impact sukuk has vast potential to support social needs of the society in light of the adverse impact of the COVID-19 pandemic.

The Guidance Note on Issuance of Aviation Sukuk in Labuan IBFC was issued to enhance market awareness and provide market guidance on the diverse aviation sukuk that can be structured under a variety of Shariah principles in Labuan IBFC. An ideal jurisdiction for aviation sukuk issuance particularly for the Asia-Pacific region, Labuan IBFC has a comprehensive infrastructure that supports and accords certainty as well as integrity for Shariah-based structures. In addition, Labuan IBFC is home to a profusion of aviation leasing companies that can leverage on the Centre for aviation sukuk issuance to finance their aviation business needs.

Promoting Islamic digital based financial solutions

In view of the growing significance of digital based financial solutions in international markets, Labuan FSA is undertaking research to provide guidance to market players on the offering of Shariah compliant digital based financial solutions in Labuan IBFC.

CONSULTATIVE BODIES MEETINGS

Shariah Supervisory Council

In 2020, the Guidance Note on Issuance of Aviation Sukuk in Labuan IBFC was circulated to the Shariah Supervisory Council (SSC) of Labuan FSA for comments. The Council concurred with the enhancement 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.

The Council members were reappointed for another two-year term from 2020 to 2022 in view of their strong expertise and commitment in supporting the development of Islamic financial business in Labuan IBFC.

Financial Stability Committee

The Financial Stability Committee (FSC) had three meetings in 2020 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 2020 which focused on strengthening capital regulations for the insurance sector 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 2020 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 follows:
  - industry surveys on potential impacts of the transition of London Interbank Offered Rate to Labuan banks as well as market feedback on business and operational challenges faced due to the COVID-19 pandemic;
  - market simulation analysis on the impact of the pandemic to Labuan entities particularly the banking and insurance sectors;
  - impact assessment of the pandemic on domestic banking groups' performance; and
  - analysis on the direction of foreign currency borrowing by the residents amid the implementation of tax substantial requirement;
- Bank Negara Malaysia's surveillance on Malaysia's external debts and borrowings including the overall exposure of Labuan banks; and
- regulatory sharing by the Securities Commission Malaysia on its approach for liquidity risk management for fund management industry which may serve as Labuan FSA's considerations for its ongoing policy developments.

ANTI-MONEY LAUNDERING AND COMBATING THE FINANCING OF TERRORISM

In 2020, the Authority continued to effect AML/CFT policy enhancements and monitoring initiatives to address money laundering and terrorism financing (ML/TF) risks. These are needed to address the remaining recommendations arising from the earlier joint FATF/APG mutual evaluation in 2014 as well as serve as preparations for the incoming new round of risk assessment exercise by the body.

The year 2020 also ushered in a new challenge in the form of Covid-19 pandemic outbreak, and its emerging ML/TF threats and vulnerabilities onto the international market. As depicted by the Financial Action Task Force (FATF), these includes increasing trends of frauds and illegal scams to cyber-crimes. Towards this end, the Authority had undertaken the following measures during the year to ensure that such incidents do not affect the stability and integrity of the Labuan IBFC market:

- communicating to reporting institutions to remind on the need for their governance and internal control systems to always remain effective and not compromised despite the market adversities; and
- imposing e-KYC compliance as enhancements to customer's due-diligence for digital financial businesses.

I. ML/TF Risk Assessments relating to Labuan IBFC

Several risk assessments on Labuan IBFC were undertaken in 2020, either as part of national initiatives or as a dedicated study on the Centre, as part of Authority's AML/CFT market surveillance and gap analysis. Based on the findings gathered, this will serve as inputs for specific regulatory enhancements or higher monitoring intensity for the different business sectors within the market.

FATF-APG Follow-Up Assessment

Throughout 2020, as member of the National Coordination Committee, the Authority continued its efforts to implement the various action plans under the National Strategic Plan (NSP 2015-2020). The action plans comprised:

- effecting changes to the legal framework to incorporate specific beneficial ownership regulations;
- undertaking the sectoral risk assessments across key business segments; and
- revising the current AML/CFT requirements to include specification of general AML/CFT and Targeted Financial Sanction obligations as well as improve the practical applications of the customer due diligence's principles.

In this regard, the Authority participated in the various sub-committee discussions between regulatory bodies and enforcement agencies within the country. The cross-agency meetings serve as effective platforms to deliberate on emerging risks and issues as part of the comprehensive national risk monitoring initiative.

Sectoral Risk assessment (SRA 2020)

The SRA 2020 is a continuity to the same assessment undertaken in 2017. The assessment entail reviewing on the ML/TF vulnerabilities within each of the identified Labuan financial sectors e.g. banking, insurance, fund management etc. Pertinent information and statistics were compiled from the market via survey questionnaires which was then aggregated into the following parameters based on the methodology of the national risk assessment:

(i) Business structure;
(ii) Nature of business;
(iii) ML/TF likelihood;

(iv) Market entry;
(v) Reporting institution's capability; and
(vi) Supervisor's capability.

Labuan IBFC Risk Assessment

This risk assessment was conducted as part of the National Strategic Plan specifically for Labuan IBFC as a jurisdiction and it complements the SRA. Its objective was to determine the vulnerability of the jurisdiction vis-a-vis ML/TF as well and tax evasion risks. The assessment scope was extensive as it covered all Labuan legal persons and legal arrangements. The risk assessment exercise focused on the following areas:

(i) Internal parameters: Includes investigations, complaint, supervision, compliance, structure of business, legal requirements, exchange of information and enforcement actions; and
(ii) External parameters: Comprised relevant statistics of Enforcement Authorities, suspicious transaction reports and independent reports.

This assessment is expected to be completed by end of 2021.

II. Strengthening the Market's AML/CFT Compliance

The Authority continued to provide guidance and promote awareness to the market during the year with regard to AML/CFT fundamentals and topical areas based on market feedback. Despite the movement restrictions due to the Covid-19 pandemic, the Authority had utilised virtual platforms for the training sessions in 2020. In this regard, the sessions conducted during the year were as follows:

(i) Training on Targeted Financial Sanctions on Terrorism Financing and Proliferation Financing;
(ii) Training on Sanctions Monitoring and Suspicious Transaction Report; ad
(iii) Training on Compliance/AML/CFT, Governance, Risk & Internal Controls: Dealing with Some Key Issues in an Organisation

These sessions were facilitated by internal and external trainers which included the Ministry of International Trade and Investment as well as a professional AML/CFT practitioner. Overall, the above training sessions were well-received by the market and with more than 200 attendees from the key sectors.

III. Regulator's AML/CFT Related Trainings

The Authority also participated in AML/CFT training programmes particularly those which were organised by the FATF. As AML/CFT regulator, it is pertinent for the supervisors to be updated of the current regulatory trends and challenges. For the year, among the AML/CFT training programmes participated by the Authority include:

(i) FATF Webinars on the impact of the COVID-19. Strategies to overcome challenges in money laundering investigations and prosecutions during the COVID-19 pandemic;
(ii) FATF forum titled 'Private Sector Consultative Forum on Beneficial Ownership of Legal Persons'. The forum covered topics arising from the implementation of FATF's Recommendation 24 by FATF members; and
(iii) Online workshop by the Royal United Services Institute for Defence and Security Studies on Cryptocurrency and Countering Proliferation Finance in East Asia.

SUPERVISORY ACTIVITIES

For further information, please go to:
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SUPERVISORY ACTIVITIES

SUPERVISORY AND MONITORING

In 2020, the supervisory objectives continued to focus on the safety and soundness as well as market conduct of Labuan financial institutions (LFIs). The aim was to ensure that the LFIs comply with regulatory requirements including Anti-Money Laundering/Counter Financing of Terrorism regulations.

The Risk Based Supervisory Framework (RBSF) continued to be applied in supervising financial institutions in Labuan IBFC, focusing resources and allocation of time to higher risk institutions and sectors as identified under the National Risk Assessment and Sectoral Risk Assessment. Closer monitoring and surveillance were undertaken on concerned institutions and specific sectors with emerging risks as observed during annual supervisory review. In addition, during the year, enhancements were made to the RBSF, by incorporating a differentiated supervisory framework and approach for non-licensed entities (NLEs), which include, Labuan foundations, Labuan leasing companies, Labuan trusts, Labuan international commodity trading company, Labuan limited partnership and Labuan limited liability partnership. It provides for a systematic and effective process in supervising NLE, focusing on regulatory compliance, including AML/CFT, market conduct and the assessments on the roles of trust companies and service providers to these sectors. This new framework significantly facilitates supervisors in the systematic assessments, risk profiling and identification of focus areas which shall be given greater attention.

In April 2020, due to unprecedented COVID-19 outbreak, supervisory strategies and approaches for 2020 were revisited and realigned to adapt more practical and flexibility approaches while continuing to uphold minimum prudential standards, in line with the Movement Control Order (MCO) and restrictions imposed by the Government to manage the spread and severe impact of pandemic. Among others, the revised strategies and approaches include the following:

a. Conduct lesser onsite examinations and focus was accorded more to offsite activities and desktop review of statistical returns, reports and surveys submitted to Labuan FSA and engagements with the board and senior management of the identified entities through digital channels;
b. Provide flexibility of corrective supervisory action based on case-by-case basis as part of Labuan FSA's overall temporary regulatory reliefs, pertaining to a non-compliance of timely submission of statutory financial reporting and failure to maintain capital above the minimum capital requirements;
c. Review supervisory priorities taking into account risks and areas that most heavily impacted by the pandemic, particularly banks' liquidity profile, credit exposure to vulnerable sector and operational resilience and maintain close communication with the players; and
d. Enhance supervisory capabilities and regional cooperation of home-host relationship.

Offsite Monitoring and Flexibility of Corrective Supervisory Action

During the year, 137 supervisory engagements were held with the board and senior management of financial institutions which provided the updates on the FIs operating and financial conditions and the avenue for deliberations on issues of concerns. Of this, 56 of the engagements were with insurance and insurance related companies, followed by banks (31), trust companies (25), money brokers (12) and other sectors (13). In addition, based on risk assessments, 12 onsite examinations were conducted on identified institutions, which comprised four banks, four insurance brokers, two trust companies, one fund manager and one securities licensee. Amongst others, general observations include inadequacy in record keeping and deficiencies in customer due diligence measures, outsourcing without the Authority's prior approval, and capital shortfalls below the minimum requirement.

In response, supervisory letters were issued to respective institutions to address and rectify the identified weaknesses, in addition to corrective supervisory actions taken against 45 institutions to institute discipline of compliance to the regulatory requirements and ensure credibility and inculcate their culture of integrity in doing business in Labuan IBFC. Certain flexibilities were given to entities on case-by-case basis to address the issue depending on the severity of the non-compliance issue. This includes some relief on the extension period of time on submission of audited financial statements and longer time horizon for restoration of capital to those entities that fundamentally sound but facing temporary decline in regulatory capital. However, where the non-compliances were found to be material, proposal for enforcement actions were also recommended to the Prosecution Unit for the specific measures undertaken such as imposition of administrative penalty, suspension or revocation of licence. The name of FIs under these categories included those entities put under restriction of business and the lists were published on Labuan FSA's website.

Generally, the annual Composite Risk Rating of banks and re(insurance) companies and the risk profiling of the intermediaries updated during the year revealed that majority of the banks and re(insurance) companies were rated "Moderate" and better, reflecting a sound and well managed institutions on overall basis. Higher risk institutions, which were rated "Above Average" and "High" were minimal, only 5.5% of the total population of FIs and did not pose systemic risk to the financial system.

Risk Surveillance Activity and Communication to Players

In view of the pandemic and economic uncertainty, and as part of risk surveillance activities, surveys were issued during the year to gauge on the extend of the banks and (re)insurance companies' resilience on the potential impact from COVID-19 and oil and gas price fluctuation. The majority of the banks responded that they would not expect major impact to the loans and investment quality which necessitated additional impairments. The results of the survey also indicated that 82% of the banks and 79% of (re)insurance companies had activated their business continuity plans (BCPs) to ensure no interruption of business services to their clients. Nevertheless, as at end of Q2 2020, the profitability of banking industry showed a significant decline of about 50% from the performance registered in 2019. This was mainly due to the impairments and losses made on investments arising from market volatility and reductions in interest income of its main business activities. Based on this background together with the result of internal impact assessment and stress testing simulation on Labuan banks, an exercise was carried out for banks in Labuan to reaffirm their continuous parental liquidity support to their banking operation in Labuan IBFC in order to ensure resilience and financial stability of Labuan IBFC. In addition, due to growing cyber and emerging threats, industry players were requested to strengthen their technology resilience, conduct regular testing and enhance the effectiveness of their BCP to ensure protection and continuous availability of essential business and services to clients without any interruption.

Also, during the year, self-assessment questionnaires (SAQ) on AML/CFT were issued in order to update the Sectoral Risk Assessments (SRA) of Labuan IBFC. The SRA which is reviewed every three years, systematically assess money laundering (ML) and terrorism financing (TF) risks of entities operating in Labuan IBFC, including banks, re(insurance), trust company, money broker, capital market entities and factoring company. For the year 2020 review, key enhancements were made in the assessment's parameters for inherent risks and controls and additional validation process through stakeholders' focus group discussion was also introduced. This provides for more in-depth assessment and additional insights on the status of ML/TF risks in Labuan IBFC. In addition to the SAQ data, assessments were made on the adequacy of AML/CFT control measures in terms of market entry controls and the capabilities of supervisors and licensed entities. Result from the SRA will be incorporated into the overall National Risk Assessments (NRA) for Malaysia. Based on preliminary analysis, improvements were noted in the quality of risk management, internal controls, culture and discipline of compliance of Labuan licensed entities in relation to AML/CFT.

In this regard, the periodic online meetings with the industry associations also served as part of engagement platforms with the market particularly to discuss supervisory expectations and key observations from the supervisory activities as well as other concerned areas.

Supervisory Capabilities and Home-Host Cooperation

During the year, the digital financial businesses continued to gain traction in Labuan IBFC. Consistent with industry developments, and in order to enhance knowledge and keep updated of regulatory and supervisory developments in financial industries, supervisors attended relevant online trainings and certifications particularly in the topical areas relating to supervision, AML/CFT, Fintech and Cyber Risks organised by local and international organisers, including the Bank for International Settlements, International Organisation of Securities Commissions, Group of International Insurance Centre Supervisors, Group of International Finance Centre Supervisors and Asia Pacific Group on Anti Money Laundering.

Labuan FSA has been working closely with Bank Negara Malaysia and Securities Commission Malaysia on the routine updating and sharing information via the platform of Financial Stability Committee. As most Labuan FIs are part of multinational groups, Labuan FSA updated the Labuan FIs' home jurisdictions of the regulatory developments in Labuan IBFC. Additionally, Labuan FSA participated in two supervisory colleges during the year to ensure consistency in supervisory measures undertaken on Labuan institutions with common financial groups. Moving forward, this initiative will continue to be strengthened so as to facilitate information exchange and sharing of best practices amongst supervisors.

ENFORCEMENT ACTIONS

Amid rapid change and challenging environment during the pandemic, Labuan FSA remained agile and vigilant in carrying out enforcement activities primarily addressing misconduct and contraventions through comprehensive investigations and prosecutions, in its effort to harness and minimise the risks to Labuan IBFC. Myriad efforts have been implemented to ensure Labuan FSA undertook effective, fair and impartial enforcement actions against any breach to Labuan laws and regulations.

During the year under review, Labuan FSA continued its extensive surveillance and investigative works to ensure efficient and appropriate remedial actions are in place to instil market discipline and combat malpractices in Labuan IBFC. The Authority also proactively worked with other regulators and law enforcement agencies on investigation where required. In its undivided commitment to protect the centre from any false information and illegal associations, Labuan FSA continued to caution the public against dealing with unregulated entities via the Authority's website.

In 2020, Labuan FSA undertook a closer monitoring of Labuan entities, particularly in addressing misconducts and contraventions, with the setting up of the Intervention and Enforcement Committee (IEC). Chaired by the Director General of Labuan FSA, the IEC demonstrates Labuan FSA's commitment and initiative as an international financial regulator to carry out effective decisions on enforcement actions, guided by good governance and transparency and supported by a robust and standardised procedures.

Various actions were taken in 2020 to remedy the effects of breaches to Labuan regulations and the effectiveness of the vigorous enforcement processes were reflected by the gradual increase in enforcement instances initiated in Labuan IBFC. A total of 293 enforcement cases were imposed on various Labuan industry players and these comprised 182 issuances of Show Cause Notices issued, 62 monetary sanctions imposed, 41 revocation of licenses undertook, and eight Warning Notices issued.

COOPERATION ON INFORMATION SHARING

Labuan FSA continued its commitment in the spirit of cooperation with other regulators by providing accurate, timely, and comprehensive intelligence gathering and information sharing.

With increasing business activities globally, the need to extend mutual assistance between agencies is inevitable. Underpinned by its guiding principle that stresses on effective cooperation and collaboration, Labuan FSA had extended mutual assistance to other financial regulators and law enforcement agencies. These commitments were more evident in 2020. Amid the global uncertainty and COVID-19 pandemic, Labuan FSA continued to collaborate and provided assistance to more than 13 foreign financial regulators and three domestic enforcement agencies through various legal arrangements and cooperation mediums such as the Mutual Legal Assistance on Criminal Matters (MACMA); the International Organisation of Securities Commission (IOSCO); INTERPOL; Financial Crimes Enforcement Network via Bank Negara Malaysia, and various bilateral MOUs. Labuan FSA also undertook proactive actions to provide unsolicited assistance to other authorities by providing intelligence information which was likely to be of relevance to such authorities.

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

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 2020

Certificate on the Audit of the Financial Statements

Opinion

I have empowered a private audit firm to undertake an audit on the financial statements of Labuan Financial Services Authority. The financial statements comprise the Statements of Financial Position as at 31 December 2020 of the Group and of the Labuan Financial Services Authority and the Statements of Profit or Loss and Other Comprehensive Income, Statements of Changes in Equity and Statements of Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 3 to 54.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of Labuan Financial Services Authority as at 31 December 2020, and of their financial performance and their cash flows for the year then ended in accordance with the Malaysian Financial Reporting Standards (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 Auditor's 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.

Independance and Other Ethical Responsibilities

I am independent of the Group and of Labuan Financial Services Authority and I have fulfilled my 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 Directors of Labuan Financial Services Authority is responsible for the other information in the Annual Report. 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 of Directors for the Financial Statements

The Board of Directors is responsible for the preparation of Financial Statements of the Group and of Labuan Financial Services Authority that give a true and fair view in accordance with the Malaysian Financial Reporting Standards (MFRS) and Labuan Financial Services Authority Act 1996 (Act 545). The Board of Directors 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 Labuan Financial Services Authority, the Board of Directors is responsible for assessing the Group's and 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.

Auditor's 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 Labuan Financial Services Authority as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's 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 Labuan Financial Services Authority, whether due to fraud or error, design and perform audit procedures responsive 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 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 of Directors.

d. Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists ralated to events or conditions that may cast significant doubt on the Group's or 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 Auditor's 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 the Auditor's Certificate.

e. Evaluate the overall presentation, structure and content of the Financial Statements of the Group and of 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.

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 of Directors 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.

(MOHD NASRI BIN MOHD NASIR)
b.p. KETUA AUDIT NEGARA

KOTA KINABALU
21 OKTOBER 2021

STATEMENT BY THE MEMBERS OF THE LABUAN FINANCIAL SERVICES AUTHORITY

We, **DATUK SITI ZAINAB OMAR** and **NIK MOHAMED DIN NIK MUSA,** 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 2020 and their financial performance and cash flows for the year then ended on that date.

On behalf of the Members of the Authority.

DATUK SITI ZAINAB OMAR
Chairman

NIK MOHAMED DIN NIK MUSA
Director-General

15 OCT 2021

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 15 OCT 2021

Before me

PESURUHJAYA SUMPAH
L 006
NORMALA MAT JALI
Tempoh Lantikan
01/01/2019-31/12/2021
MALAYSIA

LOT U0031, TINGKAT 1,
JALAN OKK AWANG BESAR,
P.O. BOX 81862, 87028 W.P LABUAN.
TEL: 087-416057, 415057

STATEMENTS OF FINANCIAL POSITION

AS OF 31 DECEMBER 2020

	NOTE	THE GROUP 2020 RM	THE GROUP 2019 RM	THE AUTHORITY 2020 RM	THE AUTHORITY 2019 RM
ASSETS					
Non-current assets					
Property, plant and equipment	10	**79,324,995**	86,177,918	**78,218,827**	84,534,030
Investment in subsidiary	11	**-**	-	**1,408,313**	1,397,308
Deferred tax asset	12	**6,770**	16,019	**-**	-
Other receivables	13	**520,626**	577,161	**520,626**	577,161
		79,852,391	86,771,098	**80,147,766**	86,508,499
Current assets					
Fees and receivables	13	**14,179,905**	17,153,610	**16,314,552**	19,837,717
Inventories	14	**357,768**	362,112	**-**	-
Cash and bank balances	16	**100,007,524**	78,808,952	**90,613,787**	67,484,876
		114,545,197	96,324,674	**106,928,339**	87,322,593
Total assets		**194,397,588**	183,095,772	**187,076,105**	173,831,092
RESERVES AND LIABILITIES					
Reserves					
Accumulated surplus		**99,010,397**	83,085,228	**93,419,083**	77,650,188
Non-current liabilities					
Deferred income	17	**69,125,871**	70,335,934	**69,125,871**	70,335,934
Other payables	19	**156,687**	-	**156,687**	-
Lease Liability	15	**2,404,098**	4,240,784	**2,263,882**	3,847,882
		71,686,656	74,576,718	**71,546,440**	74,183,816
Current liabilities					
Deferred income	17	**2,534,094**	2,779,401	**2,149,579**	2,202,629
Lease Liability	15	**1,771,810**	1,742,520	**1,584,000**	1,521,992
Other payables	19	**19,394,631**	18,911,905	**17,387,003**	16,272,467
Amount due to subsidiary	19	**-**	-	**990,000**	-
Government loans	18	**-**	2,000,000	**-**	2,000,000
		23,700,535	25,433,826	**22,110,582**	21,997,088
Total liabilities		**95,387,191**	100,010,544	**93,657,022**	96,180,904
Total reserves and liabilities		**194,397,588**	183,095,772	**187,076,105**	173,831,092

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 2020

	NOTE	THE GROUP 2020 RM	THE GROUP 2019 RM	THE AUTHORITY 2020 RM	THE AUTHORITY 2019 RM
Revenue	4	**64,581,817**	60,303,760	**61,819,192**	57,435,691
Other operating income					
Government grant	17	**1,772,535**	1,892,491	**1,580,278**	1,676,360
Income from investments	6	**2,733,670**	2,585,518	**2,733,670**	2,585,518
Other income	7	**121,610**	503,054	**11,888**	2,045,990
Other operating expense					
Staff costs	8	**(34,232,680)**	(34,516,560)	**(26,756,201)**	(26,332,560)
Depreciation of property, plant and equipment	10	**(5,991,244)**	(5,889,748)	**(5,389,545)**	(5,294,264)
Finance cost	5	**(202,548)**	(251,445)	**(181,414)**	(216,070)
Other expenses	7	**(12,799,835)**	(18,222,914)	**(18,048,973)**	(24,050,748)
Surplus before tax		**15,983,325**	6,404,156	**15,768,895**	7,849,917
Income tax expenses	9	**(58,156)**	(27,970)	**-**	-
Net surplus for the year		**15,925,169**	6,376,186	**15,768,895**	7,849,917
Other comprehensive income, net of income tax		**-**	-	**-**	-
Total comprehensive surplus for the year		**15,925,169**	6,376,186	**15,768,895**	7,849,917
Total comprehensive surplus attributable to the Authority		**15,925,169**	6,376,186	**15,768,895**	7,849,917

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 2020

	ACCUMULATED SURPLUS RM
THE GROUP	
Opening balance at 1 January 2019	76,806,267
Effect of adoption of MFRS 16	(97,225)
Opening balance at 1 January 2019	76,709,042
Net surplus for the year	6,376,186
Closing balance at 31 December 2019	**83,085,228**
Opening balance at 1 January 2020	83,085,228
Net surplus for the year	15,925,169
Closing balance at 31 December 2020	**99,010,397**
THE AUTHORITY	
Opening balance at 1 January 2019	69,892,478
Effect of adoption of MFRS 16	(92,207)
Opening balance at 1 January 2019	69,800,271
Net surplus for the year	7,849,917
Closing balance at 31 December 2019	77,650,188
Opening balance at 1 January 2020	77,650,188
Net surplus for the year	15,768,895
Closing balance at 31 December 2020	**93,419,083**

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 2020

	THE GROUP		THE AUTHORITY	
	2020 RM	**2019 RM**	**2020 RM**	**2019 RM**
OPERATING ACTIVITIES				
Net surplus for the year	**15,925,169**	6,376,186	**15,768,895**	7,849,917
Adjustments for:				
Income tax (expenses)/credit	**8,533**	(8,543)	**-**	-
Unrealised (gain) loss on foreign exchange	**(37,144)**	33,219	**(37,144)**	33,435
Depreciation of property, plant and equipment	**5,991,244**	5,889,748	**5,389,545**	5,294,264
Dividend income	**-**	-	**-**	(2,000,000)
Utilisation of government grant	**(1,772,535)**	(1,892,491)	**(1,580,278)**	(1,676,360)
(Gain) / Loss on disposal of property, plant and equipment	**(1,245,555)**	71,429	**(1,240,555)**	24,910
Property, plant and equipment written off	**794,739**	148,500	**794,739**	148,500
Finance Cost	**202,548**	251,445	**181,414**	216,070
Interest income from investments and staff loans	**(2,744,770)**	(2,599,156)	**(2,744,770)**	(2,599,156)
Net fair value gain on other receivables	**(9,645)**	(20,603)	**(9,645)**	(20,603)
Allowance for impairment losses on fees and trade receivables recognised	**3,410,785**	3,946,097	**3,379,983**	3,935,180
Allowance for impairment losses on fees and trade receivables reversed	**(4,015,767)**	(3,516,743)	**(4,004,850)**	(3,450,650)
Amount owing by subsidiaries written off	**-**	-	**-**	10,900
Fees and trade receivables written off	**3,380,700**	2,850,551	**3,380,700**	2,850,551
Operating Surplus Before Working Capital Changes	**19,888,302**	11,529,639	**19,278,034**	10,616,958
Changes in working capital:				
(Increase)/Decrease in:				
Fees and trade receivables	**(1,212,088)**	(3,284,670)	**(1,181,003)**	(3,313,636)
Other receivables	**1,465,384**	(1,199,899)	**1,988,644**	(784,778)
Inventories	**4,344**	(43,336)	**-**	-
Increase/(Decrease) in:				
Fees received in advance	**2,553,298**	1,314,711	**2,553,298**	1,314,711
Refundable deposits	**917,486**	429	**900,000**	-
Other payables and accruals	**(2,810,209)**	(166,290)	**(2,182,075)**	(950,816)
Amount due to subsidiary	**-**	-	**990,000**	-
Cash Generated From Operating Activities	**20,806,517**	8,150,584	**22,346,898**	6,882,439
Income tax paid	**(35,446)**	(15,000)	**-**	-
Interest received	**91,097**	152,540	**91,097**	152,540
Net Cash Generate From Operating Activities	**20,862,168**	8,288,124	**22,437,995**	7,034,979

(Forward)

STATEMENTS OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

	THE GROUP		THE AUTHORITY	
	2020 RM	**2019 RM**	**2020 RM**	**2019 RM**
INVESTING ACTIVITIES				
Net increase in fixed deposits with maturity period of more than 3 months	**(28,924,736)**	(8,150,227)	**(28,744,208)**	(4,035,792)
Proceeds from disposal of plant and equipment	**1,979,749**	53,805	**1,974,749**	9,253
Additions of property, plant and equipment	**(774,985)**	(1,735,798)	**(603,275)**	(1,161,167)
Additions to investment in subsidiary	**-**	-	**(11,005)**	-
Cash received from government grant	**317,165**	-	**317,165**	-
Dividend income	**-**	-	**-**	2,000,000
Interest received	**2,679,544**	2,630,875	**2,679,544**	2,630,875
Net Cash Used In Investing Activities	**(24,723,263)**	(7,201,345)	**(24,387,030)**	(556,831)
FINANCING ACTIVITIES				
Repayment of leased liabilities	**(1,699,665)**	(1,484,658)	**(1,521,992)**	(1,274,864)
Interest Paid	**(202,548)**	(251,445)	**(181,414)**	(216,070)
Repayment of government loans	**(2,000,000)**	(2,000,000)	**(2,000,000)**	(2,000,000)
Net Cash Used In Financing Activities	**(3,902,213)**	(3,736,103)	**(3,703,406)**	(3,490,934)
Net decrease/(increase) in cash and cash equivalents	**(7,763,308)**	(2,649,324)	**(5,652,441)**	2,987,214
Cash and cash equivalents at 1 January	**11,658,725**	14,341,268	**7,449,084**	4,495,305
Effect of exchange difference	**37,144**	(33,219)	**37,144**	(33,435)
Cash and cash equivalents at 31 December (Note 22)	**3,932,561**	11,658,725	**1,833,787**	7,449,084

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 2020

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 2020, 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 2020.

Descriptions	Effective for annual periods beginning on or after
MFRS 9 Prepayment Features with Negative Compensation (Amendments to MFRS 9)	1 January 2020
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
Interest Rate Benchmark Reform (Amendments to MFRS 9, MFRS 139, MFRS 7)	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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Standards issued but not yet effective

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.

Descriptions	Effective for annual periods beginning on or after
Interest Rate Benchmark Reform – Phase 2 (Amendments to MFRS 9, MFRS 139, MFRS 7)	1 January 2021
Onerous Contracts – Cost of Fulfilling a Contract (Amendments to MFRS 137 Provision, Contingent Liabilities and Contingent Assets)	1 January 2022
Property, Plant and Equipment – Proceeds before intended use (Amendments to MFRS 16 Property, Plant and Equipment)	1 January 2022
Annual Improvements to MFRS Standards 2018 - 2020 Cycle	1 January 2022
Reference to the Conceptual Framework (Amendments to MFRS 3 Business Combinations)	1 January 2022
Classification of Liabilities as Current or Non-current (Amendments to MFRS 101)	1 January 2023
MFRS 17 Insurance Contracts (including Amendments to MFRS 17 issued in Aug 2020)	1 January 2023
Disclosure of Accounting Policies (Amendments to MFRS 101)	1 January 2023
Definition of Accounting Estimates (Amendment to MFRS 108)	1 January 2023
Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred
Covid-19 Related Rent Concessions beyond 30 June 2021 (Amendment to MFRS 16 Leases)	1 April 2021

The management 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Basis of consolidation (continued)

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

i) The size of the Authority's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
ii) Potential voting rights held by the Authority, other vote holders or other parties;
iii) Rights arising from other contractual arrangements; and
iv) Any additional facts and circumstances that indicate that the Authority has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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

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

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

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

Business combinations

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

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Basis of consolidation (continued)

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 acquire.

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

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

2.5 Subsidiaries

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

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

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

2.6 Foreign currencies

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

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Foreign currencies

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

a) Fee income from business

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

b) Other fees

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

c) Interest income

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

d) Dividend income

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

e) Rental income

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

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Taxes (continued)

a) Current income tax (continued)

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

b) Deferred tax

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

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

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

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Taxes (continued)

b) Deferred tax (continued)

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

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

2.10 Property, plant and equipment

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

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

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

Leasehold land	Over the lease period
Buildings	50 years
Motor vehicles	4 years
Computers	3 years
Furniture, fittings, office equipment, and renovation	3 to 7 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year-end and adjusted prospectively, if appropriate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 lessee

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.

(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 in substance 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Leases liability (continued)

Current financial year (continued)

The Group and the Authority as a lessee (continued)

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

The Group and the Authority applies the short-term lease recognition exemption to its short term 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.

The Group and the Authority as a lessor

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Financial instruments (continued)

i) Financial assets (continued)

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.

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 2020

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.

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.

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.

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 2020

4. REVENUE

	THE GROUP		THE AUTHORITY	
	2020	**2019**	**2020**	**2019**
	RM	**RM**	**RM**	**RM**
Fee income from:				
Licence Fees	**40,095,677**	34,459,471	**40,095,677**	34,459,471
Annual Fees	**14,781,395**	15,783,800	**14,781,395**	15,783,800
Incorporation & Registration	**787,047**	1,141,500	**787,047**	1,141,500
Marketing/Admin Office	**2,432,784**	1,753,616	**2,432,784**	1,753,616
Other fees	**6,484,914**	7,165,373	**3,722,289**	4,297,304
	64,581,817	60,303,760	**61,819,192**	57,435,691

5. FINANCE COST

	THE GROUP		THE AUTHORITY	
	2020	**2019**	**2020**	**2019**
	RM	**RM**	**RM**	**RM**
Interest on lease liability	**202,548**	251,445	**181,414**	216,070

6. INCOME FROM INVESTMENTS

	THE GROUP		THE AUTHORITY	
	2020	**2019**	**2020**	**2019**
	RM	**RM**	**RM**	**RM**
Interest received from:				
Fixed deposits	**2,653,674**	2,446,616	**2,653,674**	2,446,616
Money at call	**79,996**	138,902	**79,996**	138,902
	2,733,670	2,585,518	**2,733,670**	2,585,518

7. OTHER INCOME/(EXPENSES)

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

	THE GROUP		THE AUTHORITY	
	2020 RM	**2019 RM**	**2020 RM**	**2019 RM**
Interest income from staff loans:				
Others	**11,100**	13,638	**11,100**	13,638
Rental income	**35,375**	146,895	**192,000**	192,000
Miscellaneous income	**136,030**	216,417	**33,090**	58,330
Gain/(Loss) on disposal of property, plant and equipment	**1,245,555**	(71,429)	**1,240,555**	(24,910)
(Loss)/Gain on foreign exchange:				
Realised	**(1,528,439)**	(159,633)	**(1,528,439)**	(159,633)
Unrealised	**37,144**	(33,219)	**37,144**	(33,435)
Allowance for impairment losses on fees and trade receivables reversed	**4,015,767**	3,516,743	**4,004,850**	3,450,650
Audit fees:				
Current year	**(77,077)**	(71,545)	**(28,077)**	(24,245)
Under provision in prior year	**(1,520)**	-	**-**	-
Depreciation of property, plant and equipment	**(5,991,244)**	(5,889,748)	**(5,389,545)**	(5,294,264)
Rental of premises	**26,692**	(180,311)	**26,692**	(180,311)
Fees and trade receivable written off	**(3,380,700)**	(2,850,551)	**(3,380,700)**	(2,850,551)
Amount owing by subsidiary companies written off	**-**	-	**-**	(10,900)
Members' remuneration	**(360,833)**	(312,126)	**(282,300)**	(223,700)
Contributions to Labuan FSA Staff Welfare Fund	**(200,000)**	(200,000)	**(200,000)**	(200,000)
Grant to a subsidiary	**-**	-	**(4,200,000)**	(6,300,000)
Lease of machinery and equipment	**(41,624)**	(64,000)	**(41,624)**	(64,200)
Tuition fees paid to a subsidiary	**-**	-	**(101,969)**	(107,800)
Allowance for impairment losses on fees and trade receivables recognised	**(3,410,785)**	(3,946,097)	**(3,379,983)**	(3,935,180)
Net fair value gain on other receivables	**9,645**	20,603	**9,645**	20,603

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

8. STAFF COSTS

	THE GROUP		THE AUTHORITY	
	2020 RM	2019 RM	2020 RM	2019 RM
Staff costs*	**34,232,680**	34,516,560	**26,756,201**	26,332,560

* These included the following staff costs:

Key management personnel:				
Salaries	**6,238,301**	5,863,071	**4,775,650**	4,552,788
Allowances	**779,984**	630,235	**706,911**	569,228
Employees Provident Fund	**1,126,522**	4,132,718	**942,017**	3,248,914

9. INCOME TAX EXPENSE

	THE GROUP		THE AUTHORITY	
	2020 RM	2019 RM	2020 RM	2019 RM
Statement of comprehensive income:				
Current Income Tax :				
Malaysian income tax	**49,896**	29,617	**-**	-
(Over)/Under provision in prior year	**(273)**	6,896	**-**	-
	49,623	36,513	**-**	-
Deferred Tax :				
Relating to origination of temporary differences	**(7,036)**	(8,126)	**-**	-
Under/(over) provision in prior year	**15,569**	(417)	**-**	-
	8,533	(8,543)	**-**	-
	58,156	27,970	**-**	-

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% (2019: 24%) of the estimated assessable profit for the year.

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	
	2020 RM	**2019 RM**	**2020 RM**	**2019 RM**
Surplus before tax	**15,983,325**	6,404,156	**15,768,895**	7,849,917
Taxation at Malaysian statutory tax rate of 24% (2019: 24%)	**(3,835,998)**	(1,536,997)	**(3,784,535)**	(1,883,980)
Effect of income not subject to tax	**3,870,798**	3,023,589	**3,784,535**	1,883,980
Effect of expenses not deductible for tax purposes	**(74,885)**	(1,551,524)	**-**	-
Reversal of temporary differences previously not recognised	**-**	64,456	**-**	-
(Overprovision)/under of deferred tax in prior year	**(16,285)**	417	**-**	-
Deferred tax assets not recognised	**(2,775)**	(21,015)	**-**	-
(Overprovision)/under provision of income tax in prior year	**989**	(6,896)	**-**	-
Tax expense for the year	**(58,156)**	(27,970)	**-**	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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 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**
At 1 January 2020	442,000	84,506,001	1,325,073	9,712,476	8,111,498	8,392,866	1,591,129	**114,081,043**
Additions	-	-	-	165,003	215,218	-	394,764	**774,985**
Disposals	(442,000)	(528,000)	-	(916,640)	(117,241)	-	-	**(2,003,881)**
Restated	-	(747,039)	-	-	-	-	(47,700)	**(794,739)**
Lease modification	-	-	-	-	-	(107,731)	-	**(107,731)**
Reclassification	-	-	-	137,800	9,000	-	(146,800)	**-**
At 31 December 2020	-	83,230,962	1,325,073	9,098,639	8,218,475	8,285,135	1,791,393	**111,949,677**
Accumulated depreciation								
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**
At 1 January 2020	11,609	11,078,995	943,949	7,568,080	5,703,444	2,597,048	-	**27,903,125**
Charge for the year	-	1,546,491	113,933	1,369,149	1,205,717	1,755,954	-	**5,991,244**
Disposals	(11,609)	(224,197)	-	(916,640)	(117,241)	-	-	**(1,269,687)**
At 31 December 2020	-	12,401,289	1,057,882	8,020,589	6,791,920	4,353,002	-	**32,624,682**
Carrying amounts								
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**
At 31 December 2020	-	70,829,673	267,191	1,078,050	1,426,555	3,932,133	1,791,393	**79,324,995**

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 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**
At 1 January 2020	442,000	84,506,001	662,046	9,256,512	5,533,686	7,502,004	1,591,129	**109,493,378**
Additions	-	-	-	165,003	43,508	-	394,764	**603,275**
Disposals	(442,000)	(528,000)	-	(916,640)	(78,441)	-	-	**(1,965,081)**
Restated	-	(747,039)	-	-	-	-	(47,700)	**(794,739)**
Reclassification	-	-	-	137,800	9,000	-	(146,800)	**-**
At 31 December 2020	-	83,230,962	662,046	8,642,675	5,507,753	7,502,004	1,791,393	**107,336,833**
Accumulated depreciation								
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**
At 1 January 2020	11,609	11,078,995	580,758	7,203,452	3,784,440	2,300,094	-	**24,959,348**
Additions	-	1,546,491	35,225	1,332,655	923,980	1,551,194	-	**5,389,545**
Disposals	(11,609)	(224,197)	-	(916,640)	(78,441)	-	-	**(1,230,887)**
At 31 December 2020	-	12,401,289	615,983	7,619,467	4,629,979	3,851,288	-	**29,118,006**
Carrying amounts								
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**
At 31 December 2020	-	70,829,673	46,063	1,023,208	877,774	3,650,716	1,791,393	**78,218,827**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

11. INVESTMENTS IN SUBSIDIARY

	THE AUTHORITY	
	2020 **RM**	**2019** **RM**
Fair value of loan to subsidiary	**497,308**	497,308
Other contributions	**11,005**	-
Unquoted shares, at cost	**900,000**	900,000
	1,408,313	1,397,308

Name	**Country of incorporation**	**Principal activities**	**Proportion (%) of ownership interest**	
			2020	**2019**
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.

12. DEFERRED TAX ASSETS

	THE GROUP		THE AUTHORITY	
	2020 RM	2019 RM	2020 RM	2019 RM
At beginning of year	**7,476**	5,893	**-**	-
Effect of adopting MFRS 16	**8,543**	1,583	**-**	-
Recognised in the statements of profit or loss	**(9,249)**	8,543	**-**	-
At end of year	**6,770**	16,019	**-**	-

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	
	2020 RM	2019 RM	2020 RM	2019 RM
Unutilised tax losses	**-**	-	**-**	-
Other deductible temporary differences	**105,141**	93,577	**-**	-
	105,141	93,577	**-**	-

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 2020

13. FEES AND RECEIVABLES

	THE GROUP		THE AUTHORITY	
	2020 RM	2019 RM	2020 RM	2019 RM
Current				
Fees and trade receivables	**14,204,288**	16,372,900	**14,147,056**	16,346,752
Less: Allowance for impairment	**(2,953,204)**	(3,558,186)	**(2,922,402)**	(3,547,269)
Fees and trade receivables, net	**11,251,084**	12,814,714	**11,224,654**	12,799,483
Other receivables:				
Amount due from subsidiary	**-**	-	**2,470,032**	2,995,452
Staff housing loans	**41,182**	41,332	**41,182**	41,332
Staff vehicle loans	**49,190**	51,971	**49,190**	51,971
Staff advances/sundry debtors	**66,149**	1,476,916	**34,592**	1,401,389
Refundable deposits	**705,748**	644,680	**446,078**	436,438
Interest receivable	**1,774,381**	1,800,252	**1,774,381**	1,800,252
Prepayments	**274,873**	317,200	**274,443**	311,400
Tax Refundable	**17,298**	6,545	**-**	-
Others	**-**	-	**-**	-
	2,928,821	4,338,896	**5,089,898**	7,038,234
Less: Allowance for impairment	**-**	-	**-**	-
	2,928,821	4,338,896	**5,089,898**	7,038,234
	14,179,905	17,153,610	**16,314,552**	19,837,717
Non-current				
Other receivables:				
Staff housing loans	**482,332**	513,987	**482,332**	513,987
Staff vehicle loans	**38,294**	63,174	**38,294**	63,174
	520,626	577,161	**520,626**	577,161
Total fees and other receivables (current and non-current)	**14,700,531**	17,730,771	**16,835,178**	20,414,878

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	
	2020 RM	2019 RM	2020 RM	2019 RM
Neither past due nor impaired	**11,251,084**	12,814,714	**11,224,654**	12,799,483
More than 31 days past due but not impaired	**-**	-	**-**	-
Impaired	**2,953,204**	3,558,186	**2,922,402**	3,547,269
	14,204,288	16,372,900	**14,147,056**	16,346,752

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 (2019: RM nil) that are past due at the reporting date but not 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	
	2020 RM	2019 RM	2020 RM	2019 RM	2020 RM	2019 RM
The Group						
Fees and trade receivables - nominal amounts	**1,310,271**	1,297,668	**1,642,933**	2,260,518	**2,953,204**	3,558,186
Less: Allowance for impairment	**(1,310,271)**	(1,297,668)	**(1,642,933)**	(2,260,518)	**(2,953,204)**	(3,558,186)
	-	-	**-**	-	**-**	-
The Authority						
Fees and trade receivables - nominal amounts	**1,310,271**	1,297,668	**1,612,131**	2,249,601	**2,922,402**	3,547,269
Less: Allowance for impairment	**(1,310,271)**	(1,297,668)	**(1,612,131)**	(2,249,601)	**(2,922,402)**	(3,547,269)
	-	-	**-**	-	**-**	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

13. FEES AND RECEIVABLES (CONTINUED)

a) Fees and Trade Receivables (Continued)

Movement in allowance account

	THE GROUP		THE AUTHORITY	
	2020 RM	**2019 RM**	**2020 RM**	**2019 RM**
At 1 January	**3,558,186**	3,128,832	**3,547,269**	3,062,739
Impairment losses recognised	**3,410,785**	3,946,097	**3,379,983**	3,935,180
Impairment losses reversed	**(4,015,767)**	(3,516,743)	**(4,004,850)**	(3,450,650)
At 31 December	**2,953,204**	3,558,186	**2,922,402**	3,547,269

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 (2019: 30 years and 9 year respectively). The interest charged on these loans ranges from 2% to 3% (2019: 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	
	2020 RM	**2019 RM**	**2020 RM**	**2019 RM**
At cost:				
Books and stationeries	**166,316**	163,963	**-**	-
Uniforms, fabrics and t-shirts	**191,452**	198,149	**-**	-
	357,768	362,112	**-**	-
Inventories written off	**-**	-	**-**	-
	357,768	362,112	**-**	-

During 2020, RM145,172 (2019: RM194,412) was recognised as an expense for inventories carried at net realisable value.

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 2019	**7,467,962**
Accretion of interest	**251,445**
Payments	**(1,736,103)**
As at 31 December 2019	**5,983,304**
As at 1 January 2020	**5,983,304**
Accretion of interest	**202,548**
Lease modification	**(107,731)**
Payments	**(1,902,213)**
As at 31 December 2020	**4,175,908**

	INTEREST RATE	MATURITY	RM
Current	4%	2020	**1,771,810**
Non-current	4%	2024	**2,404,098**
			4,175,908

The following are the amounts recognised in profit or loss:

	THE GROUP	
	2020 RM	2019 RM
Depreciation expense of right-of-use assets	**1,755,954**	1,573,336
Interest expense on lease liabilities	**202,548**	251,445
Total amount recognised in profit or loss	**1,958,502**	1,824,781

The Group had total cash outflows for leases of RM1,902,213 in 2020.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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 2019	**6,644,738**
Accretion of interest	**216,070**
Payments	**(1,490,934)**
As at 31 December 2019	**5,369,874**
As at 1 January 2020	**5,369,874**
Accretion of interest	**181,414**
Payments	**(1,703,406)**
As at 31 December 2020	**3,847,882**

	INTEREST RATE	MATURITY	RM
Current	4%	2020	**1,584,000**
Non-current	4%	2024	**2,263,882**
			3,847,882

The following are the amounts recognised in profit or loss:

	THE AUTHORITY	
	2020 RM	**2019 RM**
Depreciation expense of right-of-use assets	**1,551,194**	1,350,621
Interest expense on lease liabilities	**181,414**	216,070
Total amount recognised in profit or loss	**1,732,608**	1,566,691

The Authority had total cash outflows for leases of RM1,703,406 in 2020.

16. CASH AND BANK BALANCES

	THE GROUP		THE AUTHORITY	
	2020 RM	**2019 RM**	**2020 RM**	**2019 RM**
Cash on hand and at banks	**3,932,561**	8,658,725	**1,833,787**	4,449,084
Fixed deposits with licensed banks	**96,074,963**	70,150,227	**88,780,000**	63,035,792
Cash and bank balances	**100,007,524**	78,808,952	**90,613,787**	67,484,876

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 2020 for the Group and the Authority were 2.78% (2019: 4.10%) per annum with maturity period of 30 to 365 days (2019: 30 to 365 days).

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

	THE GROUP		THE AUTHORITY	
	2020 RM	**2019 RM**	**2020 RM**	**2019 RM**
Cash at banks:				
United States Dollar	**878,123**	2,589,174	**878,123**	2,589,174
Hong Kong Dollar	**-**	124,848	**-**	-

17. DEFERRED INCOME

Deferred income comprises the followings:

		THE GROUP		THE AUTHORITY	
		2020 RM	**2019 RM**	**2020 RM**	**2019 RM**
Grant related to income	(a)	**910,784**	1,103,041	**526,269**	526,269
Grant related to assets	(b)	**70,749,181**	72,012,294	**70,749,181**	72,012,294
		71,659,965	73,115,335	**71,275,450**	72,538,563

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 RM1,772,535 and RM1,580,277 (2019: RM 1,892,491 and RM1,676,360) respectively.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

17. DEFERRED INCOME (CONTINUED)

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

	THE GROUP		THE AUTHORITY	
	2020 RM	**2019 RM**	**2020 RM**	**2019 RM**
Within 12 months	**2,534,094**	2,779,401	**2,149,579**	2,202,629
After 12 months	**69,125,871**	70,335,934	**69,125,871**	70,335,934
	71,659,965	73,115,335	**71,275,450**	72,538,563

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	
	2020 RM	**2019 RM**	**2020 RM**	**2019 RM**
At 1 January	**1,103,041**	1,319,172	**526,269**	526,269
Received during the financial year	**-**	-	**-**	-
Less: Recognised in profit or loss	**(192,257)**	(216,131)	**-**	-
At 31 December	**910,784**	1,103,041	**526,269**	526,269

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

17. DEFERRED INCOME (CONTINUED)

b) Grant related to assets

	THE GROUP		THE AUTHORITY	
	2020 RM	2019 RM	2020 RM	2019 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	**317,165**	-	**317,165**	-
At 31 December	**83,070,963**	82,753,798	**83,070,963**	82,753,798
Cumulative credits:				
At 1 January	**(10,741,504)**	(9,065,144)	**(10,741,504)**	(9,065,144)
Credited to statements of profit or loss during the year	**(1,580,278)**	(1,676,360)	**(1,580,278)**	(1,676,360)
At 31 December	**(12,321,782)**	(10,741,504)	**(12,321,782)**	(10,741,504)
Net carrying amount:				
Current	**1,623,310**	1,676,360	**1,623,310**	1,676,360
Non-current	**69,125,871**	70,335,934	**69,125,871**	70,335,934
	70,749,181	72,012,294	**70,749,181**	72,012,294

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	
	2020 RM	2019 RM
Within 12 months	**-**	2,000,000
After 12 months	**-**	-

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FOR THE YEAR ENDED 31 DECEMBER 2020

19. OTHER PAYABLES

	THE GROUP		THE AUTHORITY	
	2020 RM	2019 RM	2020 RM	2019 RM
Non-current liabilities:				
Employee benefit	**156,687**	-	**156,687**	-
	156,687	-	**156,687**	-
Current liabilities:				
Amount due to subsidiary	**-**	-	**990,000**	-
Fees received in advance	**12,053,760**	9,500,462	**12,053,760**	9,500,462
Refundable deposits	**1,995,218**	1,077,732	**1,502,200**	602,200
Retention payables	**406,165**	2,171,016	**406,165**	2,171,016
Accruals	**1,179,609**	1,604,503	**604,063**	819,720
Others	**3,714,703**	4,537,230	**2,820,815**	3,179,069
Income tax payable	**45,176**	20,962	**-**	-
	19,394,631	18,911,905	**18,377,003**	16,272,467
Total other payables	**19,551,318**	18,911,905	**18,533,690**	16,272,467

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.

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	
	2020 RM	**2019 RM**	**2020 RM**	**2019 RM**
Rental income received from a subsidiary	**-**	-	**180,000**	180,000
Tuition fees paid to a subsidiary	**-**	-	**(101,969)**	(107,800)
Contribution to Labuan Financial Services Authority Staff Welfare Fund*	**(200,000)**	(200,000)	**(200,000)**	(200,000)
Marketing fees paid to a subsidiary	**-**	-	**(4,860,000)**	(5,750,000)
Grant to a subsidiary	**-**	-	**(4,200,000)**	(6,300,000)

* During the year, the contribution distributed as follows:

	THE GROUP		THE AUTHORITY	
	2020 RM	**2019 RM**	**2020 RM**	**2019 RM**
Labuan Financial Services Authority Staff Welfare Fund	**182,042**	200,000	**182,042**	200,000
Kelab Rekreasi Kakitangan LabuanFSA's Vendor	**17,958**	-	**17,958**	-
	200,000	200,000	**200,000**	200,000

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	
	2020 RM	**2019 RM**	**2020 RM**	**2019 RM**
Salaries	**6,238,301**	5,863,071	**4,775,650**	4,552,788
Allowances	**779,984**	630,233	**706,911**	569,228
Employee Provident Fund	**1,126,522**	1,066,416	**942,017**	901,855
	8,144,807	7,559,720	**6,424,578**	6,023,871

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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 2020 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	
	2020 RM	2019 RM	2020 RM	2019 RM
United States Dollar	-	258,917	-	258,917
Hong Kong Dollar	-	12,485	-	-

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.

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
2020				
Non-derivative financial assets:				
Fees and other receivables	17,347,767	364,620	338,105	18,050,492
Cash and bank balances	103,296,805	-	-	103,296,805
Total undiscounted non-derivative financial assets	120,644,572	364,620	338,105	121,347,297
Non-derivative financial liabilities:				
Government loans	-	-	-	-
Other payables	11,995,009	2,290,900	-	14,285,909
Total undiscounted non-derivative financial liabilities	11,995,009	2,290,900	-	14,285,909
Total net undiscounted non- derivative financial assets/(liabilities)	108,649,563	(1,926,280)	338,105	107,061,388
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

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FOR THE YEAR ENDED 31 DECEMBER 2020

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
2020				
Non-derivative financial assets:				
Fees and other receivables	16,040,110	364,620	338,105	**16,742,835**
Cash and bank balances	93,903,068	-	-	**93,903,068**
Total undiscounted non-derivative financial assets	109,943,178	364,620	338,105	**110,645,903**
Non-derivative financial liabilities:				
Government loans	-	-	-	**-**
Other payables	5,320,856	-	-	**5,320,856**
Total undiscounted non-derivative financial liabilities	5,320,856	-	-	**5,320,856**
Total net undiscounted non-derivative financial assets/(liabilities)	104,622,322	364,620	338,105	**105,325,047**
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**

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	
	2020 RM	**2019 RM**
Loans and receivables carried at fair value		
Staff housing and vehicle loans	**610,998**	670,464

Fair value measurements recognised in the statement of financial position

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

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

	THE GROUP AND THE AUTHORITY			
	LEVEL 1 RM	**LEVEL 2 RM**	**LEVEL 3 RM**	**TOTAL RM**
2020				
Staff housing and vehicle loans	**-**	**610,998**	**-**	**610,998**
2019				
Staff housing and vehicle loans	-	670,464	-	670,464

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 2020

22. CASH AND CASH EQUIVALENTS

	THE GROUP		THE AUTHORITY	
	2020 RM	2019 RM	2020 RM	2019 RM
Cash on hand and at bank	**3,932,561**	8,658,725	**1,833,787**	4,449,084
Fixed deposits placed with licensed banks	**96,074,963**	70,150,227	**88,780,000**	63,035,792
	100,007,524	78,808,952	**90,613,787**	67,484,876
Less: Fixed deposits with maturity period of more than 3 months	**(96,074,963)**	(67,150,227)	**(88,780,000)**	(60,035,792)
Cash and cash equivalents for statements of cash flows purposes	**3,932,561**	11,658,725	**1,833,787**	7,449,084

23. SIGNIFICANT AND SUBSEQUENT EVENTS – IMPACT OF CORONAVIRUS (COVID-19) OUTBREAK

The COVID-19 outbreak was declared a pandemic by the World Health Organisation in March 2020. The COVID-19 Pandemic has significantly disrupted many business operations around the world. For the Group and the Authority, the impact on business operations has not been a direct consequence of the COVID-19 outbreak, but a result of the measures taken by the Government of Malaysia to contain it. As the outbreak continues to evolve, it is challenging to predict the full extent and duration of its impact on the business and the economy. The Group and the Authority considers the COVID-19 outbreak as an adjusting event.

Up to the date of these financial statements, the Group and the Authority has taken into consideration of the COVID-19 outbreak and considered the impacts, if any. Given the dynamic nature of these circumstances, the Group and the Authority will continue to monitor the development of COVID-19 situation closely, assess and react actively to its impacts on the cash flows, financial position and operating results of the Group and the Authority.

24. AUTHORISATION OF FINANCIAL STATEMENTS FOR AUDIT

The financial statements were authorized for issue by the Members of the Authority on 15 October 2021.

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