Labuan FSA
Financial Services Authority

ANNUAL REPORT 2021

www.labuanfsa.gov.my

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**

WHAT'S INSIDE

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2021 also marked a milestone for Labuan FSA as it celebrated the 25th Anniversary of its establishment as the single regulatory and supervisory authority of Labuan IBFC.

DATUK SITI ZAINAB OMAR
Chairman

Chairman Statement

The year 2021 ushered in a phase of global recovery bringing optimism to the international financial environment. This was in contrast to the previous two years that were characterised by a series of external shocks and disruptions brought about by uncertainties in global trade, COVID-19, supply chain pressures, volatile oil prices and geopolitical turmoil.

Progress in vaccination, rapid advancement in digitalisation and growth momentum in global trade signalled a positive return to pre-pandemic growth rates and heralded better prospects for the year.

Against this backdrop, the Asia Pacific region continued to be one of the key drivers for global growth. The gradual reopening of borders, rapid vaccine rollout and embracement of digitalisation was signalling a return to pre-pandemic trends in the short term and the possibility of a more sustainable recovery over the longer term. In particular, Malaysia’s resiliency in battling the impact of COVID-19 as well as the challenges of slower global growth had positioned the country and Labuan IBFC on a much healthier footing to gain from the positive sentiments and regional business recovery.

2021 also marked a milestone for Labuan FSA as it celebrated the 25th Anniversary of its establishment as the single regulatory and supervisory authority of Labuan IBFC. Over the 25-year journey, Labuan FSA was instrumental in the development and growth of Labuan IBFC and remains highly committed towards maintaining the reputation of Labuan IBFC as the well-regulated financial centre of high repute that we know today. In collaboration with Bank Negara Malaysia, a specially designed 25th Anniversary commemorative coin was launched by the Honourable Minister of Finance of Malaysia. The coin serves as a tribute to the dedication and determination of all those who had served Labuan FSA as well as the Government’s commitment to the growth of the island.

At this specific point of time, and amidst the challenges and external shocks happening around us, we are grateful that Labuan IBFC has remained resilient and agile especially with the embracement of revolutions in fintech and digital channels, where businesses are being manoeuvred beyond their conventional modus operandi. Frequent new financial innovations and advancements are needed to broaden the range of financial products and alternatives, thereby promoting greater financial inclusivity and borderless market reach.

The tremendous growth and recognition attained by Labuan IBFC over the past three decades is testament to the hard work and tireless efforts of its stakeholders, including the Government, in particular the Ministry of Finance, Attorney General's Chambers, Bank Negara Malaysia, Inland Revenue Board, and Securities Commission Malaysia, as well as industry players, the Labuan community, and the staff of Labuan FSA. Labuan FSA recognises that there will always be challenges to confront and conquer, not least the never-ending changes in international regulatory and compliance standards and the continually evolving business and financial landscape. Labuan IBFC needs to continuously evolve in tandem with these developments, whilst maintaining its reputation as a well-regulated international business and financial centre offering viable intermediary solutions in a business-friendly environment. In this regard, Labuan FSA has embarked on developing a Strategic Roadmap for the growth and development of Labuan IBFC for the period 2022 to 2026 where the focus will include unlocking the value-added propositions available through Labuan IBFC and effectively positioning it as an attractive destination for international business and finance. To be developed in collaboration with the stakeholders, the 5-year Strategic Roadmap aims to put Labuan IBFC at the forefront in key niche areas and to identify new areas that complement the value-propositions of the jurisdiction, including fintech and digital financial services.

One of the core components under the strategic review is the contribution of Labuan IBFC towards the Labuan economy in general. For year 2021, Labuan IBFC continued to be the engine of growth for Labuan island's development and one of the main economic contributors to the gross domestic product (GDP) of Labuan with an estimated total tax revenue of RM837 million, in addition to the positive spill over generated by employment of the IBFC via retail and investment related activities. The strategic review aims to increase the contribution of Labuan IBFC towards the local economy and its growth by catalysing further investments into the island for development of infrastructure that are critical to facilitate greater flows of commercial activities, improvements in living quality and sustainability of environment.

Labuan FSA is cognisant that as the regulatory and supervisory authority overseeing international financial institutions and corporate entities, it has oversight responsibility over the governance of the Labuan IBFC industry players, and to this end it is essential that its own governance framework and practices are impeccable and are of international standards. Labuan FSA has implemented various measures over the years in order to further strengthen its governance and at the same time serve as a model framework to the industry that it oversees. The Nomination and Remuneration Committee was established in August 2021 to support the effectiveness of the Authority members of Labuan FSA, among others. The mandate is to make recommendations, through the Authority, to the Minister of Finance for the appointment or reappointment of any Member of the Authority. The effective governance of Labuan FSA encompasses key areas such as a consultative and open-minded approach, anti-corruption, risk management and compliance to operating procedures, and is based on the agility and ability to adapt to evolving development and challenges in the global context. Moreover, Labuan FSA continually seeks to maintain high standards of governance and an independent assessment and review of its internal governance was undertaken in 2021 to lay the foundations for the sustainable and healthy growth of the organisation in moving forward. The review will be completed in 2022.

The implementation of the new Labuan IBFC tax framework will bring a torrent of adjustments to Labuan IBFC's business outlook and efforts to address the tax challenges are expected to intensify. The transformation and policy changes that are initiated and put in place are critical to realign monitoring and compliance with the OECD's international standards, whilst ensuring sustainability and resiliency in the business growth of Labuan IBFC. Labuan FSA will continue to be watchful and ensure that practical precautionary measures are in place to mitigate any emerging money laundering or terrorism financing threats in Labuan IBFC.

As the jurisdiction's regulator, Labuan FSA will continue to facilitate financial innovations and attract more fintech establishments to the Labuan IBFC. Through continuous initiatives and with the plan to offer a full suite of Shariah-compliant products and structures to meet the demands and preferences of global investors, Labuan FSA will eventually lead Labuan IBFC in becoming Asia's leading and preferred financial hub (including digital) with a niche in Islamic finance. This will turn the Centre into an ideal base for global business trailblazers seeking innovative growth and alternative financial instruments in Asia.

I am pleased to note that during the year, the number of international and regional financial players in the IBFC increased more than 10 fold from 80 entities to more than 880 since Labuan FSA was set up in 1996, with the Asia Pacific and the Far East accounting for 70% of the businesses at Labuan IBFC. It is indeed an applausable milestone for Labuan FSA.

Amongst the many risks that emerged during this period of uncertainty were increasing opportunities for illicit activities including fraud, cybercrime, hiding of illegal proceeds, counterfeiting as well as scams. In supervising the activities in Labuan IBFC, Labuan FSA was tested in terms of its ability to effectively conduct its supervisory and regulatory functions, while ensuring timely responses that would ensure that the high standards of regulatory compliance of the financial entities were not compromised. I am pleased to share that neither Labuan FSA's supervisory capabilities nor the compliance level of financial entities were significantly impaired during the year.

The jurisdiction was named the "Best International Jurisdiction for Captives" by the European Captive Review Awards in November 2021 for the first time. The award was conferred due to the modern regulatory framework for captives, innovative structures available and marked rise in the number of new captives, and evidences Labuan IBFC's successful evolution as an exceptionally well positioned and outward-looking centre that facilitates international business.

We are confident that the growth trend of the Asia Pacific market will continue, paving the way for the revitalisation of the businesses and ecosystem of Labuan IBFC, as well as stimulating identified market sectors to maximise their growth potential. The strategic initiatives to be rolled out for business intensification will focus on areas such as Expansion of Digital Financial Business for a Fintech-friendly IBFC, reinforcing LIBFC as a regional mutual funds establishment, reinvigorating the insurance market, positioning as "Asia's Reinsurance Hub", strengthening key service providers by teaming trust companies with international brand names, and monitoring of tax contributions and transactions by Labuan entities.

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, as well as the industry players for their invaluable and continuous support and devotion, especially during this trying period, as Labuan IBFC continues to advance and progress into becoming Asia's preferred business and investment hub.

Our gratitude also goes to former Authority members, Tan Sri Datuk Dr. Mohd Daud Bakar, Mr Adnan Zaylani Mohamad Zahid, Dato' Raja Segaran S Krishnan, Ms Goh Ka Im and Ms Adawiyah Ahdan for their invaluable counsel and guidance during their tenure with the Authority. We would also like to extend a warm welcome to Datuk Abu Tariq Jamaluddin, Datuk Nor Azimah Abdul Aziz, Mr Aznan Abdul Aziz, Dr. Aida Othman and Ms Nor Hazlina Ab Aziz as new members of the Authority. They bring with them invaluable experience from both the public and private sectors and I keenly look forward to working with them together with the other Members of the Authority.

I would also like to express my appreciation to the staff of Labuan FSA, for their undivided dedication and contributions towards Labuan FSA, that will definitely elevate the organisation to greater heights. The year ahead of us is expected to remain challenging and unpredictable, and we hope that, with greater commitment, dedication and resilience, we will be able to navigate through this pandemic with a more positive tone and results.

DATUK SITI ZAINAB OMAR
Chairman

Director General's Report

2021 holds special significance for Labuan FSA as it celebrated its silver jubilee anniversary as the one-stop regulatory and supervisory authority of the Labuan IBFC. During the 25-year journey, underpinned by its strong advocacy for greater transparency and embracing international compliance, Labuan FSA has persevered through many challenges, and remained steadfast in staying the course towards making Labuan IBFC a well-regulated and visible international financial and business centre within the international regulatory community.

NIK MOHAMED DIN NIK MUSA
Director General

"Despite the activity restrictions during 2021, Labuan FSA had adapted its operations accordingly and was able to carry out its regulatory, supervisory and market-facilitative mandate without major interruptions."

OVERVIEW

In the aftermath of the COVID-19 pandemic, the year 2021 ended on a more optimistic note, with gradual reopening of economies on its recovery path and transition to the new business environment. For Labuan IBFC, the aftermath of the pandemic proved a testing environment for the financial and business industry. Faced with the spill-over implications from prevailing global conditions, Labuan IBFC maintained its resilience and agility in 2021 with businesses showing more sustainability and resilience. This is attributable mainly to the strategic business development initiatives focusing towards the growth sectors and niche business segments. A key success factor to the sustained growth of Labuan IBFC is the well-regulated financial centre with facilitative business environment which provided confidence for investors to continue using Labuan IBFC.

Labuan FSA recognises that to effectively position Labuan as an attractive destination for international business and finance, it needs to continuously evolve with economic and financial developments on both the domestic and international fronts. Towards this end, Labuan FSA had reviewed its legislative and taxation framework for businesses conducted at the centre in ensuring business certainty and sustainable development of Labuan IBFC and the island's economy. This has translated into broadening and deepening Labuan IBFC's business propositions in creating greater value for investors and further expanded the economic contribution of the centre towards the nation and Labuan Island.

As the regulatory authority, Labuan FSA also remained committed to supporting international initiatives to promote financial stability and made commendable progress towards strengthening Labuan IBFC's AML/CFT compliance, increasing the level of vigilance to ensure the financial system meets global standard. To preserve the Centre's stability and business viability, the Authority had been extra alert throughout the year to detect potential systemic effects of the pandemic. The primary objective of the Labuan FSA policy was to identify and address short- to medium-term vulnerabilities through sector-wide stress tests. The simulations were helpful for identifying areas that required regulatory changes to ensure that the market's financial footing stays strong in spite of any business disruptions.

As part of the continuous effort to support the industry players in overcoming the economic challenges during the pandemic, Labuan FSA had continued to provide Temporary Regulatory Reliefs (TRRs) which include relaxations on administrative governance, market conduct as well as technical requirements to ensure practicality in light of the current market environment. These measures had significantly reduced the regulatory burden placed on Labuan financial institutions and assured that their clients continued to get uninterrupted services.

Despite the activity restrictions during 2021, Labuan FSA had adapted its operations accordingly and was able to carry out its regulatory, supervisory and market-facilitative mandate without major interruptions. The supervisory approach for 2021 focused on continuous oversight on Labuan financial institutions (LFIs) with enhanced monitoring on institutions identified as higher risk, to ensure that the LFIs are safe and sound with market conduct practices that are compliant with regulatory requirements, including Anti-Money Laundering/Counter Financing of Terrorism. Risk Based Supervisory Framework (RBSF) implementation proceeded with a focus on higher risk LFIs and sectors identified through individual supervisory assessment and national risk assessments on AML/CFT. Throughout the year, LFIs and sectors of concern were actively monitored, with frequent reporting on their status and actions taken.

MARKET DEVELOPMENT

Labuan remained as a significant international economic and financial centre in Asia, attracting firms and investors from 125 countries across the globe. For the year under review, there was some moderation in performance across major sectors:

- The more challenging market climate and the continued restructuring and rationalising of businesses during the year in order to acclimatise to the transitioning to the new tax policy had resulted in the numbers of new incorporations to 455 companies. Coupled with the higher deregistration of 1,194 companies, consequentially the total number of active companies declined to 5,151. Notwithstanding the challenges, the inclusion of "Other Labuan Trading Entities" to the Labuan Business Activity Tax (Requirements for Labuan Business Activity) Regulations, is expected to provide greater certainty to the industry and potential investors to continue using Labuan IBFC.

- During the year, the banking industry's profitability was less impacted by the provisioning as this has been imputed in the banking institutions' financial statements of the prior years. As a result, the profitability of the banking industry achieved a growth of 127.8%. Total banking assets remained strong with 13% growth to USD55.8 billion – the highest growth for the past five years due to higher interbank placements. Overall, Labuan banks continued to be resilient and financially sound with ample liquidity.

- The insurance sector remained attractive with 21 new licences approved, comprising four general (re) insurers, 13 captives and four brokers, which expanded the multi-national diversity of the Labuan insurance market. This positive market growth provides additional capacity for the Centre to meet the growing (re)insurance needs of Labuan as well as the region. In 2021, total gross premiums underwritten increased by 4.5% to USD1.7 billion. Labuan captives also continued its growth momentum. Labuan IBFC is home to 63 captives, underwritten a total premium volume of more than half a billion (USD568.9 million) which contributed 33.5% of the insurance industry premiums. Over 65% of the premiums were generated from international insurance business. In November 2021, Labuan IBFC was awarded the Best International Captive Domicile at the European Captive Review Awards. Labuan IBFC has also won the best Asian Domicile award at the APAC Captive Review Awards 2021, for the third year running. These achievements signified the prominence of Labuan captive growing beyond Asia to the European market.

- The growth of Labuan leasing sector remained slow impacted by the persistent restrictions in travel movement albeit on a lesser intensity as markets became more liberal and subsiding pandemic effects. The total leased assets for the industry declined by 2.1% from USD40.7 billion to USD39.8 billion and petroleum-related sector contributed 57.7% of the total assets leased whilst the remainder comprised the aviation sector and other sectors. As global borders opening up, mobility and travel restriction uplifted with travel and tourism resumed in late 2021, this optimism is expected to spur the growth of Labuan aviation sector. Moreover, the strong business momentum in global crude oil price performance and decreasing pandemic effects will continue to boost petroleum-related leasing activity and this trend is to continue into the following year.

- The Labuan international commodity trading business started the year on a more upbeat note. In tandem with global oil and gas market rebounded, the commodity trading sector had recovered and regained its footing. Riding on the positivity, the industry's profitability of Labuan international commodity trading companies increased significantly by 315% to USD3.5 billion for 2021.

- The Labuan digital space continued to register significant growth by 38.5% with 31 new digital financial service provider (DFS) approvals granted, bringing the total number of DFS to 90. The majority of the DFS providers were licensed to operate digital asset platform, token issuance and e-payment system. With the expanding digital and virtual transactions, Labuan IBFC has also two digital exchanges to complement the traditional exchange platforms, for listing and trading of digital assets in the regional and global market.

REGULATORY DEVELOPMENTS & SUPERVISORY ACTIVITIES

Key regulatory initiatives for 2021 continued to concentrate on tightening up the technical criteria for insurance capital adequacy as well as bolstering the operational continuity and cyber resilience of Labuan's financial institutions (LFIs). This is crucial in light of the changing market norms in which these businesses now operate as a result of the pandemic. Labuan FSA continued to carry out prudential regulatory upscaling as means of ensuring market safety and soundness which included:

i. Market testing of the proposed insurance risk-based capital regulations for assessing and finalising the Insurance Capital Adequacy Framework (ICAF) for Labuan Insurers. This exercise aimed, among other things, to align the ICAF's requirements with international capital standard and practices to ensure that they were suitable for the Labuan insurance market.

ii. Strengthening the market governance and risk management practises, focusing specifically on operational resilience and cyber risk mitigation within the industry. The key focus areas include promoting good governance and risk management practices through the issuance of Guiding Principles on Business Continuity Management and The Guidelines on Digital Governance Framework.

The supervisory and enforcement approaches continued to be realigned and adapted to the current conditions including COVID-19 which entailed the ability to conduct on-site examinations. To achieve the expectations, the following initiatives were undertaken to improve market surveillance mechanism, and pre-emptive actions were also taken to deter and prevent potential vulnerabilities in the system:

i. Offsite surveillance was enhanced, focusing on reviews of data and information submitted to Labuan FSA and virtual engagements with the board and senior management of the identified LFIs;

ii. Assessments on areas heavily impacted by the pandemic, including operational resilience, credit exposures, and liquidity, while maintaining close communications with the identified LFIs;

iii. Conducting stress tests on banks and (re)insurance companies to evaluate financial resilience based on macroeconomic impact under two adverse scenarios on earnings and capital of the individual entities;

iv. Surveys conducted on Non-Licensed Entities (NLE) to update their profiles and assess vulnerabilities; and

v. Strengthening cooperation with home supervisors through information sharing and supervisory colleges.

The home-host initiatives which had been initiated in previous years, were further strengthened during the year. Results of supervisory assessments on entities that originated from the United Kingdom, United States of America, Singapore, Japan, China and Taiwan were shared with the respective countries' home supervisors. In addition, our supervisors participated in three supervisory colleges held virtually by the home supervisors, namely, the Central Bank of U.A.E., Taiwan Financial Supervisory Commission and UK Prudential Regulatory Authority. These platforms have been beneficial for obtaining updates, identifying developing risks, evaluating possible responses to recognised hazards, and coordinating actions to mitigate risks in Labuan IBFC.

GOING FORWARD

As 2022 unfolds, it is critical that Labuan IBFC builds on the momentum of previous accomplishments to further enhance the Centre's capabilities, market reach, and prominence to the next level. In this context, consultations with industry players and key stakeholders were conducted in developing the Labuan IBFC Strategic Roadmap 2022-2026 - a blueprint for the Centre's growth trajectory over the next five years. Under the Strategic Roadmap, focus will be accorded on key areas which include:

(i) Thrust 1: **Spur market innovations and vibrancy** by revitalising niche and prospective business sectors via digital solutions including shariah-compliant businesses;

(ii) Thrust 2: **Promote market facilitation and visibility** through enhancing the market ecosystem, promoting intra-Labuan market synergies and reinforcing strategic ties with key stakeholders to reinforce Labuan IBFC's visibility;

(iii) Thrust 3: **Strengthen Labuan IBFC's complementary roles to Malaysia;** by providing additional financial capacity and strengthening further Malaysia's international linkages to Asia;

(iv) Thrust 4: **Implement relevant and proportionate regulations** by continued upscaling of prudential regulatory and legal framework in line with international standards standard setting bodies; and

(v) Thrust 5: **Undertake pre-emptive supervision and enforcement** by modernising pre-emptive supervisory approach through adoption of supervisory technology.

FINANCIAL STANDING

On the financial performance of Labuan FSA, I am pleased to announce for the year ended 31 December 2021, Labuan FSA recorded an increase in operating revenue of RM62.84 million as compared to RM61.82 million in 2020 while its surplus correspondingly increased to RM18.19 million.

CONCLUSION

In conclusion, on behalf of the management of Labuan FSA, I would like to thank the Chairman and Authority members of Labuan FSA for their unwavering support and continued guidance accorded to Labuan FSA. My gratitude also goes to the Labuan financial community for their undivided support and understanding during this challenging period. The boundless energy, brilliant ideas, incredible dedication, which have made you truly impressive and resilient. I am sure this Authority-Industry cooperation will continue in the years ahead.

Lastly, I would like to express my heartfelt gratitude to the staff of Labuan FSA and its subsidiaries for the endless hours you have put in and the professionalism you have shown, which has greatly motivated the entire management team. I appreciate your hard work and dedication in ensuring the success of every critical project. As always, Labuan FSA is counting on you to go above and beyond.

Thank you once again for all your contributions.

01 CORPORATE **INFORMATION**

- Objectives and Functions of Labuan FSA
- Organisational Structure
- Subsidiaries
- Authority Members of Labuan FSA
- Senior Management of Labuan FSA
- Consultative Bodies of Labuan FSA
- International Memberships

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.

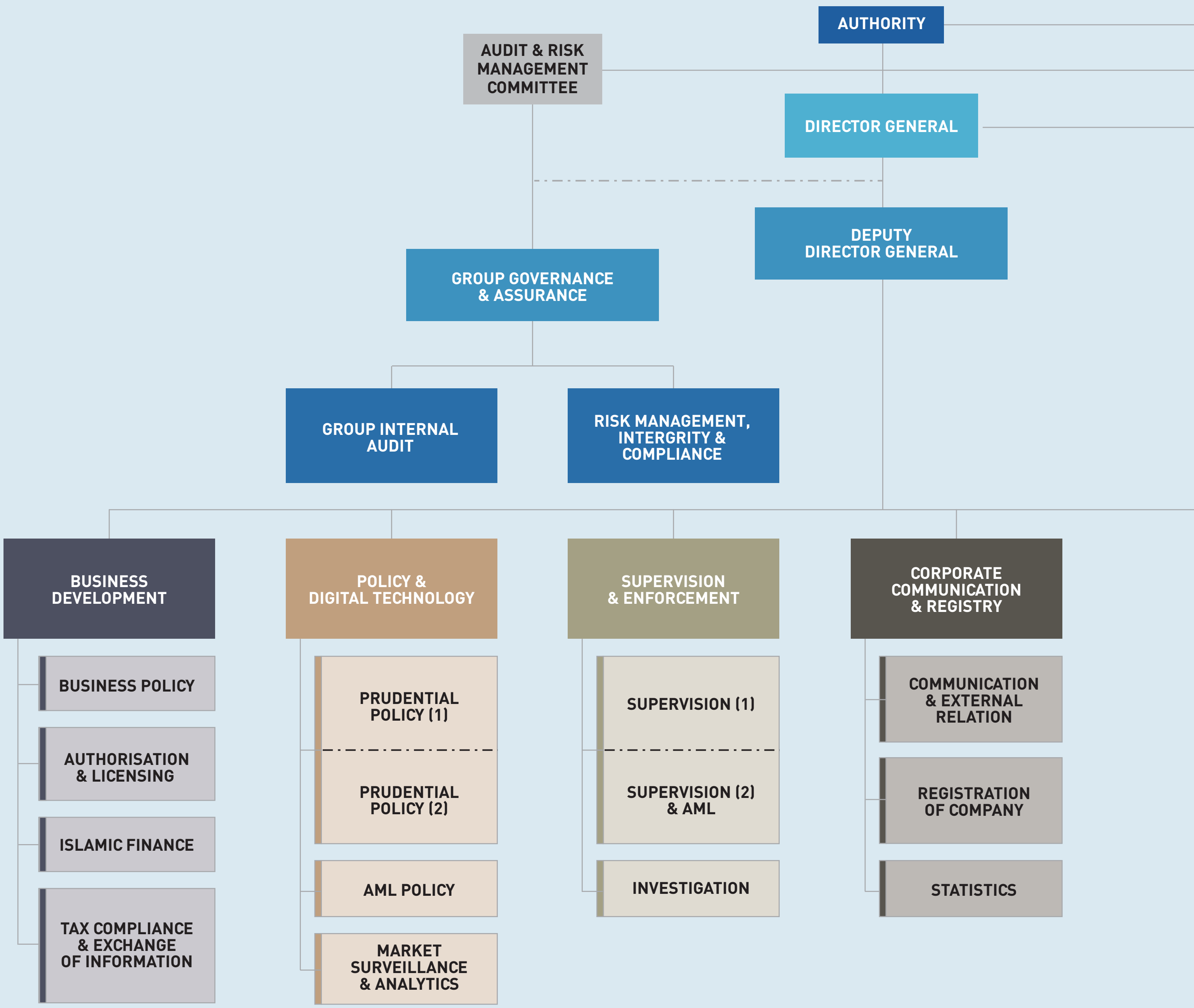
FUNCTIONS OF LABUAN FSA

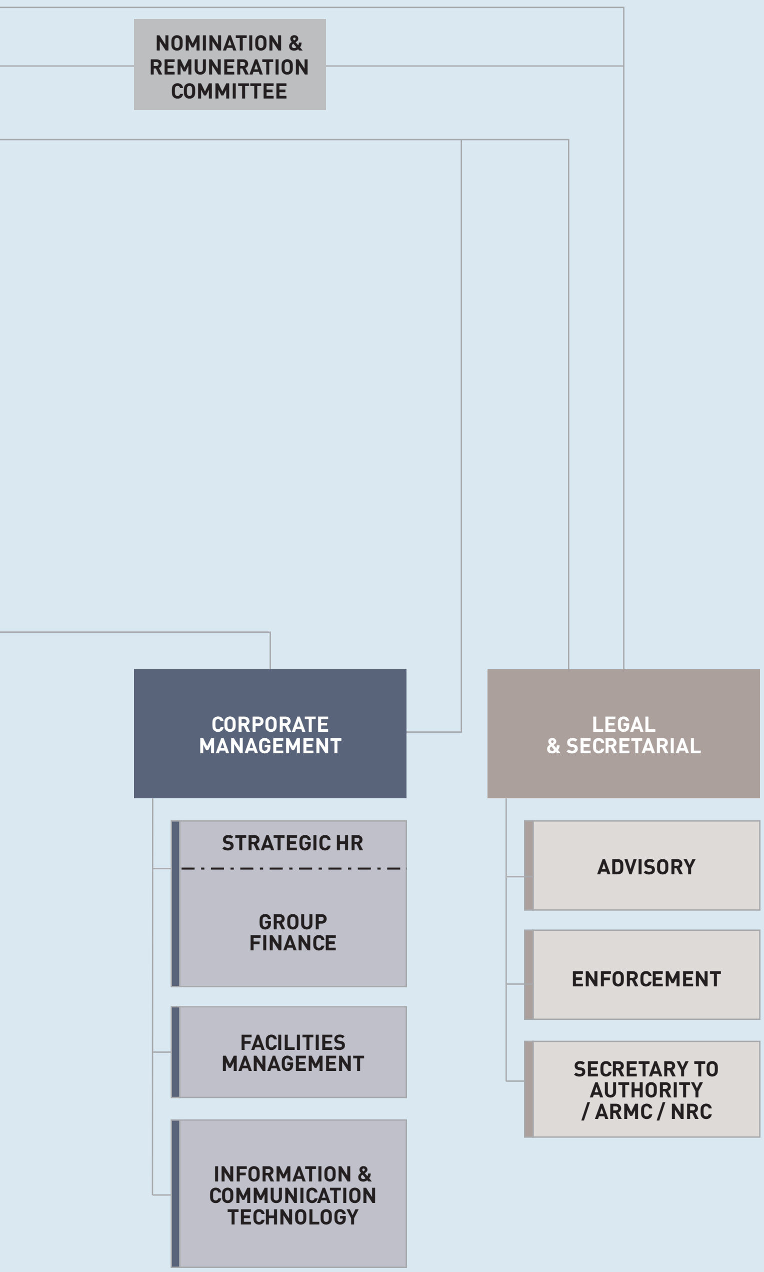
In discharging our regulatory mandate, we are entrusted with the following statutory functions:

- **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

MEMBERS
OF THE AUTHORITY

DATUK SITI ZAINAB OMAR
Chairman

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

Datuk Siti Zainab read law and obtained LLB (Hons.) from University of Essex, United Kingdom. She was admitted to the Bar of England & Wales (Gray's Inn) in 1986. In 1998, she was admitted to the Malaysian Bar as an Advocate & Solicitor.

Datuk Siti Zainab started her career in the Judicial and Legal Service of Malaysia as a Deputy Public Prosecutor in the Prosecution Division of the Attorney General's Chambers. She then served as Federal Counsel and a Senior Federal Counsel in the Advisory Division of the Attorney General's Chambers and served in many other Ministries such as Ministry of Energy, Telecommunication and Posts and the Ministry of Work. In 2007 she was appointed as the State Legal Advisor of Malacca. She has also served the Ministry of Finance as Deputy Treasury Solicitor and in 2009 as the Treasury Solicitor.

She has numerous legal experiences in a wide ranging domestic and international matters. Some of the areas of expertise are those relating to privatisation matters and other specific legal areas such as constitutional law, finance and Islamic law, corporate, contract and construction law. She is also involved and led many international negotiations involving the Government of Malaysia.

During her tenure, she was trusted to hold special posts including directorships in governmental statutory bodies and companies such as Syarikat Perumahan Negara Berhad, Usahasama SPNB-LTAT Sdn. Bhd., Indah Water Konsortium Sdn. Bhd., Sepang International Circuit Sdn. Bhd., Syarikat Air Melaka and Melaka State Development Corporation. She was also appointed as one of the committee members in the Law Harmonisation Committee in Islamic Finance established by the 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.

MEMBERS OF THE AUTHORITY

NIK MOHAMED DIN NIK MUSA

Mr. Nik Mohamed Din is the Director General of Labuan Financial Services Authority (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, United Kingdom.

DR. WONG HUEI CHING

Dr. Wong Huei Ching is an Executive Director at the Malaysia Securities Commission (SC). She leads the Digital Strategy and Innovation division, overseeing the Innovation, Digital Strategy, Analytics, Cyber Security and Technology departments.

Her appointment serves to further the potential of digital and innovation in the area of alternative fundraising and investments, towards shaping a capital market that is more inclusive and sustainable for businesses and investors.

Dr. Wong joined the SC in 2017 and has been involved in various market development initiatives ranging from facilitation of market vibrancy to greater industry digitisation efforts. She was also instrumental in the development of the recently launched Capital Market Masterplan 3.

Dr. Wong is currently a member of the Labuan Financial Services Authority as appointed by the Minister of Finance.

Prior to joining the Securities Commission, she was with a global management consulting firm as part of their strategy practice, and one of Malaysia's largest bank. 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, United Kingdom.

MEMBERS OF THE AUTHORITY

NOR HAZLINA AB. AZIZ

Ms. Nor Hazlina Ab. Aziz has served in the civil service for more than 20 years. Currently, she is the Section Head of the Governance Valuation Section of the Strategic Financial Control and Corporate Division, Ministry of Finance Malaysia. Earlier, her works involved regional cooperation in financial matters pertaining to ASEAN, ASEAN+3 and ASEM under the International Division.

Previously, she has served in various government agencies including portfolios under the Ministry of Health and the Public Service Department.

Ms. Nor Hazlina holds a Bachelor of Business Administration (Finance) from the Northern University of Malaysia and a Master of Public Policy (Governance) from Meiji University, Tokyo, Japan.

STEVEN CHOY KHAI CHOON

Mr. Steven Choy Khai Choon is currently the Non-Independent Non-Executive Chairman of Zurich General Insurance (M) Bhd. and Non-Independent Non-Executive Chairman of Zurich Life Insurance 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 an Independent Non-Executive Director and the Audit, Governance & Risk Committee Chairman of MSM Malaysia Holdings Bhd. Additionally, he is a Non-Independent Non-Executive Director of Kenanga Investment Bank Berhad.

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. 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.

MEMBERS OF THE AUTHORITY

DATUK NOR AZIMAH ABDUL AZIZ

Datuk Nor Azimah Abdul Aziz is the Chief Executive Officer (CEO) of the Companies Commission of Malaysia (SSM). Prior to her appointment as CEO on 1 May 2020, she was the Deputy Chief Executive Officer (DCEO) of Regulatory & Enforcement and thereafter, DCEO of Corporate Services between 2016 and 2020. She joined SSM as General Manager of the Corporate Policy, Planning and Development Department in 2003. She started her career in 1992 as an Advocate and Solicitor and from there on served as a Law Lecturer at the Accounting Department, Faculty of Business and Management, Universiti Kebangsaan Malaysia (UKM). During her tenure with UKM, in July 2000, she was seconded to the Regulatory and Standards Department of the Malaysian Institute of Accountants (MIA).

She has extensive experience in law reform initiatives and oversaw the passing of significant pieces of legislations under the purview of SSM, among others, the Companies Act 2016, Interest Schemes Act 2016, Limited Liability Partnership Act 2012 and Companies (Amendment) Act 2007. She is currently a Board Member of the Audit Oversight Board (AOB), Board Member for the Integrity Officer Accreditation Board (LPPIB), Board Member of the Financial Reporting Foundation (FRF), Member of the Approval and Implementation Committee of the Iskandar Regional Development Authority (IRDA) and was elected as an Executive Committee member of the Corporate Registers Forum (CRF) which is an association of international corporate registries.

She obtained her Law Degree from the Institut Teknologi MARA (now Universiti Teknologi MARA or UiTM) and her Master of Laws (LLM in Business Law) from the University of Wales, Aberystwyth, United Kingdom.

AZNAN ABDUL AZIZ

Mr. Aznan Abdul Aziz is the Assistant Governor of Bank Negara Malaysia who is responsible for the Payments Services Oversight, Financial Conglomerates Supervision, Banking Supervision, Insurance and Takaful Supervision as well as Risk Specialist and Technology Supervision Departments.

Prior to his appointment as the Assistant Governor, he served in several departments including Financial Conglomerates Supervision, Governor's Office, Islamic Banking and Takaful, Financial Sector Development, Financial Intelligence Unit, Financial Surveillance and Bank Regulation Departments.

He was previously the Chairman of the Financial Technology Enabler Group that was responsible for developing strategies and regulatory policies to facilitate the use of technology in financial services and the Assistant General Manager of Danamodal Nasional Berhad, the special purpose vehicle established to recapitalise distressed financial institutions during the 1997 Asian Financial Crisis.

Mr. Aznan holds a Degree in Economics and Accounting from the University of Bristol, United Kingdom.

MEMBERS OF THE AUTHORITY

DATUK ABU TARIQ JAMALUDDIN

Datuk Abu Tariq Jamaluddin is the Deputy Chief Executive Officer (Compliance) of the Inland Revenue Board of Malaysia (IRBM) where he is responsible for supervising the tax audit, investigation and profiling activities undertaken by IRBM.

Prior to his current post, he was the Deputy Chief Executive Officer (Policy) of IRBM and was actively involved in tax policy making and international taxation matters. He has represented Malaysia in various international meetings and was the head of the Digital Economy Committee, a committee responsible to make recommendations to the government based on OECD's Two Pillar Solution to Address the Tax Challenges from the Digitalisation of the Economy. He was also previously the Chairman of the Drafting Committee, a committee in charge of drafting the law to cater for Malaysia's annual national budget of which he has been a permanent member since 1997.

Datuk Abu Tariq has also more than 25 years of experience in advisory, litigation and drafting work in all aspects of tax and revenue law and has represented the Director General of Inland Revenue before the Special Commissioners of Income Tax and at all levels of the Malaysian Courts in many landmark tax cases. He is also a speaker and permanent panel on tax cases at the largest annual conference on taxation in Malaysia, the National Tax Conference as well as various other tax conferences and seminars at national and international levels.

Datuk Abu Tariq holds a Bachelor of Laws (Honors) from the University of Malaya and was admitted as an advocate and solicitor of the High Court of Malaya in 1995.

DR. AIDA OTHMAN

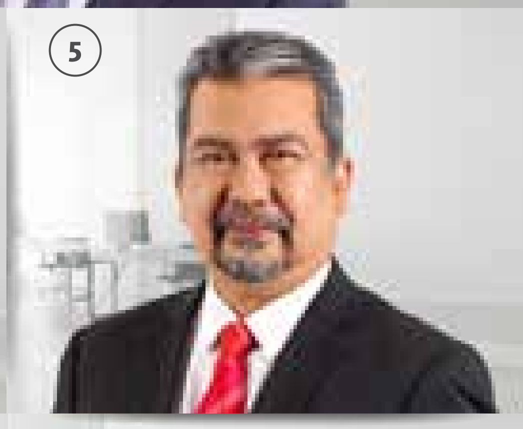
Dr. Aida Othman is a Partner at Messrs. Zaid Ibrahim & Co. and the Shariah advisor at ZICO Shariah Advisory Services Sdn Bhd.

Dr. Aida specialises in Islamic banking and finance, Islamic capital market instruments and takaful products and operations. She also advises on Shariah compliance and governance, including on the legal and regulatory framework for Islamic finance.

Currently, she serves as a Shariah committee member of several Islamic financial institutions and is a member of the Islamic Finance Committee of the Bar Council Malaysia, panel arbitrator for Islamic finance or Shariah related disputes at the Asian International Arbitration Centre, member of the Society of Trust and Estate Practitioners (STEP), United Kingdom and a former member of the Technical Working Group on Ethics of the Accounting & Auditing Organization for Islamic Financial Institutions (AAOIFI), Bahrain.

Dr. Aida holds a Bachelor of Laws (First Class Honours) and Bachelor of Islamic Law (Shariah) (First Class Honours) from International Islamic University, Malaysia, Masters of Law from Cambridge University, United Kingdom. She obtained her PhD in Comparative Law & Middle Eastern Studies and Postdoctoral Fellowship at Harvard University, USA.

SENIOR MANAGEMENT OF LABUAN FSA



1. **NIK MOHAMED DIN NIK MUSA**
   Director General
2. **MOHD RIZLAN MOKHTAR**
3. **WAN AHMAD SANUSI MAHMOOD**
4. **SYAHRUL IMRAN MAHADZIR**
5. **JAFFREE ISMAIL**
6. **MOHD RIDZUAN ZULKIFLI**
7. **MUHAMMAD HANAFIS BORHAN**

CONSULTATIVE BODIES OF LABUAN FSA

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. Datuk Prof. Dr. Mohamad Akram Laldin
   Deputy Chairman
3. Sheikh Prof. Dr. Mohamed Ali Elgari Bineid
4. Prof. Dr. Engku Rabiah Adawiah binti Engku Ali
5. Sheikh Dr. Nedham Yaqoobi
6. Assoc. Prof. 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. Nik Mohamed Din Nik Musa
   Chairman
2. Jaffree Ismail
3. Syahrul Imran bin Mahadzir
4. Ong Sheng En
5. Daniel Chin Shen Li
6. Hong Chin Pheng

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.

International Association of Insurance Supervisors — member since 1998

Group of International Finance Centre Supervisors — member since 1999

Group of International Insurance Centre Supervisors — member since 1999

Asia/Pacific Group on Money Laundering — member since 2000

member since 2002

International Islamic Financial Market

member since 2003

International Organisation of Securities Commissions

member since 2003

Islamic Financial Services Board

member since 2016

Financial Action Task Force

02 CORPORATE **GOVERNANCE**

- Governance Framework
- Governance Structure
- Internal Audit
- External Audit
- Enterprise Risk Management
- Integrity

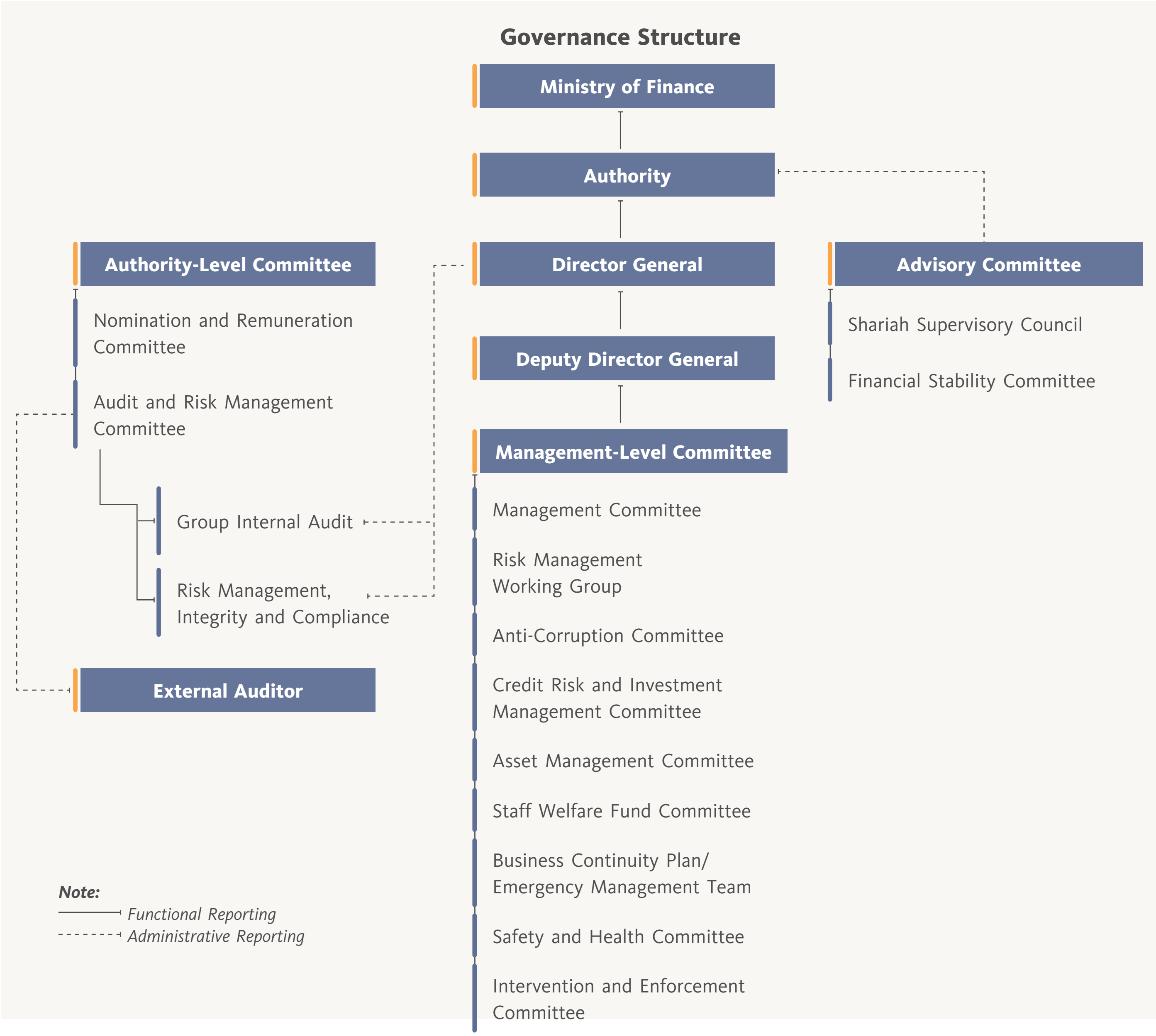
STATEMENT OF CORPORATE GOVERNANCE

Corporate Governance refers to the way Labuan Financial Services Authority (Labuan FSA) is administered, which includes the framework and administrative processes under the purview of the Authority and the management of Labuan FSA. The main function of corporate governance is to maintain integrity and sound business operations that are incongruent with relevant laws and regulations. As the regulator of Labuan IBFC, Labuan FSA is committed to ensure that the **accountability, integrity and transparency** in its governance and stakeholder management.

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.

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.

STATEMENT OF CORPORATE GOVERNANCE



The Authority

In the hierarchy of Labuan FSA, the Authority is the highest decision-making body. It comprises nine prominent members including the Director General (DG), with backgrounds in business, financial, regulatory, legal, private and public services sectors. Under the Labuan Financial Services Authority Act 1996 (Act), the DG 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 responsible for specific business functions, as well as to assist the management of Labuan FSA in monitoring the development and implementation of various initiatives.

STATEMENT OF CORPORATE GOVERNANCE

A schedule of Authority meetings for the whole year is prepared before the end of the preceding financial year, to facilitate the members in discharging their responsibilities at the Authority meeting. In 2021, the Authority continued to oversee the management of Labuan FSA through the review and approval of proposals discussed at Authority meetings. The Authority was also continuously updated on matters discussed at the Audit and Risk Management Committee meetings, and through active engagement with the management, on progress of Labuan IBFC industries, financial position of Labuan FSA and performance of its subsidiaries and advisory Committees.

The Audit and Risk Management Committee

The Audit and Risk Management Committee (ARMC) is the central pillar for the effective governance of Labuan FSA, with the oversight responsibility regarding the adequacy, quality and integrity of Labuan FSA's governance, risk management and control practices. The ARMC comprises four independent members. During the year 2021, the ARMC carried out the following activities in discharging its function and duties:

- Reviewed and approved the Annual Audit Plan for 2022 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 resolved the audit findings identified in the audit reports.
- Reviewed the Internal Audit Charter.
- Approved the appointment of the New Secretary and Alternate Secretary to the Audit and Risk Management Committee.
- Reviewed the development and activities of the Group Internal Audit, Integrity Unit, and Labuan FSA Anti-Corruption Committee.
- Deliberated and advised on legal and supervisory actions on concerned institutions and proceedings involving Labuan FSA and its subsidiaries.
- Reviewed the audit reports including key issues raised by the internal and external auditors and the Auditor-General's Office.
- Reviewed and advised the Authority on the unaudited quarterly financial statements.
- Reviewed and endorsed the unaudited and audited financial statements for Authority's approval.
- Reviewed and endorsed the revised budget 2021 and budget proposal 2022 for Authority's approval.
- Reviewed and advised on the status of risk issues and its management as they relate to the regulatory, business, financial, cyber security, governance and legal risks of Labuan FSA.
- Reviewed the initiatives taken to resolve the Prosecution and Exchange of Information's audit findings and areas for improvement.

STATEMENT OF CORPORATE GOVERNANCE

The Nomination and Remuneration Committee

As part of the Authority's commitment to enhancing the governance of the organisation, the Authority had established the Nomination and Remuneration Committee (NRC) in 2021, with the primary objective of establishing a formal and transparent procedure to enhance the governance for the Authority of Labuan FSA.

Authority-Level Committees

The composition of the Authority-level committees and the meeting attendances of Authority members in 2021 were as follows:

Authority	Audit and Risk Management Committee	Nomination and Remuneration Committee
8 Meetings Held	4 Meetings Held	2 Meetings Held
9 Total Number of Members	4 Total Number of Members	4 Total Number of Members

Authority Members	Authority-Level Committee Meeting Attendance		
	Authority Meeting	Audit and Risk Management Committee Meeting	Nomination and Remuneration Committee Meeting
Datuk Siti Zainab Omar[1]	7/7		
Nik Mohamed Din Nik Musa[2]	7/7		2/2
Datuk Azizan Abd Rahman[3]	1/1	1/1	
Datuk Danial Mah Abdullah[4]	1/1		
Adnan Zaylani Mohamad Zahid[5]	7/7	3/3	
Tan Sri Dr. Mohd Daud Bakar[6]	6/8	3/3	
Dr. Wong Huei Ching[7]	6/8		2/2
Goh Ka Im	8/8	3/4	
Adawiyah Ahdan[8]	4/8	1/1	2/2
Steven Choy Khai Choon[9]	8/8	4/4	
Dato' Raja Segaran S Krishnan[10]	4/7		2/2

1 Datuk Siti Zainab Omar – Appointed as Authority Chairman w.e.f. 1 May 2021

2 Nik Mohamed Din Nik Musa – Appointed as Director General w.e.f. 1 May 2021

3 Datuk Azizan Abd Rahman
- Resigned as Authority Chairman w.e.f. 12 April 2021
- Resigned as ARMC Member w.e.f. 12 April 2021

4 Datuk Danial Mah Abdullah – Resigned as Director General w.e.f. 9 April 2021

5 Adnan Zaylani Mohamad Zahid
- Appointed as ARMC member w.e.f. 1 July 2021
- Retired as Authority Member w.e.f. 3 December 2021

6 Tan Sri Dr. Mohd Daud Bakar – Appointed as ARMC member w.e.f. 1 July 2021

7 Dr. Wong Huei Ching – Appointed as Chairman of NRC w.e.f. 1 July 2021

8 Adawiyah Ahdan
- Retired as ARMC member w.e.f. 1 July 2021
- Appointed as NRC member w.e.f. 1 July 2021

9 Steven Choy Khai Choon[9] – Appointed as Chairman of ARMC since 17 November 2020

10 Dato' Raja Segaran S Krishnan
- Appointed as Authority Member w.e.f. 1 March 2021
- Appointed as NRC member w.e.f. 1 July 2021

STATEMENT OF CORPORATE GOVERNANCE

INTERNAL AUDIT

The Group Internal Audit (GIA) supports the ARMC in discharging its responsibilities by providing independent, objective assurance and consulting activity designed to add value and improve the governance and 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.

Audit Universe

RISK BASED APPROACH

Risk Based aligned with Enterprise Risk Management (ERM) Assessment:

Risk Areas
- Prudential Policy and AML Policy.
- Prosecution and Exchange of Information.
- Statistics.
- Finance and SAGA Task Force.
- Risk Management and Corporate Action Plan (CAP) Monitoring.

Operational Audit
- Pristine Era Sdn. Bhd.
- Labuan IBFC Inc. Sdn. Bhd.

LABUAN FSA's STRATEGIC PLAN

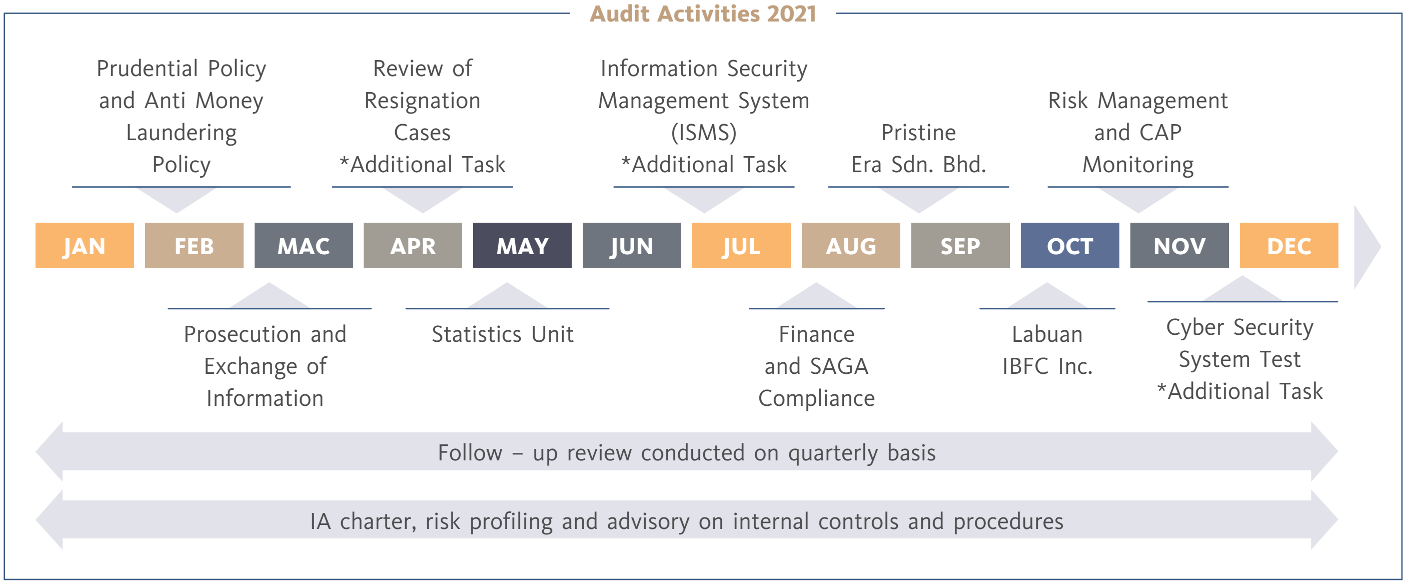
Aligned with the corporate objectives of Labuan FSA and supported by the following strategic thrusts:

- To be more business focused.
- Preserve reputation of Labuan IBFC through strong supervisory and regulatory regime.
- Strengthen financial sustainability of the organisation and its subsidiaries.
- Improve infrastrucuture and facilities in Labuan FSA.

SPECIAL PROJECT

- Management's request.
- Investigation, if any.

STATEMENT OF CORPORATE GOVERNANCE



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

- Seven audit reviews were conducted as planned and three additional as requested by the management;
- Follow up reviews on nine previous audit projects;
- Continuous engagements with auditees to resolve audit findings.

As of December 2021, 78% of the audit findings were resolved. The audit follow ups 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 provides advisory comments on the 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 2021, a total of two procedure manuals were reviewed to ensure the operations are being managed more effectively, which resulted in an improvement in the overall performance of the organisation.

GIA staff also had been appointed as an observer for the Working Committee on Debt Recovery Framework to ensure the establishment of the Committee that would address gaps identified by GIA, and ensure the interdependence and smooth merger between enforcement processes and debt recovery.

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.

STATEMENT OF CORPORATE GOVERNANCE

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 accordingly 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 eight 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 the purchase of goods or services up to RM250,000. In 2021, 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 management.

Other Management-level Committees

In addition to the Board Committees, management-level 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 14 members comprising the DG as Chairman, Deputy DG, six Directors and six 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. The RMWG had convened three meetings in 2021.

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 has 11 members comprising the DG as Chairman, Deputy DG as the Deputy Chairman, six directors, one representative from Legal and Advisory Department, one representative from Group Human Resource and one representative from Group Internal Audit who acts as an observer. The Integrity Unit is the Secretariat for JAR. The Committee discusses issues of integrity, governance and anti-corruption based on four terms of reference (TOR) namely Law and Regulatory Policy; Standard Operating Procedure; Strengthening Governance and Integrity; and Detection, Compliance, Punitive and Recovery. A total of three meetings were held in 2021, chaired by the DG, to deliberate the Organisational Anti-Corruption Plan (OACP) implementation and other integrity-governance concerned matters.

STATEMENT OF CORPORATE GOVERNANCE

iii. Credit Risk and Investment Management Committee

The Credit Risk and Investment Management Committee (CRIMCO) is established 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 consists of a Chairman and five other members from the relevant departments or units within the organisation. In 2021, 15 meetings were held and 173 licence applications and operational matters deliberated by CRIMCO.

iv. Asset Management Committee

The Asset Management Committee (AMC) is responsible to assess, advise and decide for all purchases of goods and services up to RM100,000, as well as overseeing all aspects of asset management in the best interest of Labuan FSA. In 2021, four meetings were conducted with 28 papers approved by the Committee.

v. Staff Welfare Fund Committee

Staff Welfare Fund Committee (SWFC) was established in line with Section 18A of the Labuan Financial Services Act 1996 to manage its Staff Welfare Fund. The SWFC comprises of three members including DG who acts as Chairman and two Directors as committee member. In 2021, the SWFC has approved 94% of the loan applications received from staff.

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 Team is responsible to ensure business operations of Labuan FSA continues in the events of disaster, be it internal or external as well as to minimise the financial losses. The year 2021 had been a challenging year for Labuan FSA due the COVID-19 new variants 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 managed to ensure there were minimal disruptions to the critical operations of Labuan FSA through the implementation of several key measures.

vii. Safety and Health Committee

The Safety and Health Committee (SHC) was formed to guide, advice and assist the employer on safety and health matters at the workplace whereby the roles of the SHC cover both employees and visitors. The SHC is mandated with the following responsibilities:

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

In 2021, the SHC organised several activities for the employees, such as talk on mental awareness, Occupational Safety and Health (OSH) Conference Day, and Health Week. The Committee also had organised a training on Ergonomics and Manual Handling at Workplace with the aim to provide more significant practical guidance for all employees to ensure safer workplace.

viii. Intervention and Enforcement Committee

The Intervention and Enforcement Committee (IEC) was established as an oversight platform for the administration of control mechanism for deliberation of enforcement actions to assist the DG in carrying out effective decisions on enforcement actions whilst guided by good governance policy and transparency to avoid potential abuse of power and conflict of interests. The IEC sits once a month or as and when necessary. In 2021, the IEC has convened 11 meetings and deliberated on enforcement issues involving non compliance cases and problematic entities with action ranging from imposing directive, show cause notices and revocation of licences.

STATEMENT OF CORPORATE GOVERNANCE

ENTERPRISE RISK MANAGEMENT

The Enterprise Risk Management (ERM) has evolved into an important driver for strategic decisions in supporting business strategies while balancing the appropriate levels of risk taken to the desired level of returns. Labuan FSA embraced ERM as an integral component of business, operations and decision-making process to help us achieve optimum returns, while operating within this challenging environment. It emphasised a top-down holistic approach to effective risk management for the entire organisation.

Labuan FSA adheres to the ERM Framework, which adopts ISO31000:2018 Risk Management Principles and Guidelines to align with the industry best practices. The framework requires for an integrated and cohesive approach towards risk management, ensuring that the most significant risks faced by the organisation are identified, assessed, monitored, and managed effectively. The goal is to lessen the likelihood and impact of identified risks, in order to enhance the organisation's ability to achieve its strategic objectives. The key elements of an effective ERM processes under the ERM Framework are shown in Diagram 1.

The risk assessment process is conducted throughout the year, its frequency determined by the inherent level of risk to enable management to maintain any escalating risks within the context of our risk appetite. The goal of ERM is to increase the likelihood of achieving Labuan FSA's objectives and goals under the Labuan IBFC Strategic Roadmap by managing risks within the organisation's appetite for risk. The key assessment activities are summarised in Diagram 2.

The ERM Framework is implemented across the Group, encomprising subsidiaries namely Labuan IBFC Incorporated Sdn. Bhd. (LIBFC Inc) and Pristine Era Sdn. Bhd. (PESB). In 2021, Labuan FSA's ERM completed a full cycle of the ERM processes involving the participation of the Risk Management Integrity and Compliance Unit (RMIC), Head of Units/Departments, Risk Management Working Group (RMWG), Audit and Risk Management Committee (ARMC) and the Authority. However, the ERM of subsidiaries and its result of the risk assessment is reported direct to the subsidiaries' board. The identification of emerging risks is undertaken vigorously, adopting a vertical and horizontal approach involving Heads of Units / Department, senior management, RMWG and ARMC. The ERM provides Labuan FSA's senior management with a tool to manage existing and potential risks, taking into consideration the environmental change that may impact the organisation which leads to changes of profiling of its risks. The key actions are illustrated in Diagram 3.

Diagram 1: ERM Processes

1. RISK IDENTIFICATION

- Strategic Business Plan.
- Marketing Plan.
- Corporate Action Plan.
- Engagement sessions with risk owners.
- Questionnaires to prompt the risk owners.
- Audit reports from internal and external auditors as referral.
- Organisation's performance report.
- Feedback from key stakeholders on current issues.
- Environmental scanning.

2. RISK ANALYSIS

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

3. RISK EVALUATION

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

Diagram 2: Risk Management Process

STATEMENT OF CORPORATE GOVERNANCE

UNIT/ DEPARTMENT

- Review of risk profiles from 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 risk 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 3: Key actions under the ERM Process of Labuan FSA.

In 2021, Labuan FSA has recognised new risk under the Strategic Risk known as Governance and Legal risks. Governance risk was recognised to identify and address any shortcomings in the governance framework to ensure continued stability and re-establish the confidence of stakeholders and industry players towards Labuan FSA as a regulator. Labuan FSA recognised legal risk to ensure that we keep abreast with the latest development or changes made to the policies/laws/standards and also to safeguard the organisation from being sued by third parties and help Labuan FSA to act in the best interests of the business. Labuan FSA businesses are subject to regulations by Government and international bodies. It is important to understand the regulations and policies, standards or laws applicable to avoid penalties, blacklisted or non-compliance. Labuan FSA has grouped its risks under three main groups, namely strategic, operational, and financial with 11 sub-risks as shown in Diagram 4.

STRATEGIC RISK

- Regulatory
- Business
- Stakeholder
- Governance
- Legal

OPERATIONAL RISK

- Human
- Compliance
- System
- Information
- Security

FINANCIAL RISK

- Funding

Diagram 4: Labuan FSA Risk Grouping

STATEMENT OF CORPORATE GOVERNANCE

Significant Risks

It is crucial for Labuan FSA to exercise judgment as to which risks are significant risks and identify potential threats that could impact and material business disruptions to the organisation. Despite continuous uncertainties in our operating environment due to COVID-19, Labuan FSA has demonstrated the organisational resilience and ability to manage significant risk consistently. Labuan FSA has identified appropriate risk response or treatment in managing and mitigating these risks are as follows:

Significant Risk	Risk Response
Regulatory Risk	
The regulatory and supervisory functions are currently being enhanced as a result of the assessments undertaken by the international bodies such as Asia Pacific Group (APG) on Money Laundering and Organisation for Economic Co-operation and Development (OECD). Labuan FSA has continued with its strategies to address the regulatory risk that might arise due to the changes in the tax structure of Labuan IBFC and the outbreak of COVID-19.	• Establishment of Labuan Investment Committee (LIC) to ensure practical substance requirements and facilitate growth for Labuan businesses. • Carried out consequential amendments to the Labuan law in order to improve the business environment in Labuan IBFC. • Participated in working group arrangement with relevant units on digital financial business. • Implemented the Risk-Based Supervisory Framework (RBSF) for supervisory activities. • Benchmarked with international standards in formulating new and reviewing existing regulations. • Labuan IBFC Strategic Roadmap 2022-2026 to be formulated in charting the Labuan FSA's future direction.
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.	• Reviewed the existing policies/guidelines to provide clarity and to create a more conducive, flexible and efficient environment for business activities. • Continuously process applications received as usual before the pandemic and accordance with the client charter. • Intensified promotional efforts which focused on attracting potential investors from growth markets and emerging economies. • Robust engagements with industry to clarify on new requirements and enhance confidence in the continued viability of Labuan IBFC as a business jurisdiction.
Governance Risk	
The governance risk is a new risk recognised by Labuan FSA in 2021 due to shortcomings in relation to governance policies and practices within Labuan FSA that could expose the organisation to potential adverse impact on its integrity and reputation as a regulator.	• To further strengthen the governance framework of the Authority, Labuan FSA has recently established the Nomination and Remuneration Committee (NRC) on 1 July 2021, with, among others, a mandate to recommend, through the Authority, to the Minister of Finance for the appointment or reappointment of any Member of the Authority. • NRC also serves as a formal channel for any complaints of misconduct or violation of rules by Authority. • Assessed the corporate governance framework of Labuan FSA by external assessor. • Reinforced the oversight mechanism on governance, integrity and anti-corruption. • Continuously promote culture of anti-corruption through various channels. • Continuously monitor the implementation of Labuan FSA's Organisation Anti Corruption Plan with close monitoring and tracking.

STATEMENT OF CORPORATE GOVERNANCE

Key Activities Undertaken by the Risk Management Unit in 2021

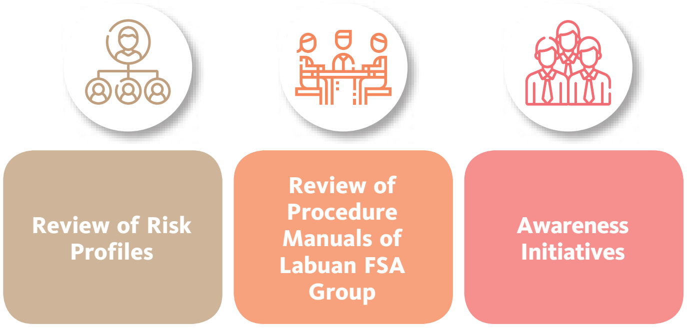


Diagram 5: Key Activities

Review of Risk Profiles

In 2021, 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.

Review of 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.

Awareness Initiatives

During 2021, the RMIC conducted initiatives to enhance awareness on risk management as follows:

- Monthly risk awareness snippets for internal circulation.
- Formal and informal engagements with the risk owners to promote a culture of risk awareness.

Business Continuity for Long Term Sustainability

The Business Continuity Plan (BCP) provides the necessary framework for Labuan FSA to build resiliency and capability for effective response when faced with adverse events such as natural disasters, technological failures, human errors or damage to its office premises. The BCP will be activated depending on the impact of the disaster that has been identified under the organisation's level of emergency. The objectives of the BCP is depicted in Diagram 6.

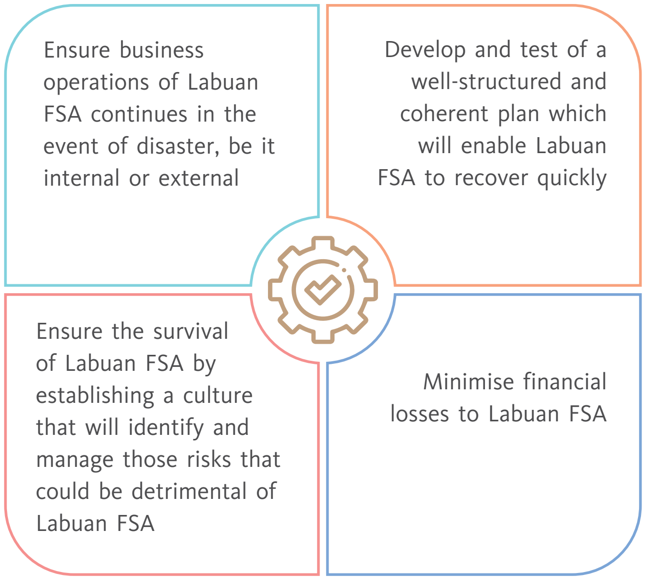


Diagram 6: Objectives of BCP

Managing Risks During the Pandemic

Organisational sustainability and resiliency are critical dynamic aptitudes for business continuity management, especially in times of crisis such as the COVID-19 pandemic. In 2021, countries around the globe continue struggling to curb the spread of COVID-19 variants. Labuan FSA had persevered in facing all the challenges and strives for assurance of the ability to operate its business during the pandemic. In its second year of struggling during the pandemic outbreak with new wave of COVID-19 variant, Labuan FSA had effectively continued its measures in minimising disruption to its critical operations while at the same time ensuring the staff safety and wellbeing, as well as managing vulnerabilities posed by implemention of rotational working arrangements. A stringent standard operation procedures (SOPs) on COVID-19 measures were instituted to curb the spread of COVID-19 at the workplace which includes SOP on regular testing of staff who are working in the office during their rotational schedule, requirements for health declaration by external guests/ visitors to the office and strict compliance of SOP issued by Government on COVID-19 SOP and measures.

Labuan FSA had continued to facilitate Labuan entities and the industry at large and ensured that its market servicing and support continued to be rendered without interruption. A key enabling factor to this is that Labuan FSA's functions and services are pre-dominantly digitised which facilitated the communications and engagements with the industry.

STATEMENT OF CORPORATE GOVERNANCE

HEALTH RISK

Managing staff health and wellbeing

Labuan FSA had organised the following health talks:

- Mental Health Talk – Positive Mind Gateway

Mental Health Talk 1	Life in the midst of Pandemic and Overcoming Obstacles of a Lifetime.
Mental Health Talk 2	How to Stay Sane During This Pandemic.

- Health Talk on Various Topics

Health Talk 1	COVID-19 Vaccination.
Health Talk 2	Back Pain during Pandemic and Work from Home Arrangement.
Health Talk 3	Nutrition Talk on Hiperlipidemia Healthy Eating.

OPERATIONAL RISK

Minimising business disruption and managing stakeholders

Labuan FSA is committed to delivering value to the stakeholder despite of the pandemic and to cushion the impact and disruption to Labuan IBFC Market through:

Temporary Regulatory Reliefs (TRRs)	Labuan FSA announced the temporary regulatory reliefs (TRRs) for Labuan entities (LEs) extended to 2021. The TRRs are intended to provide administrative and financial reliefs for the LEs to provide better business facilitation and support their clients in this challenging time.
Stress Test Simulation	Labuan FSA had undergone the stress test simulation to assess and extrapolate the impact of the COVID-19 pandemic outbreak in Labuan IBFC. The simulation focused on the different business sectors in Labuan IBFC, particularly on the banking and insurance market.

INFORMATION SECURITY, CYBER SECURITY RISK

Continue to remain vigilant especially during remote working arrangements

Labuan FSA had continuously assess its resiliency in managing risk on information security, cyber security and technology risk management. In this regard, Labuan FSA has conducted the following measures in 2021:

Disaster Recovery Center (DRC) testing	Undertaken the DRC testing in July and September 2021 to determine its data recovery effectiveness as part of its business continuity testing in case of disaster.
Strengthen cybersecurity	• Strengthened cybersecurity through certification and assessment. • Implemented Information Security Management System (ISMS) in compliance to the ISO/IEC 27001:2013 that provides a systematic approach for managing an organisation's information security. • Cybersecurity penetration testing by external assessor to ensure robust cybersecurity defense maintenance.

STATEMENT OF CORPORATE GOVERNANCE

INTEGRITY

Integrity in corporate is an essential ingredient for sustainable, long-term business growth and success. Labuan FSA recognises that integrity contributes significantly towards creating an environment of trust within Labuan IBFC which, in turn, would help create a dynamic, regionally competitive centre. In order to build such an environment of integrity, Labuan FSA itself has to be a model of integrity in which ethics and honesty both support and are supported by good governance. In the day-to-day operations of Labuan FSA, staff are guided by the following shared core values:

INTEGRITY, COMMITMENT AND PROFESSIONALISM
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.

OPEN AND HONEST COMMUNICATION
To communicate clearly and promptly, applying open and honest two-way communication.

TEAMWORK
To strengthen Labuan FSA's team collaboration, based on mutual respect, energetic and unrestrained support to create a conducive, positive and vibrant work environment.

BUSINESS AND STAKEHOLDER ORIENTED
To enhance the business friendly environment and to have a closer collaboration and cooperation with stakeholders and international counterparts.

CONTINUOUS LEARNING
To undertake continuous learning and self enhancement, support training roadmaps and contribute towards a knowledge based organisation.

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

Terms and Conditions	Procedure Manual	Audit Review	Enterprise Risk Management	Decision by Committee
IT Based Systems	Corporate Integrity Pledge	Integrity Pact	Whistle Blowing Policy	Gift Policy
Assets Declaration	Secrecy Undertaking	Staff Vetting	Personal Data Protection Act	Awareness Programme

STATEMENT OF CORPORATE GOVERNANCE

Labuan FSA is fully committed to providing an environment that promotes a sound and resilient IBFC and to be accountable and professional. In line with the requirements of the NACP and as part of the ongoing effort to maintain high standards of integrity and to promote a culture of good governance in our business and activities, Labuan FSA developed the Organisation Anti-Corruption Plan (OACP) 2020 – 2022 that provides the strategic direction for establishing an organisation that upholds the highest standards of ethical practices, integrity and anti-corruption principles.

The OACP comprised three priority areas, five identifications of corruption risk assessment, four strategies and 11 initiatives. The vision of the OACP is to make Labuan FSA free from corruption by focusing on three missions - (1) to promote culture on integrity and anti-corruption; (2) to create highly professional and competent workforce; and (3) to formulate and implement policies that embrace best standards and practices. The Anti-Corruption Committee (Jawatankuasa Anti Rasuah or JAR) oversees the implementation of the OACP to ensure the identified initiatives are successfully implemented. The Labuan FSA's OACP is summarised as follows:

MISSIONS

- Promote Culture on Integrity and Anti-Corruption
- Create Highly Professional and Competent Workforce
- Formulate and Implement Policies that Embrace Best Standards and Practices

GOALS

- Minimise Disciplinary Breaches
- Enhance Customer Satisfaction
- Zero Fraud and Corruption

PRIORITY AREAS

- Governance and Administration
- Procurement
- Business, Supervisory and Enforcement

STRATEGIES

- Promote Good Governance and Enhance Transparency and Accountability
- Improve and Streamline Procurement Process
- Strengthen Policies and Actions on Anti-Corruption
- Zero Tolerance Attitude on Fraud and Corruption

STATEMENT OF CORPORATE GOVERNANCE

Labuan FSA continued to create awareness on integrity and governance by undertaking and organising various programmes and activities. The learning journey in understanding integrity is a continuous effort designed to raise staff's level of awareness of the core values of integrity, professionalism and respect. For the year under review, Labuan FSA has successfully organised the following programmes and activities.

<table>
<tr><th>Bulletin/Newsletter</th><th>Awareness Talk</th><th>Integrity Awareness Month</th></tr>
<tr>
<td>Issuance of bulletin for internal circulation and reading on Governance and Integrity as to remind staff that everyone in the organisation has an important role in building the culture of integrity at workplace, in making a conducive environment to work in.</td>
<td>Integrity Programme: Insights on Corporate Integrity System Malaysia by MACC with the objectives to:
Appraise the staff on the Government's initiatives to enhance integrity and anti-corruption within the public services;
Raise awareness on integrity and anti-corruption and promote good governance within Labuan FSA; and
Develop an understanding on the benefits of Corporate Integrity Pledge to the organisation.</td>
<td>Organised Integrity Awareness Month in conjunction with National Integrity Day on 5 November every year which was held from 1 November 2021 – 26 November 2021. The activities include:
<table>
<tr><td>1st Week:
Integrity @ Art – Poster and Slogan Competition</td><td>The objectives of the programme are to inculcate the culture of integrity through art, foster the spirit to get to know more about integrity among Labuan FSA employees and at the same time elevate Labuan FSA employees' creativity.</td></tr>
<tr><td>2nd Week:
Integrity@Waze – Message in Maze</td><td>An interactive approach for better engagement on integrity.</td></tr>
<tr><td>3rd Week:
Integrity@Knowledge Discovery – Crossword</td><td>The objective of this activity is to discover the understanding of Labuan FSA employees about integrity and governance matters.</td></tr>
<tr><td>4th Week:
Closing Integrity Month and Integrity Awareness Talk</td><td>CyberSAFE Awareness Talk:
Excuse Me, Your Privacy is Showing, an insightfull knowledge sharing on Cyber Security, Cyber Bullying and Data Integrity.</td></tr>
</table>
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03 LABUAN IBFC INDUSTRY PERFORMANCE

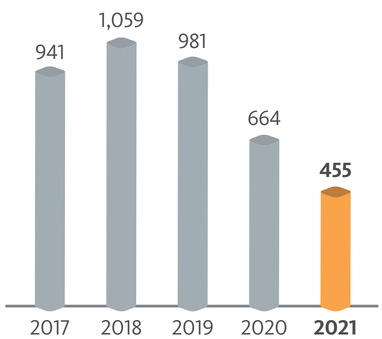
- Companies
- Banking
- Insurance
- Trust Companies
- International Commodity Trading
- Leasing
- Wealth Management
- Digital Market
- Capital Market
- Financial Exchange

COMPANIES

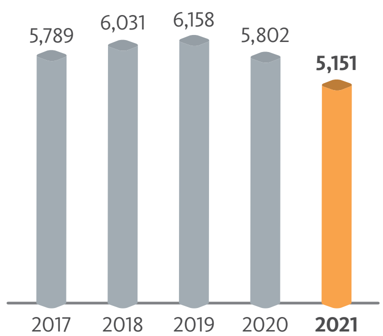
The year 2021 continued to be a challenging year in the aftermath of COVID-19 pandemic impacts on the global economy. Global outlook during the early part was spurred by a combination of factors that include wider access to COVID-19 vaccines, easing of travel restrictions, fiscal policy measures and support as well as release of pent-up demand. Nevertheless, the specter of new pandemic variants, high energy prices, supply-chain pressures as well as geo-political uncertainties cast a restraining chain on the recovery momentum in the latter part of the year. For Labuan IBFC there was the additional uncertainty relating to the transition to comply with economic substance requirements. To a large extent, these factors have impacted Labuan IBFC's market and business vibrancy. However, with the second year of pandemic, the industry has begun to adapt to the new norms and modified their business operating models to ensure their service to clients remained uninterrupted.

Another pertinent development for the Labuan companies was the inclusion of "Other Labuan Trading Entities" into the Labuan Business Activity Tax (Requirements for Labuan Business Activity) Regulations 2021. With these legal enhancements to the Labuan tax regulatory framework, greater fiscal policy certainty is envisaged for both investors and existing Labuan players on the tax incentives that Labuan IBFC offers.

TOTAL NEW INCORPORATIONS



TOTAL OPERATING COMPANIES



- New incorporations declined by 31.5% to 455.
- Total company closures stood at 1,194; that reduced the total operating companies to 5,151.

5,151
Operating Companies

Challenging environment had led to declining growth in new company incorporation for the past three years, thus moderated the total number of operating companies in Labuan IBFC. The declining trend was also attributable to high deregistration of companies.

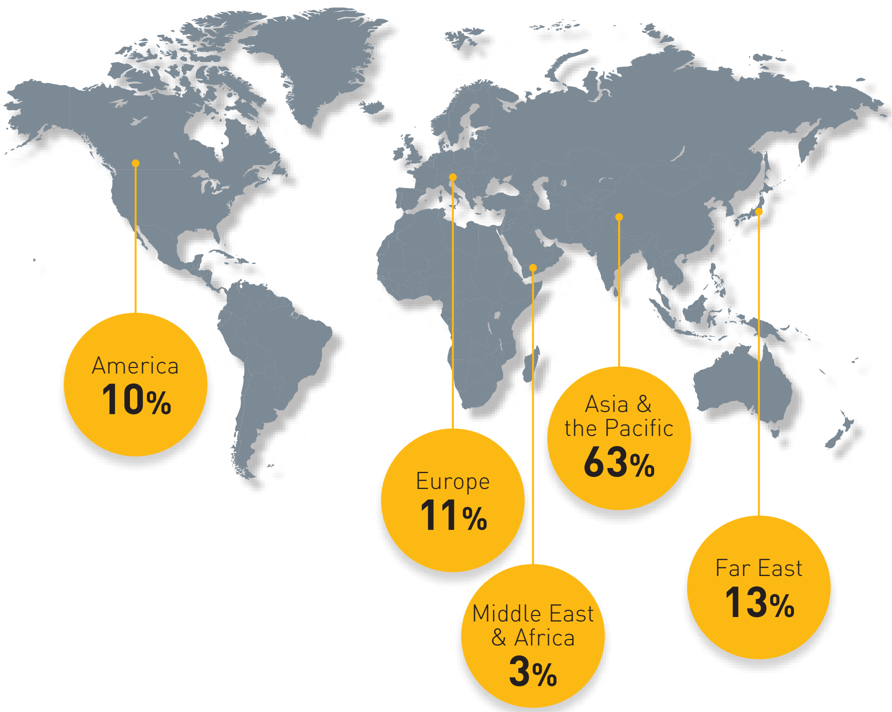
COMPANIES

OPERATING COMPANIES BY TYPES

57%	36%	7%
Trading	Non-Trading	Both

- Labuan companies comprise trading and non-trading entities.
- 2,924 are trading companies of which 889 are financial institutions.
- 1,869 are non-trading companies established for purpose of holding of investments.
- 358 are both trading and non-trading companies.

ORIGIN OF LABUAN COMPANIES FROM 125 COUNTRIES ACROSS 5 REGIONS



Countries	Market Share
Malaysia	45.3%
Singapore	6.3%
Japan	5%
Virgin Islands, British	4.7%
China	3.6%
United Kingdom	3.4%
Hong Kong	2.5%
Australia	2%
India	1.7%
Indonesia	1.7%
Others	23.7%

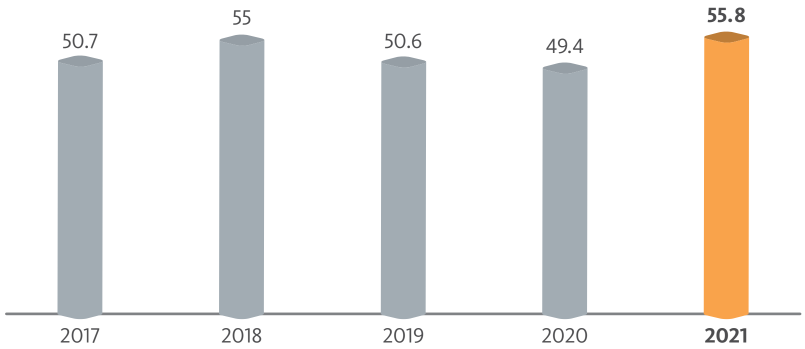
BANKING

The global banking landscape has changed significantly over the last decade in response to heightened regulatory requirements, increasingly sophisticated client expectations, and technological advancements. Of recent, the pandemic has prompted a new wave of innovation and acceleration in digital banking services with more banks ramping up their digitalisation efforts, operational resilience and delivery channels to expand their market reach. These shifts are inevitable and are set to bring about a paradigm shift in international banking as retail clients and businesses grew to rely more on digital finance.

Labuan banks continued to be resilient and financially sound with ample liquidity. As the regional economic recovery sets in, the Labuan banking industry began to show growing vibrancy as reflected from the increased financing and investment activities. Nonetheless, the inherent economic risk in specified financing sectors and certain markets had prompted the Labuan banks to be vigilant in credit risk assessments and to exercise high prudent financing. During the year, the industry's profitability was less impacted by the provisioning as this has been imputed in the banking institutions' financial statements of the prior years. As a result, the profitability of the banking industry achieved a growth of 127.8%.

Growing interest in Labuan banking business is reflected by the approval of 11 new banking institutions in 2021, of which four were approved to undertake digital banking. It is also interesting to note that there has been increasing interest in the Labuan fintech space by non-bank applicants partnering with their conventional financial institutions to offer digital banking. With the increasing number of Labuan digital financial services providers, the Labuan IBFC's banking industry can ride on Asia's financial inclusion by tapping on the growing demands by underserved and unserved market segments across the region.

TOTAL ASSETS
(in USD Billion)



BANK

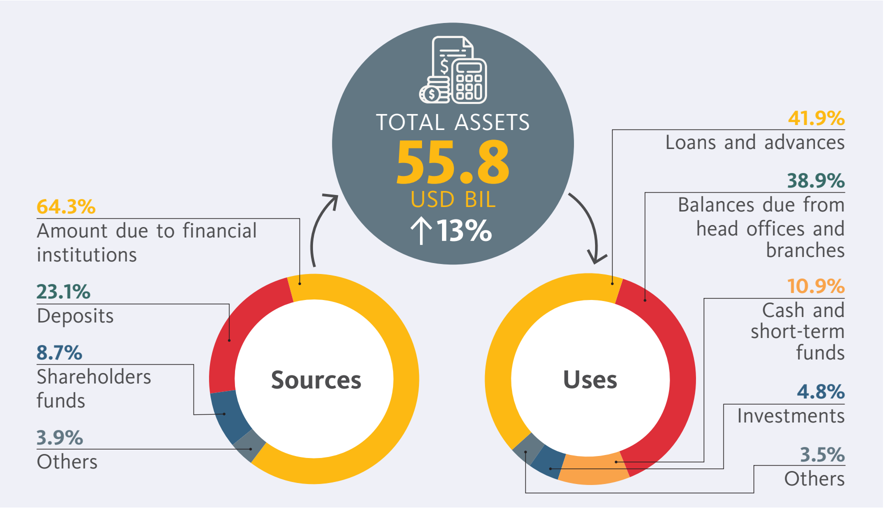
67

Number of Banks

37 Commercial Banks
30 Investment Banks

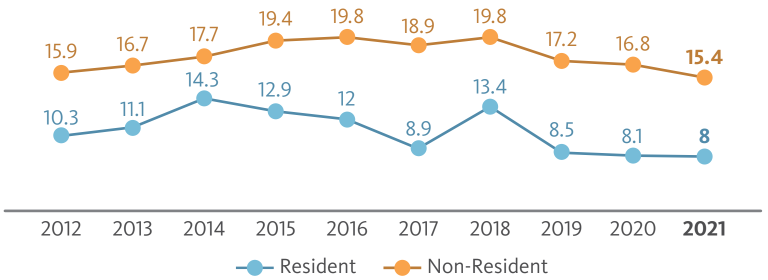
The banking industry grew further with 11 new banking institutions which comprised nine investment banks and two commercial banks of which four with digital capability. Five banks surrendered their licences.

BANKING

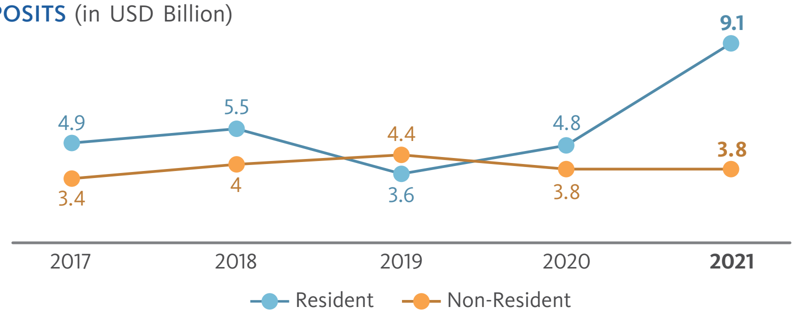


- Total assets remained strong with 13% growth to USD55.8 billion – the highest growth for the past five years due to higher interbank placements.
- Borrowings from the head offices and financial institutions remained as the main sources of funds for Labuan banks. This amounted to USD35.9 billion (2020: USD34.2 billion), increased by 4.8% from the previous year.
- The persistent COVID-19 situation has caused the Labuan banks to continue exercising higher prudency and hold adequate liquid asset. This reflected an increase in cash and short-term funds by 18.9% to USD6 billion.

LOANS (in USD Billion)



DEPOSITS (in USD Billion)



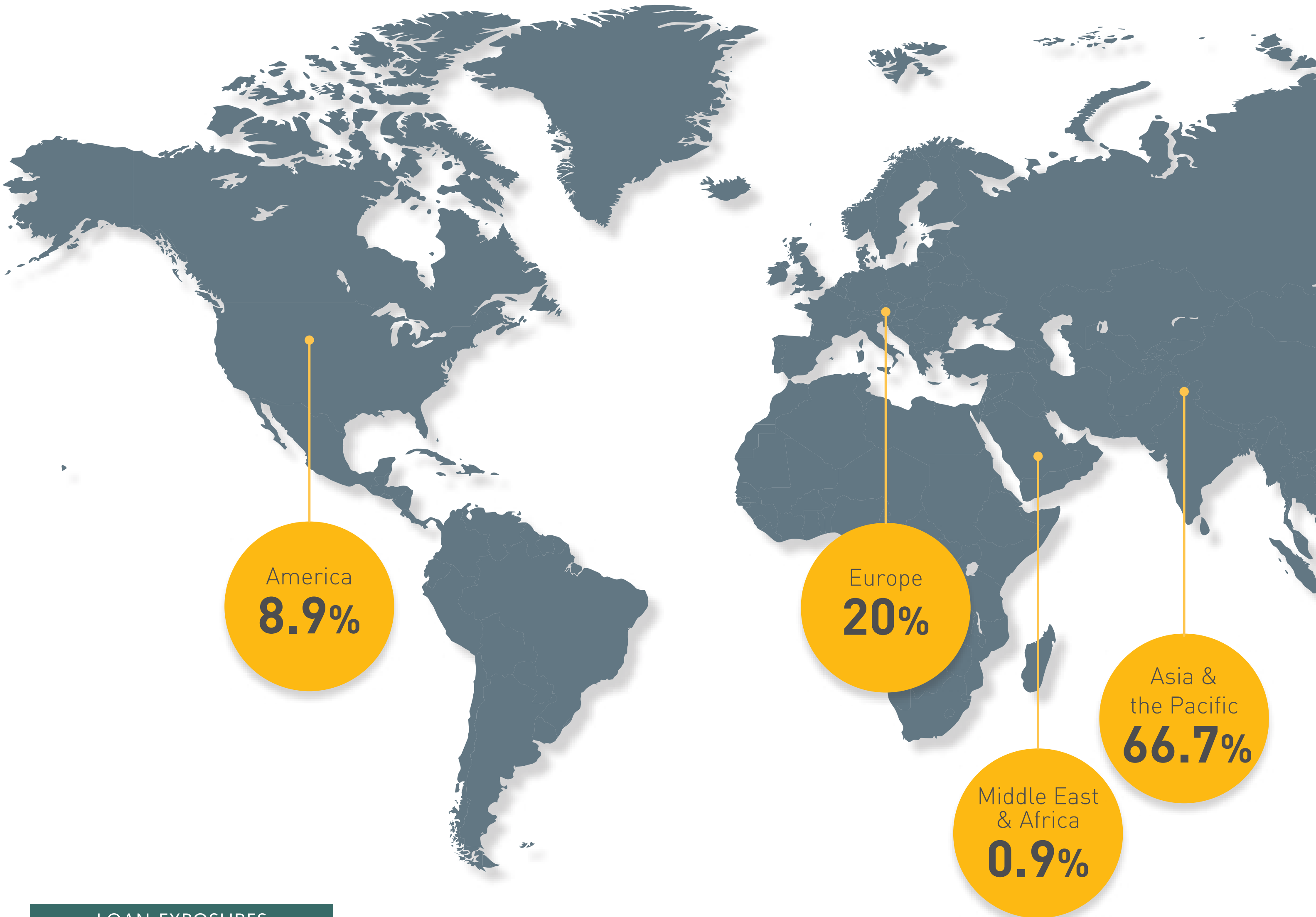
- The total loan portfolios contracted by 6.3% to USD23.4 billion of which the majority were non-resident borrowings which contributed 65.7% (USD15.4 billion) of the total portfolios.
- The total customer deposits increased by 50.4% to USD12.9 billion mainly due to increase in resident deposits. This constituted 70.3% of the industry's total deposits.

BANKING

LOAN PORTFOLIOS

ORIGIN OF BORROWERS

BY REGION (In %)



LOAN EXPOSURES

BY REGION (In %)

Asia & the Pacific

73.9%

Main Sectors
- Manufacturing
- Transportation and Storage
- Financing, Insurance and Business Services

Europe

16.2%

Main Sectors
- Real Estate
- Financing, Insurance and Business Services
- Construction of Buildings

Far East

4.7%

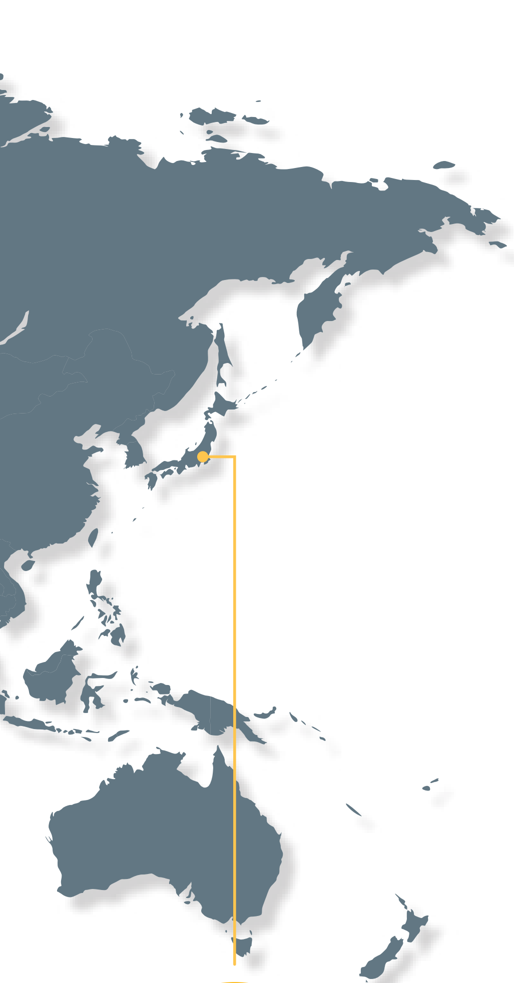
Main Sectors
- Transportation and Storage
- Real Estate
- Other Services

America

4%

Main Sectors
- Wholesale and Retail Trade and Restaurants and Hotels
- Financing, Insurance and Business Services
- Transportation and Storage

BANKING



Far East
3.4%

Middle East & Africa
1.3%

Main Sectors
- Mining and Quarrying
- Electricity, Gas and Water
- Property

BY SECTOR (In %)

Manufacturing
22.2%

Utilities
8.8%

Property
16.7%

Mining
6%

Miscellaneous
15.6%

Primary Agriculture
3.9%

Financial Services
11.3%

Trading
3.4%

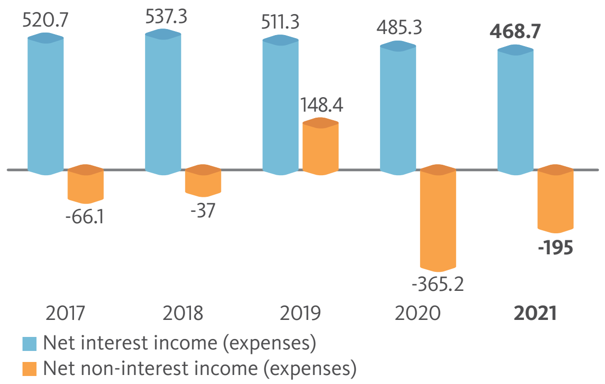
Transport and Communication
10.1%

Other Services
2%

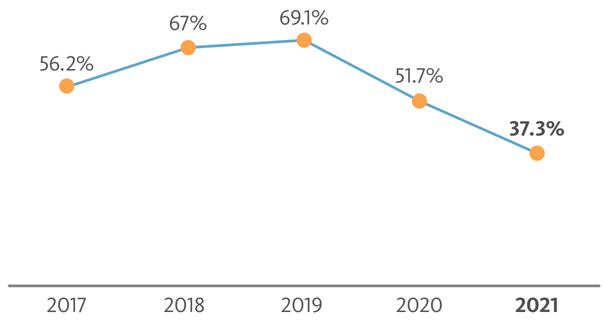
- Financing to all major sectors declined except for Financial Services sector which grew by 7% mainly due to higher resident financing.

BANKING

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



INTEREST EXPENSES TO INTEREST INCOME RATIO
(In %)



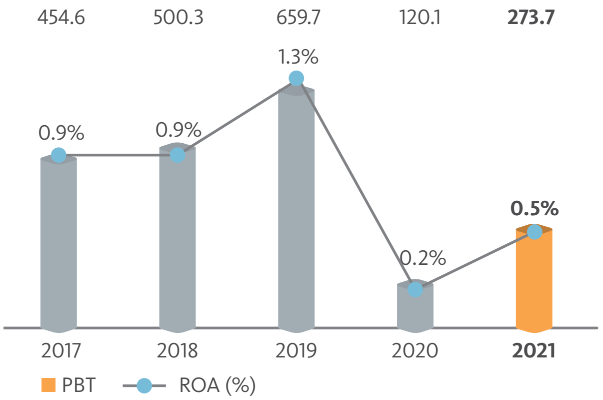
NON-INTEREST INCOME (In USD Million)

Market Share	Description	Amount	Growth
100%	**Total Non-Interest Income**	642.7	17.2%
43.1%	Impairment Reversals	276.9	401.2%
34.2%	Gains on Financial Instruments	219.6	-7.4%
14.7%	Fee and Commission Income	94.5	0.9%
7.9%	Others	51.1	-68.4%
0.1%	Dividend Income	0.7	110.5%

NON-INTEREST EXPENSES (In USD Million)

Market Share	Description	Amount	Growth
100%	**Total Non-Interest Expenses**	837.7	-8.3%
36.9%	Losses on Financial Instrument	309.5	-24.2%
35.1%	Impairment Losses	294.2	-11.6%
15.4%	Others	128.7	159.7%
8%	Administration Costs	66.9	-4.8%
4.6%	External Services Arrangement Costs	38.3	-26.7%

PROFITABILITY (In USD Million)



- The banking industry's profitability improved to USD273.7 million – a growth of 127.8% mainly contributed by non-interest income and impairment write-back.
- The net interest income remained low at USD468.7 million due to financing contractions.

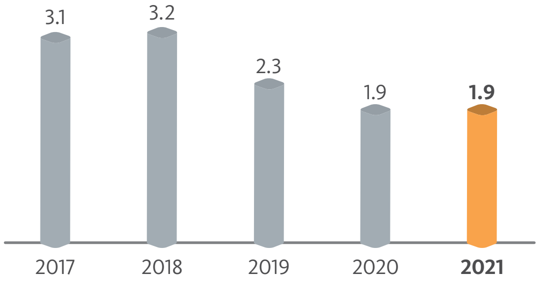
ISLAMIC BANKING

NUMBER OF OPERATORS

TOTAL **18**

- WINDOW OPERATOR **15**
- FULL-FLEDGED COMMERCIAL BANK **2**
- FULL-FLEDGED INVESTMENT BANK **1**

TOTAL ISLAMIC ASSETS (In USD Billion)



- The Islamic banking assets remained stable at the USD1.9 billion mark.

FINANCINGS

TOTAL **1,683.9** USD MIL ↑8.8%

- RESIDENT **45.4%** 763.9 USD MIL
- NON-RESIDENT **54.6%** 919.9 USD MIL

DEPOSITS

TOTAL **138.7** USD MIL ↓24.2%

- RESIDENT **2.8%** 3.8 USD MIL
- NON-RESIDENT **97.2%** 134.9 USD MIL

- The total Islamic bank financing increased by 8.8% to USD1.7 billion (2020: USD1.5 billion) with more than half contributed by non-resident borrowings (54.6%). The industry's growth was mainly due to higher resident borrowings of USD763.9 million (2020: USD574.8 million).
- The total Islamic deposits decreased by 24.2% to USD138.7 million with non-resident deposits contributing 97.2% of the total.

EMPLOYEE COMPOSITION

566 TOTAL EMPLOYEES

- MALAYSIANS **89.4%** **506** EMPLOYEES
- FOREIGNERS **10.6%** **60** EMPLOYEES

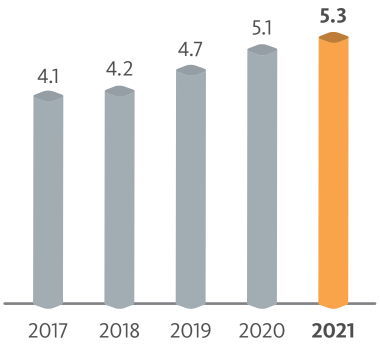
- The banking industry employment recorded a growth of 11.6% to 566 employees which comprised mainly Malaysians.

INSURANCE

In common with other sectors, the global insurance industry continued to face the direct and indirect consequences of COVID-19 on the everyday life, health, economy activities and the financial market in 2021. This had led to moderated premium growth and inflated claims trend which consequently impacted the profitability of global insurance industry. In response, hardening of market's premium was imminent as insurers opted for a more conservative underwriting appetite to ensure their financial position remained sound. On the Labuan insurance front, the Labuan insurance industry remained resilient and showed a moderate growth performance amidst the hardening market and low interest rate environment. As Asia markets are on a recovery path and with the increasingly easing of movement restrictions, the insurance market outlook appears favourable.

Labuan IBFC remained as an attractive insurance domicile hub in 2021, with an influx of new insurance and insurance-related entities as well as higher premiums underwritten by the industry. Twenty-one new licences were approved, which further expanded to the multi-national diversity of Labuan insurance market. This positive market growth provides additional capacity for the Centre to meet the region's and Labuan Island's growing (re)insurance needs.

TOTAL ASSETS (In USD Billion)



- Total assets grew by 4.3% to USD5.3 billion which was mainly attributable to financial investments.
- Investment is the largest portion of total assets components, representing 21.3% or USD1.1 billion.

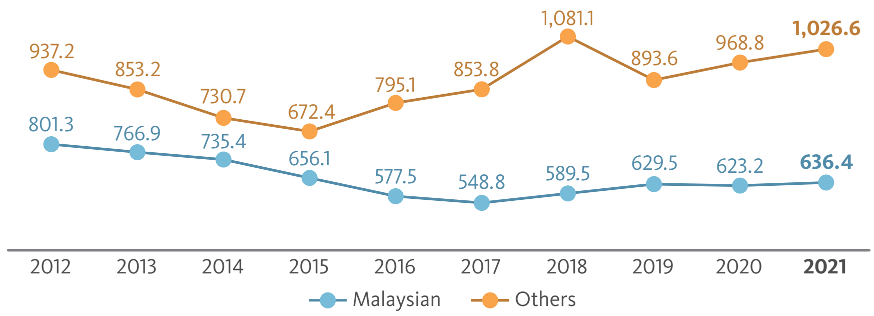
229
NUMBER OF ENTITIES

126 Insurers
103 Intermediaries

The insurance industry grew with 21 new insurance and insurance-related entities comprising four general (re) insurers, 13 captives and four brokers. Thirteen entities surrendered or revoked their licences in 2021.

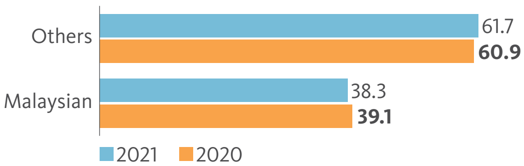
INSURANCE

TOTAL GROSS PREMIUMS (In USD Million)



- Total gross premiums underwritten increased by 4.5% to USD1.7 billion, mainly contributed by captive business.

DISTRIBUTION OF GROSS PREMIUMS (In %)



- Foreign business contributed a higher share of 61.7% (USD1 billion).
- Malaysian business was stable at 38.3% (USD0.6 billion).

By Region

ASIA AND THE PACIFIC **71.5%** USD**1,189.6** MIL	FAR EAST **16.5%** USD**273.8** MIL	MIDDLE EAST AND AFRICA **4.4%** USD**72.9** MIL
	EUROPE **6.2%** USD**102.8** MIL	AMERICA **1.4%** USD**23.8** MIL

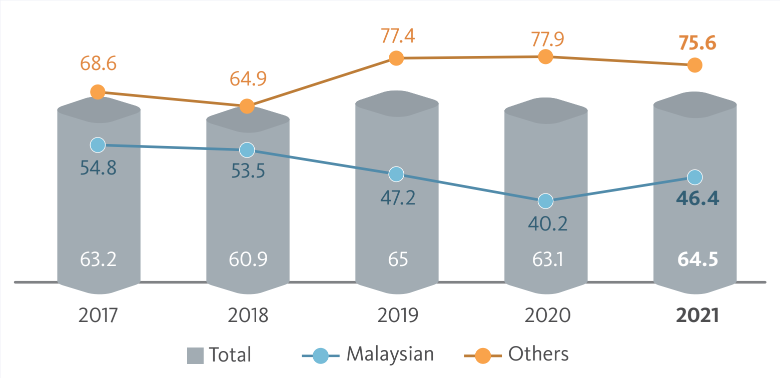
By Sector

FIRE **33.9%** USD**564.1** MIL	ENGINEERING **12.9%** USD**213.9** MIL	MARINE **7.2%** USD**120.1** MIL
	MOTOR **5.6%** USD**93.6** MIL	OTHER CLASSES **40.4%** USD**671.2** MIL

- Fire sector remained the largest segment contributor of 33.9% (USD564.1 million) of the total premiums underwritten. (2020: 34.1%, USD564.1 million)
- The Other Classes sector showed the highest premium growth mainly attributable to general liability insurance which recorded 15.6% growth.

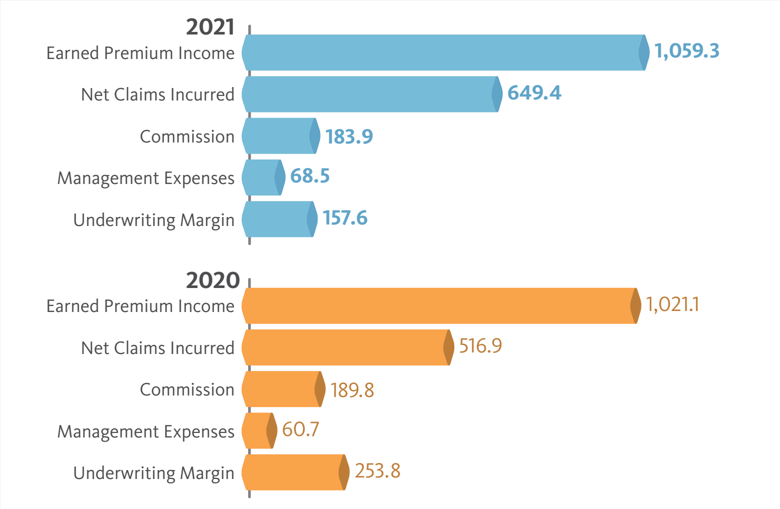
INSURANCE

NET RETENTION RATIO (In %)



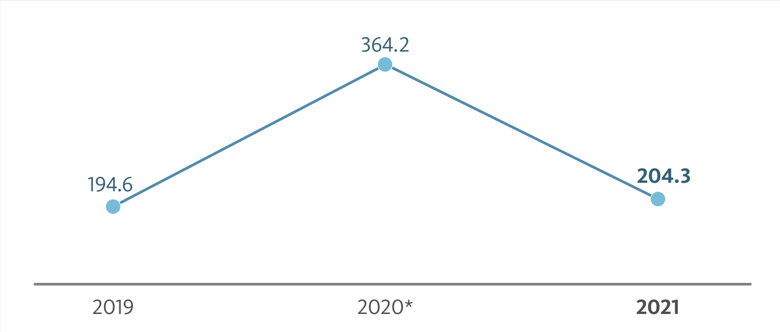
- The overall industry retention level had increased to 64.5% due to higher retention in the motor sector (at 95.6%).

UNDERWRITING MARGIN (In USD Million)



- The industry's underwriting performance slightly moderated despite the earned premium income growth of 3.7% (USD1,059.3 million). The lower underwriting margin of USD157.6 million was recorded due to higher claim experience particularly for fire business.

PROFITABILITY (In USD Million)

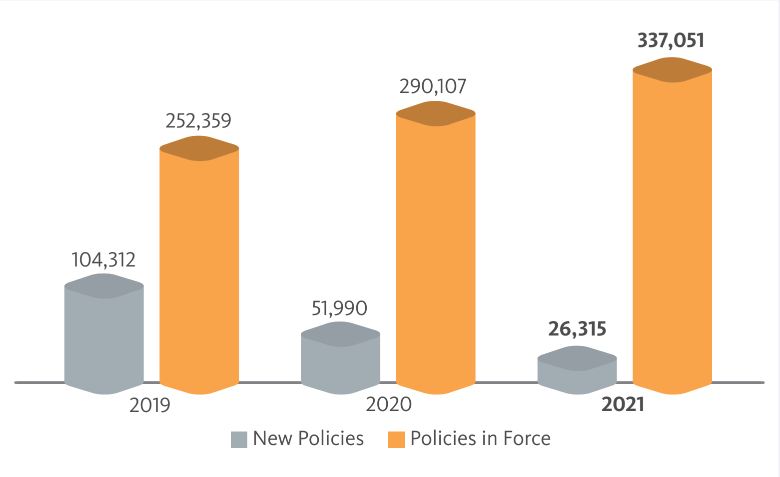


* *Restated*

- Net claims incurred recorded an increase of 25.6% and consequently, the profit before tax declined by 43.9% to USD204.3 million.
- The higher claim experience was due to flood losses in Malaysia during the year.

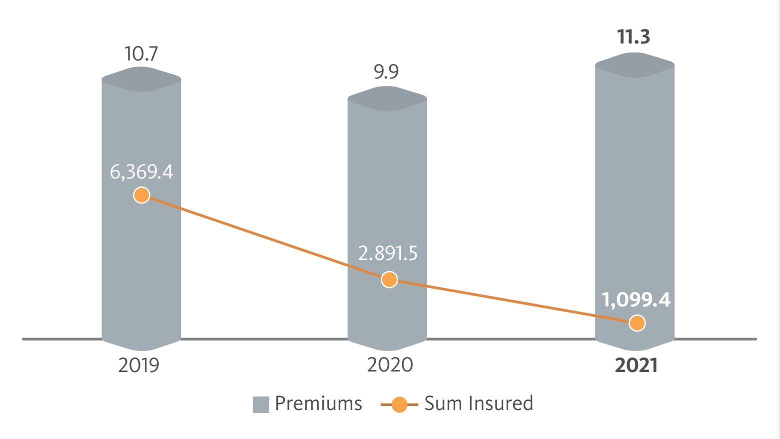
LIFE INSURANCE BUSINESS

NUMBER OF INVESTMENT-LINKED POLICIES



- The total number of policies-in-force expanded by 16.2% (337,051 policies).

PREMIUM AND SUM INSURED NEW INVESTMENT-LINKED POLICIES (In USD Million)

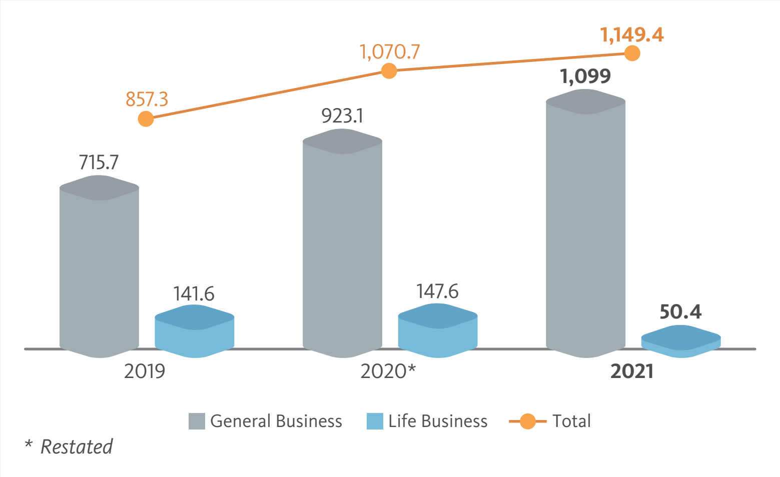


- A total of 26,315 new investment-linked policies were issued with a total of USD11.3 million worth of premiums.

INSURANCE

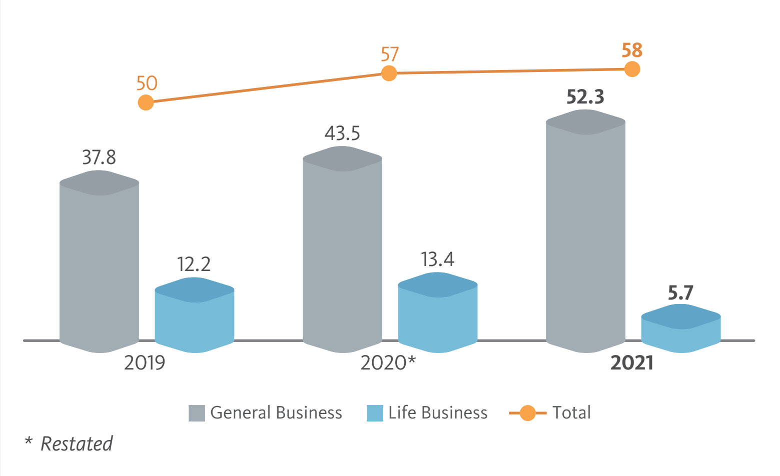
INSURANCE BROKING BUSINESS

PREMIUMS PLACEMENT (In USD Million)



- In 2021, total premium placements by Labuan brokers increased by 7.4% (USD1.1 billion) of which almost all were general insurance broking business.
- General premium placements were mainly derived from international insurance business.

BROKERAGE FEES EARNED (In USD Million)



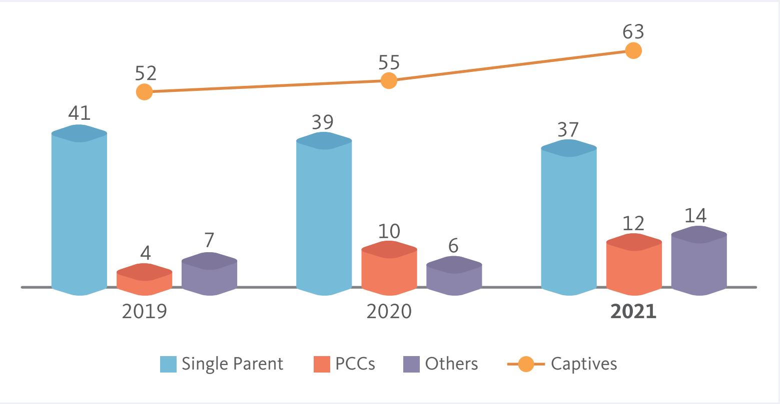
- The brokerage fees earned increased slightly by 1.9% (USD58 million).

CAPTIVE BUSINESS

The hardening market coupled with more cautious commercial underwriting by global (re)insurers heightened by the post-pandemic economic landscape, has prompted more businesses to opt for self-insurance solutions as alternative covers. This bodes well for Labuan IBFC as Labuan captive offerings comprise multitude structures for risk owners. These include mutual and association captives, rent-a-captives as well as Protected Cell Companies[1] (PCC) – the latter of which is a flagship solution for Labuan IBFC as it is the only jurisdiction within Asia that offers such corporate structure. These captives can be used for either conventional self-insurance coverage or Shariah-compliant takaful underwriting as preferred by the risk owners.

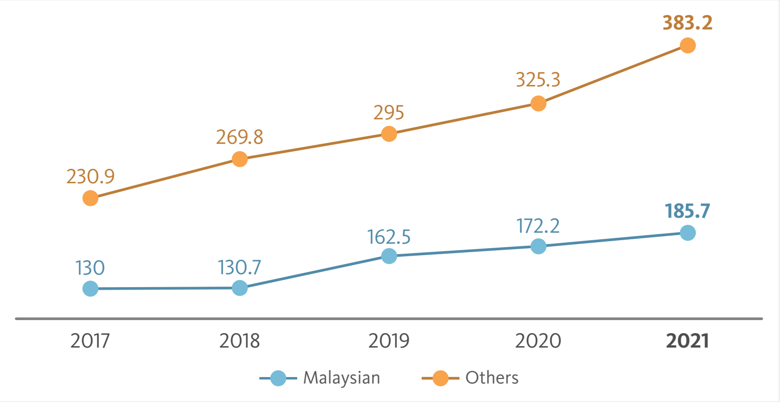
Riding on the back of higher premiums from market hardening effects, Labuan captives continued its growth momentum. Labuan IBFC plays host to 63 captives, with premium volume of more than half a billion (USD568.9 million) which contributed 33.5% of the insurance industry premiums. More than 65% of the premiums were generated from the international insurance business. These indicators clearly reflect Labuan IBFC's increasing prominence as the captive market of choice for Asia.

NUMBER OF CAPTIVES



- Progressive positive trend in new captives formation reflected in the past three years.

TOTAL GROSS PREMIUMS (In USD Million)



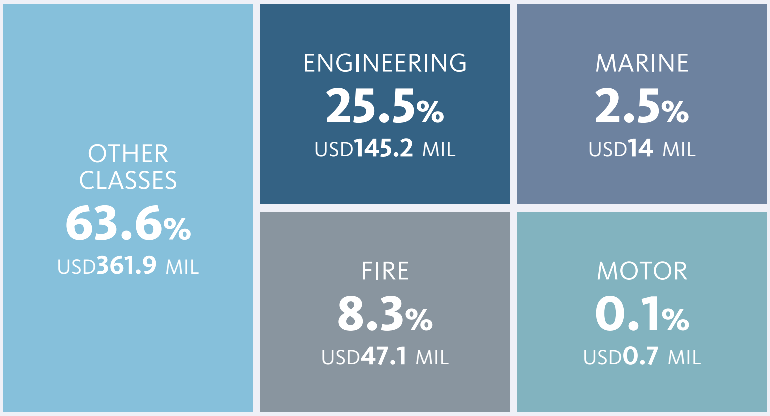
- Continued increasing trend in captive premium volume.
- The total gross premiums for captive business increased by 14.3% to USD568.9 million.
- The captive premiums were mainly generated from international insurance business with 67.4% share.

[1] *PCC is a single legal entity that has the ability to create multiple cells and provides them the ability to take on differentiated assets and liabilities, while allowing each cell to operate independently. Each respective cell is ring-fenced, protected from the debts and liabilities of other cells.*

INSURANCE

CAPTIVE BUSINESS

DISTRIBUTION OF GROSS PREMIUMS



- In terms of business composition, other classes of business, particularly for general liability sector continued to drive captive premiums at USD179.8 million. (2020: USD159.1 million)

International Domicile
Labuan IBFC

LABUAN CAPTIVE'S REACH IS NOW MORE GLOBAL

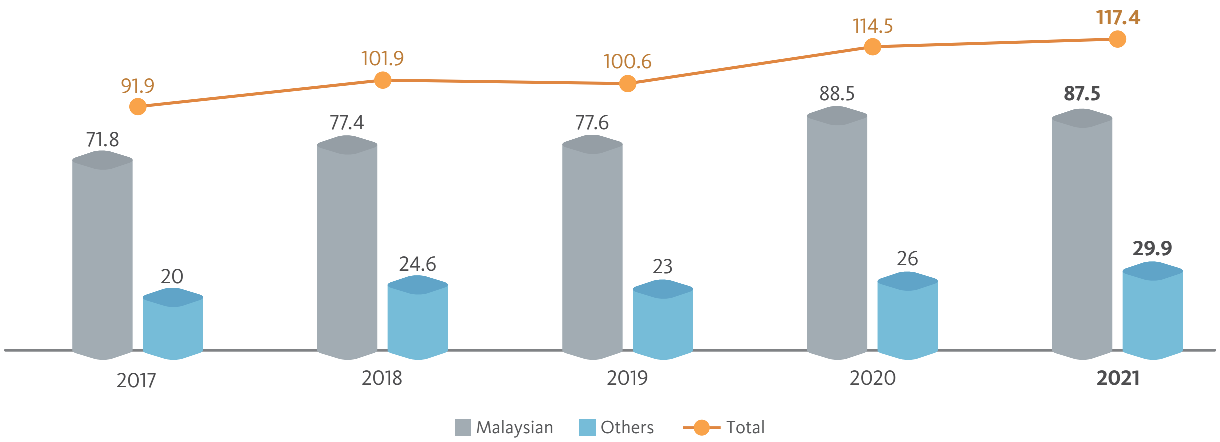
In 2021, Labuan IBFC was awarded the Best International Captive Domicile at the European Captive Review Awards. Labuan IBFC has also won the best Asian Domicile award at the APAC Captive Review Awards 2021, for the third year running. These awards are a testament to Labuan IBFC as a progressively expanding and well-regulated captive market.

Asian Domicile
Labuan IBFC

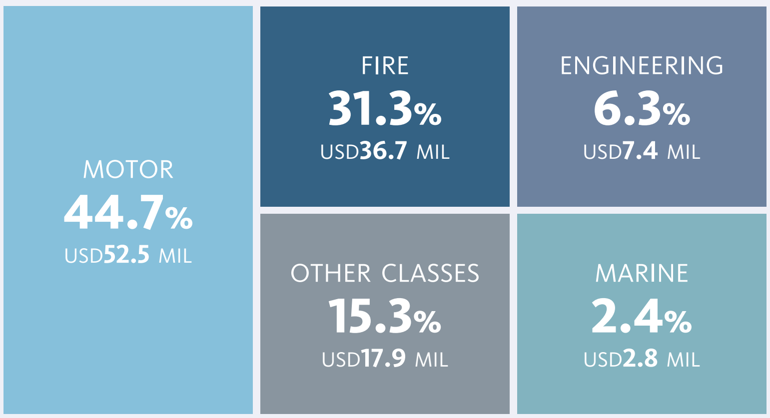
INSURANCE

(RE)TAKAFUL BUSINESS

TOTAL GROSS CONTRIBUTIONS (In USD Million)



DISTRIBUTION OF GROSS CONTRIBUTIONS



- The total gross contributions for general (re)takaful sector recorded a slight increase of 2.5% to USD117.4 million. Motor sector continued to be the largest contribution sector amounting to 44.7% (USD52.5 million) of the total. (2020: USD66.7 million)

EMPLOYEE COMPOSITION

1,173 TOTAL EMPLOYEES

MALAYSIANS **84.1%** **986** EMPLOYEES

FOREIGNERS **15.9%** **187** EMPLOYEES

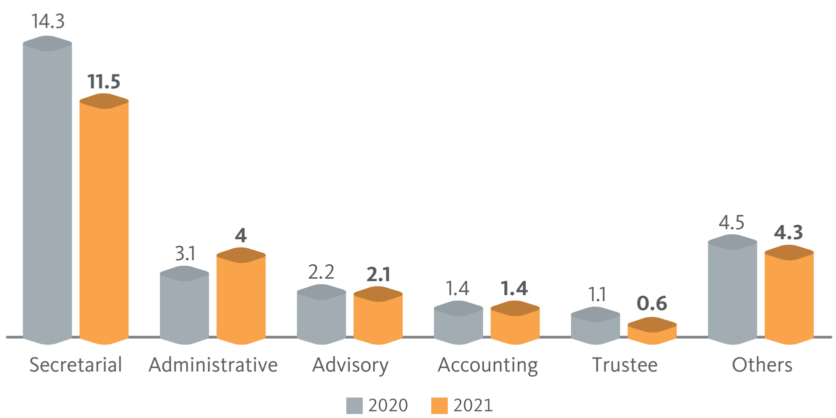
- The insurance and insurance-related industry employment recorded an increase of 5.5% to 1,173 employees which comprised mainly Malaysians.

TRUST COMPANIES

The ever-evolving global regulatory landscape remained challenging and has a significant impact on the Labuan trust companies (LTCs) in managing their clients. Trust and corporate services had historically grown and focused mainly on new company incorporation and registration. Similar to the development in the global and regional market, some LTCs had resorted to business rationalisation including consolidation as a means of retaining competitive advantage and effecting better cost management.

In 2021, the business operations of LTCs continued to be impacted by the uncertainties in the global economic conditions due to COVID-19 as well as the changes to the Labuan tax framework. In tandem with the lower company incorporations, profitability of the industry had moderated. In response, Labuan FSA continued with its efforts to adapt to the new norm which included improving its registry system with the enhanced company search services; as well as continuing on providing regulatory reliefs during the year that were initially accorded in 2020 to ease operational burden of the LTCs.

SOURCE OF INCOME (In USD Million)



67

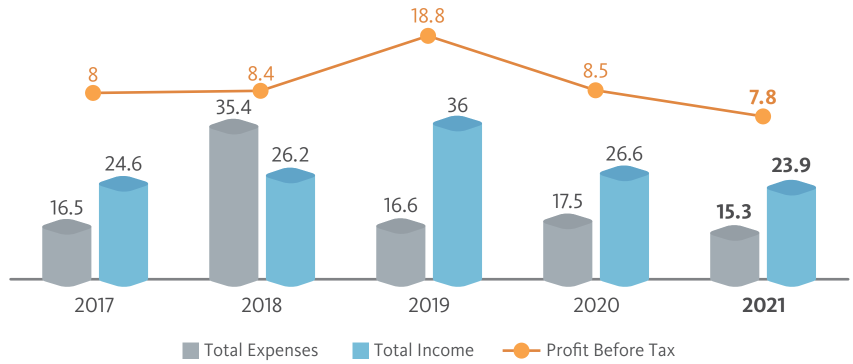
NUMBER OF TRUST COMPANIES

39 Full-Fledged
24 Managed Trust
4 Private Trust

In 2021, six new Labuan trust companies were approved which comprised one full-fledged trust company and five managed trust companies. Five LTCs licences surrendered, revoked or approval deemed null and void.

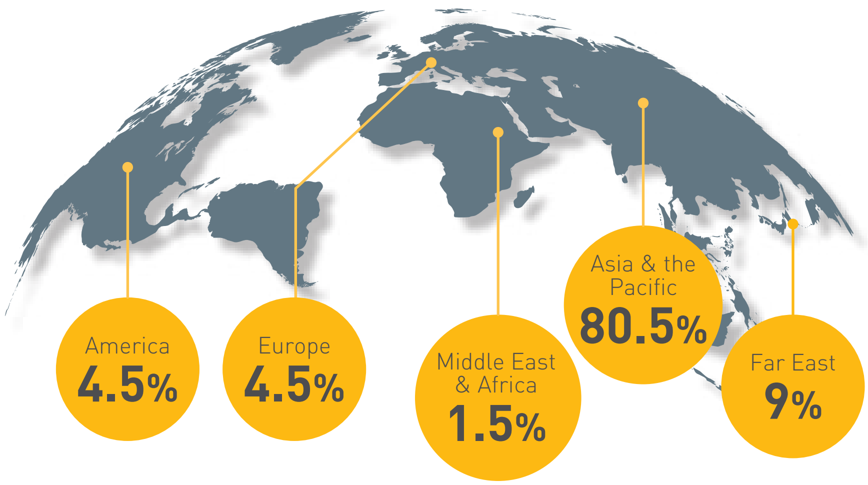
TRUST COMPANIES

PROFITABILITY (In USD Million)



- The number of LTCs increased by 1.5% to 67 with six new LTCs approved.
- Total income declined by 10.2% to USD23.9 million and profitability moderated slightly to USD7.8 million.

THE ORIGIN OF TRUST COMPANIES (In %)



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

EMPLOYEE COMPOSITION

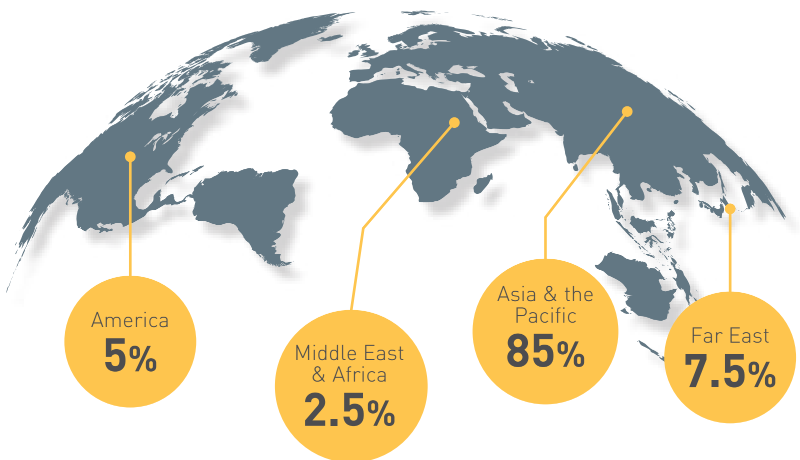
471 TOTAL EMPLOYEES	MALAYSIANS 97.7% 460 EMPLOYEES	FOREIGNERS 2.3% 11 EMPLOYEES

- The LTCs workforce consisted of 471 employees that comprised:
  - 92 Trust officers
  - 379 Senior management and supporting staff

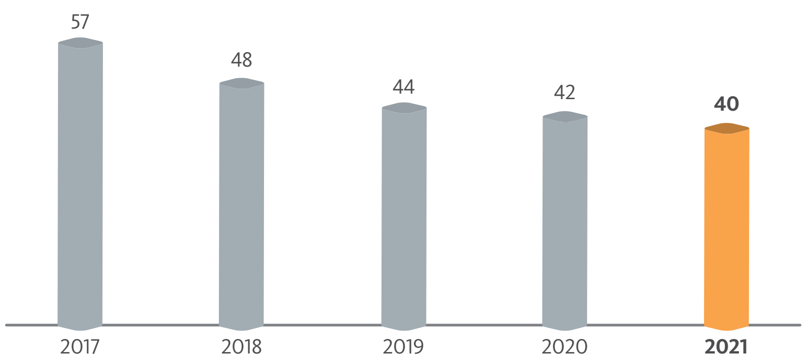
INTERNATIONAL COMMODITY TRADING

The international commodity trading business started the year on a more positive note. The global oil and gas market had rebounded and stood on a better footing in tandem with Asia's economic recovery phase. The Labuan international commodity trading business has grown riding on the positive trend of the global oil market. As a result, the industry's profitability jumped to USD3.5 billion for 2021 – a remarkable rebound from the USD1.6 billion losses recorded in 2020.

THE ORIGIN OF LITCs (In %)



NUMBER OF LITCs



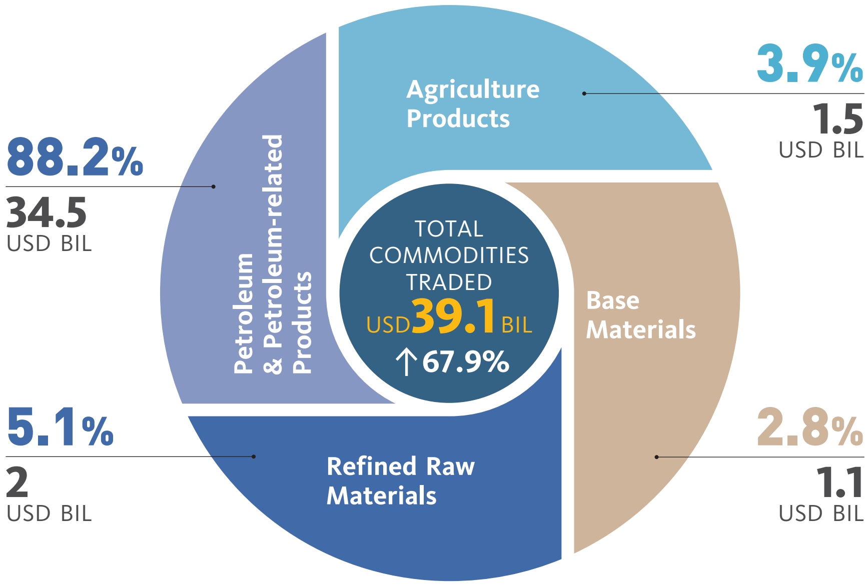
- Majority of the Labuan International Commodity Trading Companies (LITCs) hailed from Asia and the Pacific region, mainly from Malaysia and Singapore.

40
NUMBER OF COMPANIES

In 2021, four LITCs were approved and seven surrendered or revoked.

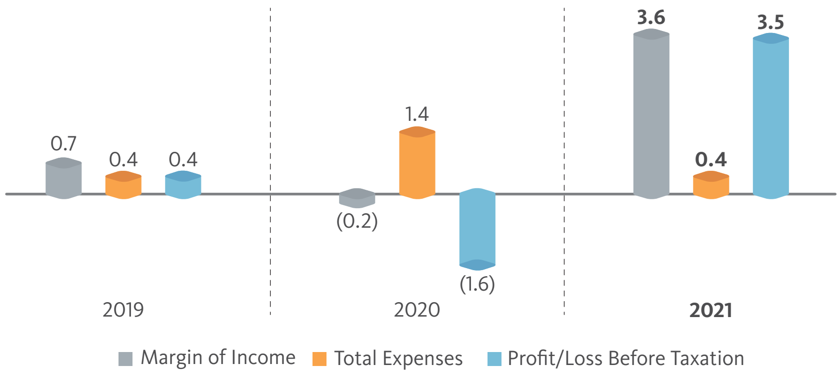
INTERNATIONAL COMMODITY TRADING

COMMODITIES TRADED BY TYPES



- Total commodities traded grew by 67.9% to USD39.1 billion.
- Petroleum and petroleum-related products contributed 88.2% of the total commodities traded.

PROFITABILITY (In USD Billion)

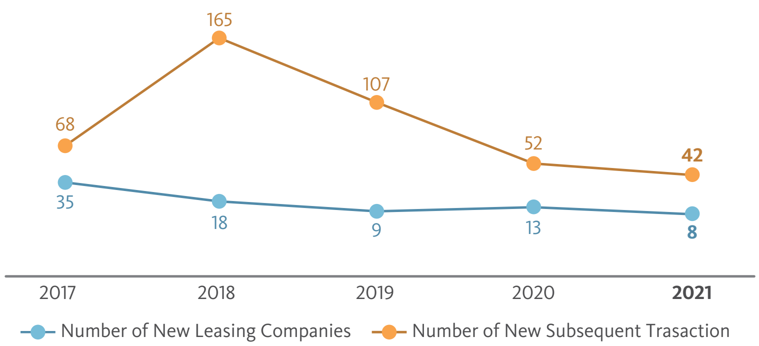


- In 2021, the industry recorded an increase of USD3.5 billion in profit, attributable to oil market optimism and reversal of past impairments.

LEASING

The slower global economic activities in the preceding years remained a challenge for international leasing market. The aviation leasing sector continued to be impacted by the global movement and travel restrictions albeit on a lesser intensity as markets became more liberal and opened up their borders. Similar to other financial sectors, the Labuan leasing companies continued to restructure and rationalise during the year in order to acclimatise to the transitioning business environment. Notwithstanding this, the business prospects of the aviation leasing market remained optimistic as travel and tourism activities resumed in late 2021. In relation to petroleum-related leasing activities, it experienced a boost following the positive business momentum in the global crude oil price performance as well as subsiding pandemic effects. This emerging trend is expected to spur on Labuan leasing activities.

NUMBER OF NEW APPROVALS AND SUBSEQUENT TRANSACTIONS



- Majority of the new and subsequent leasing transactions were approved for petroleum-related sector.

253

NUMBER OF COMPANIES

182 Petroleum-Related
58 Aviation
13 Others

Eight new leasing companies were approved comprising five petroleum-related leasing companies whilst the remainder comprised leasing for the aviation sector. Twenty-one leasing companies ceased operations.

TOTAL NEW ASSETS LEASED IN 2021

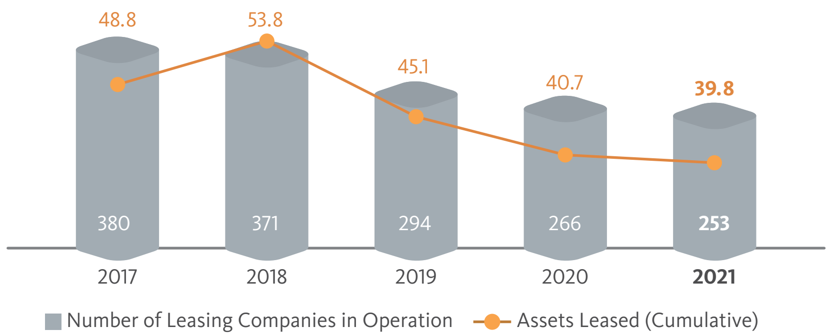
AVIATION
63.4%
585
USD MIL

PETROLEUM-RELATED
34.3%
316.6
USD MIL

OTHERS
2.2%
20.73
USD MIL

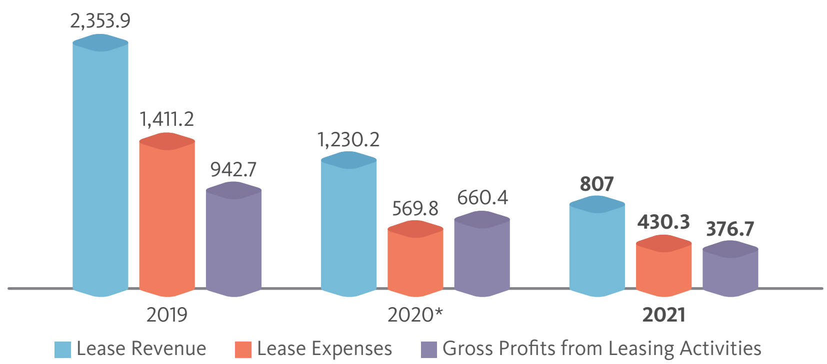
LEASING

TOTAL ASSET LEASED (In USD Billion)



- Total leased assets for the industry declined 2.1% to USD39.8 billion.
- Petroleum-related sector contributed 57.7% of the total assets leased whilst the remainder comprised of aviation sector and other sectors.

PROFITABILITY (In USD Million)



* *Restated*

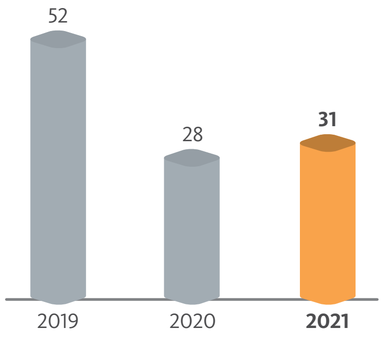
- Numerous operational challenges were faced by the leasing companies that had affected their business performance.
- The gross profits of the industry recorded a decline to USD376.7 million.

WEALTH MANAGEMENT

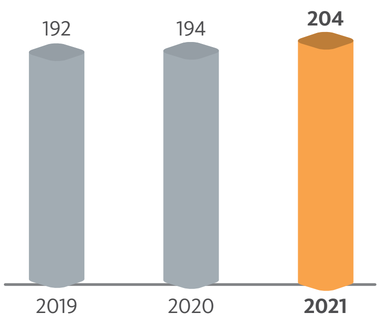
The comprehensive ecosystem of Labuan IBFC which includes clear legislation and facilitative requirements, continued to be conducive for wealth management particularly for high-net-worth individuals. Labuan IBFC's legal framework that covers both common law and civil law based solutions offer prospects with the comprehensive choice in selecting the appropriate instruments for their estate planning appetite. Furthermore, with the dual-financial system, prospects can also opt for either conventional or Shariah-compliant structures based on their personal preferences.

FOUNDATION

NEW REGISTRATIONS



TOTAL FOUNDATIONS

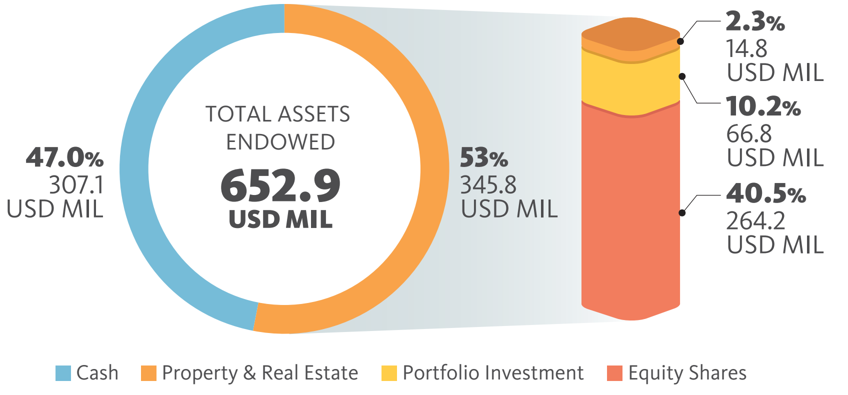


- New foundation registrations increased by 10.7% to 31.
- In 2021, there were 204 foundations in operation. Of the total, 174 are non-charitable foundations.
- Five were Shariah-compliant foundations.

WEALTH MANAGEMENT

FOUNDATION

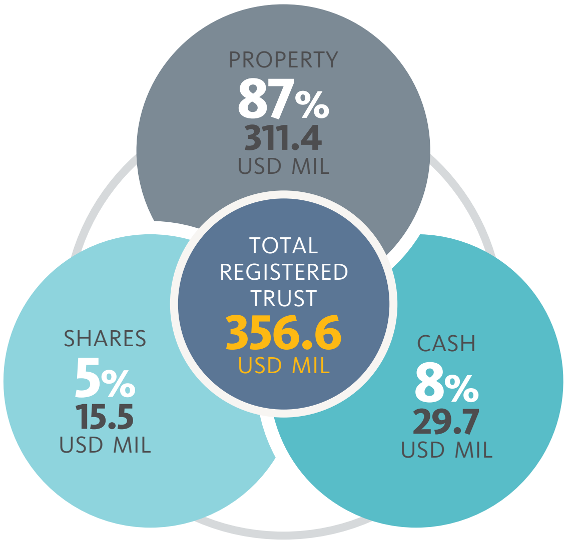
TOTAL ASSETS ENDOWMENT



- Total assets endowed amounted to USD652.9 million, and majority were in non-cash assets.
- In this regard, 76% of the total non-cash assets totalling USD345.8 million were in the form of equity investments. The remainder were mainly investments in properties.

TRUST

REGISTERED TRUST



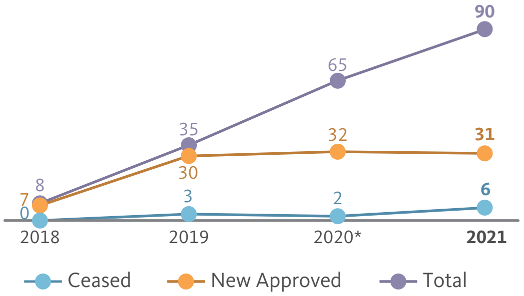
- For 2021, Labuan registered trusts stood at 16 comprising three private beneficiary trusts, nine purpose trusts, three charitable trusts and one protective trust.
- Total assets under management were mainly in properties and real estates.

DIGITAL MARKET

The techno-advancements proved to be a game changer for Labuan IBFC when it opened up the market for digital financial services (DFS) in 2017. Now, after more than five years the Centre offers various licences to undertake different forms of DFS undertakings – from simple e-trading platforms for digital currencies and robo-advisors; to more complex digital banking, insurtech, tokenisation and digital asset exchanges. Indeed, the Digital Labuan phase has set in; enabling upscaled, unique and innovative DFS solutions to be offered by the Centre to meet Asia's demands.

The Labuan digital business model meets international standards of prudential and AML/CFT requirements as the Centre uses the existing suite of business licences to house the DFS business proposal. Conformity to international requirements on exchange of tax information and currency-neutrality further adds to the appeal of Labuan IBFC as Asia's growing digital hub. To-date the Labuan DFS market has grown in size, with 90 DFS licensees. Going forward, the Centre intends to merge the Labuan Islamic finance solutions with DFS for greater business synergy, particularly in promoting greater financial inclusion within the region.

TOTAL NUMBER OF DFS PROVIDERS



* *Restated*

- In 2021, the DFS had grown significantly by 38.5% to 90, with 31 new approvals.

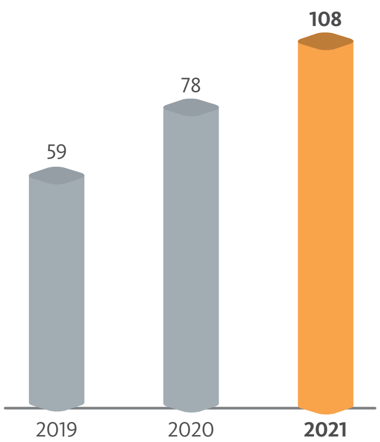
DIGITAL FINANCIAL SERVICES PROVIDERS

- Majority of the DFS providers were licensed to operate digital asset platform, token issuance and e-payment system.

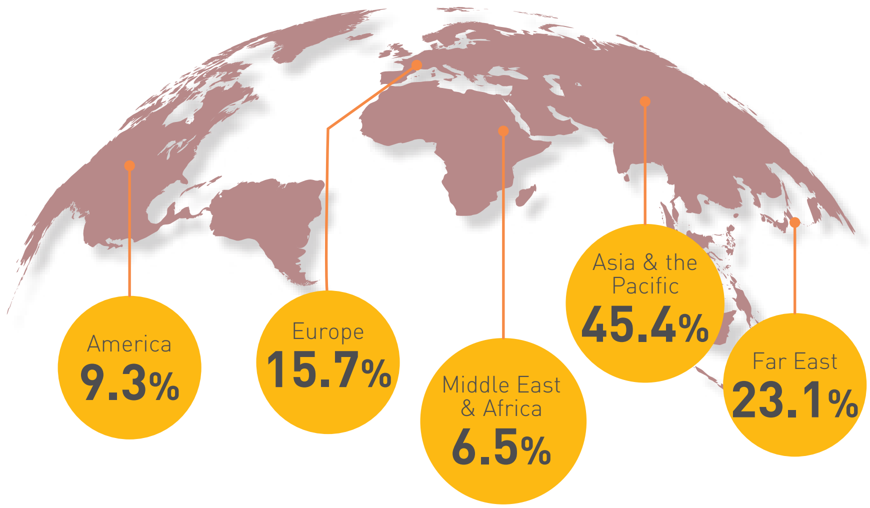
DIGITAL MARKET

MONEY BROKER

NUMBER OF MONEY BROKERS

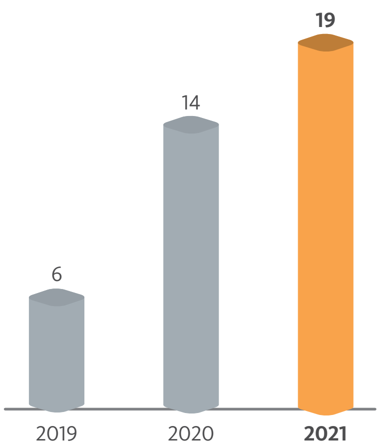


THE ORIGIN OF MONEY BROKERS (In %)



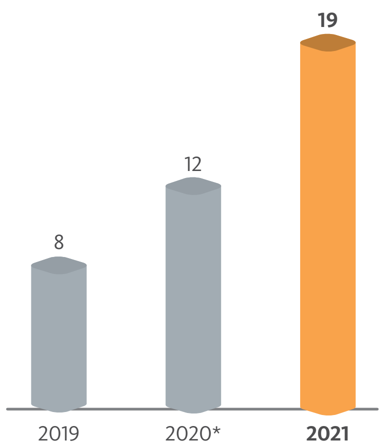
- In the year 2021, 35 new money brokers were approved bringing the total to 108. These new players mainly operate digital asset platforms. Five entities surrendered or approval deemed null and void.
- Almost half of the Labuan money brokers originated from Asia & the Pacific region, mainly from Malaysia, Singapore and Japan.

NUMBER OF CREDIT TOKENS



- Five new approval were granted for tokenisation of asset-backed securities.

NUMBER OF PAYMENT SYSTEM OPERATORS



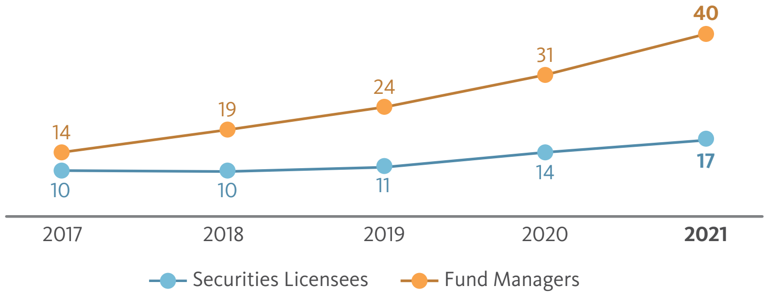
** Restated*

- Ten new approvals were granted to undertake fund clearing and settlement.
- Three operators surrendered their licences or approval deemed null and void.

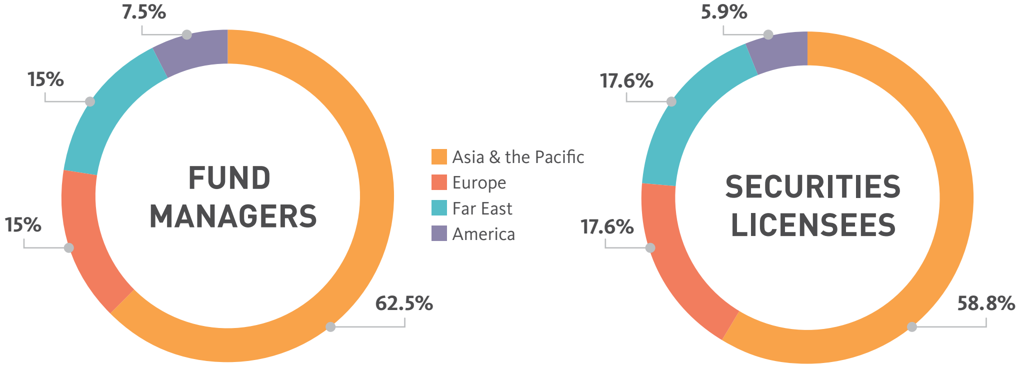
CAPITAL MARKET

Over the last few years, there has been surging interests in Labuan IBFC's capital market and fundraising activities. With its conventional and Shariah-compliant dual financial system, the Labuan capital market industry has a huge potential to grow further especially as more DFS providers utilise Labuan tokens for fundraising purposes. Combining the elements of Labuan capital market intermediation and instruments, DFS, as well as Labuan Islamic finance, the Centre has all the right synergistic elements to become a prominent investment hub for Asia.

NUMBER OF INTERMEDIARIES



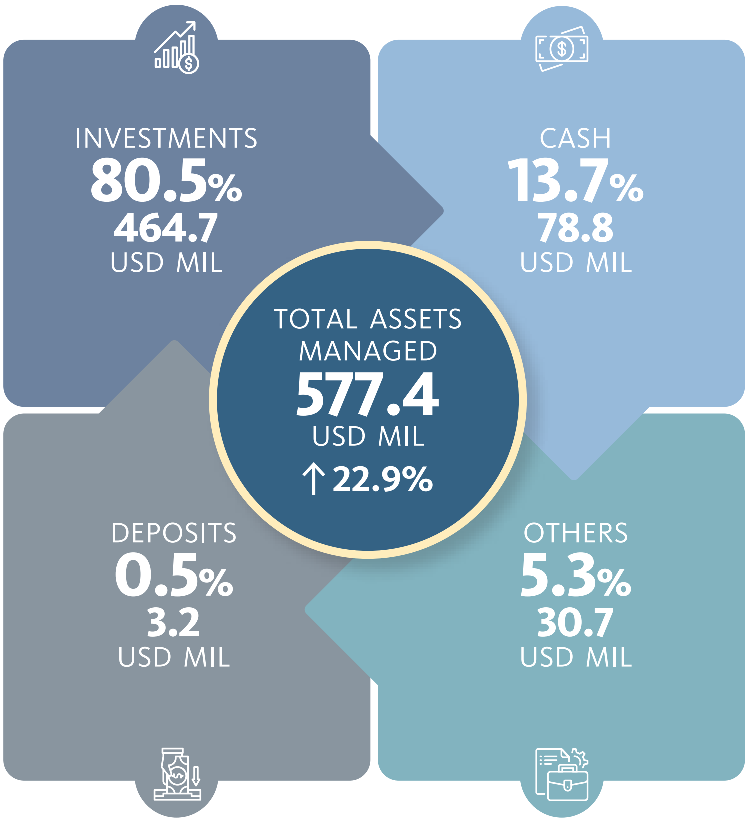
THE ORIGIN OF FUND MANAGERS & SECURITIES LICENSEES (In %)



- During the year, 13 new fund managers and four new securities licensees were approved. Four fund managers surrendered, revoked or approval deemed null and void while one securities licensee surrendered its licence.
- Majority of the fund managers and securities licensees were originated from Asia and the Pacific region (62.5% and 58.8% of the total, respectively).

CAPITAL MARKET

ASSETS UNDER MANAGEMENT BY FUND MANAGERS

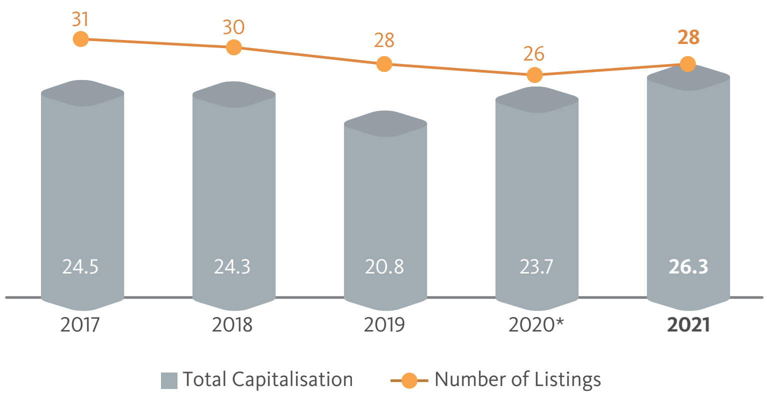


- Total assets under management grew by 22.9% (USD577.4 million) during 2021.
- Most of the assets were investments in equities and debt instruments.

FINANCIAL EXCHANGE

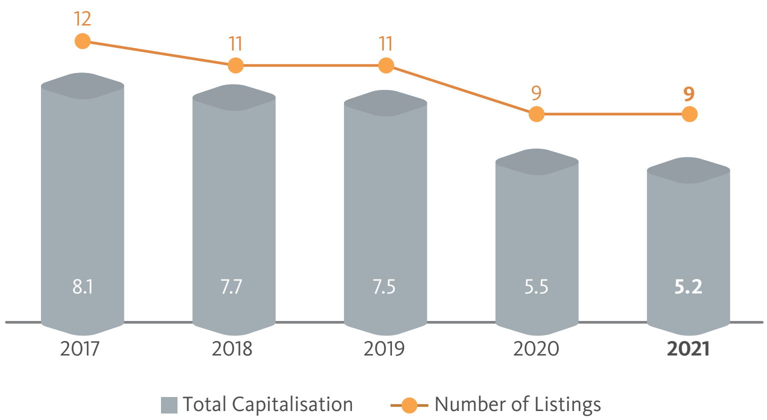
Labuan financial exchanges comprised platforms for listing and trading of instruments, which include equities, debt instruments as well as funds. The instruments permitted to be listed and traded can be in the form of run-of-the-mill financial instruments or digital securities, and include those which are Shariah-compliant. Of late, there had been a growing interest in the digital exchanges as more DFS setups were established for fund raising activities within the region.

NUMBER OF LISTINGS AND MARKET CAPITALISATION
(In USD Billion)



Restated

NUMBER OF ISLAMIC INSTRUMENTS AND MARKET CAPITALISATION
(In USD Billion)



- In 2021, six new listings worth USD5.2 billion (2020: USD6 million) were raised through the Labuan International Financial Exchange, with a range of 5-40 years maturity.
- The total market capitalisation increased by 11% to USD26.3 billion. Of this total, 19.8% or USD5.2 billion were for issuance of sukuks.

LABUAN IBFC's AML/CFT RISK ASSESSMENT: MANAGING & ADDRESSING EMERGING UNCERTAINTIES

Labuan IBFC, as an international business centre and as part of Malaysia's financial sector, is committed to ensuring that the Centre maintains its reputation as a well-supervised and orderly market which strictly enforces anti-money laundering/counter financing of terrorism (AML/CFT) compliance.

Adopting the risk-based approach of the Financial Action Task Force (FATF), Labuan IBFC emphasises on the need for the money laundering (ML) and terrorism financing (TF) threats to be vigilantly monitored and addressed as part of an effective AML/CFT regulatory regime. In this regard, two AML/CFT risk assessments were undertaken on Labuan IBFC to gauge the Centre's vulnerabilities.

Sectoral Risk Assessment 2020 (SRA)

Coordinated by Bank Negara Malaysia and findings are moderated by the National Coordination Committee to Counter Money Laundering (NCC). The first SRA was undertaken in 2017 and is reviewed on a 3-year cycle.

Labuan IBFC was assessed as a key economic segment representing part of Malaysia's international business.

Information reviewed includes a combination of institutional, supervisory and enforcement statistics of individual business sectors.

Assessment of the Labuan key sectors was based on specific parameters which include:

(a) Business features:
- *Nature*
- *Structures*
- *Channels*

(b) ML/TF threats:
- *Likelihood of the risks*

(c) Business mitigants:
- *Internal controls*

(d) Regulatory measures:
- *Entry regulations*
- *Supervisory monitoring*

Labuan IBFC Risk Assessment 2020 (LRA)

A dedicated risk assessment which focused specifically on Labuan IBFC and complements the SRA 2020 with differentiated risk assessment methodology to SRA's.

An AML/CFT expert consultant was engaged to inject elements of data analytics and professional criticality into the exercise.

Its objective was to ascertain the Centre's vulnerability to ML/TF threats covering all Labuan reporting institutions.

Utilised empirical-data analytical approach over the following parameters:

(a) Internal parameters:
- *Related to Labuan FSA's supervisory intensity*
- *Enforcement activities*
- *Business nature*
- *Regulatory aspects*

(b) External parameters: Comprised third-party activities on Labuan entities/businesses
- *Enforcement Authorities' statistics*
- *Suspicious Transaction Reports*

LABUAN IBFC'S AML/CFT RISK ASSESSMENT: MANAGING & ADDRESSING EMERGING UNCERTAINTIES

Findings of the AML/CFT Risk Assessment on Labuan IBFC

Both SRA and LRA classified Labuan IBFC as ***"Low Risk"* jurisdiction** in terms of ML/TF threats.

The net risk ratings of all Labuan sectors showed improvements from the last assessment, particularly in financial business segments.

The main business sectors, Labuan banking and insurance remained in the category of "low risk" for both ML/TF under the SRA.

LRA identified the reducing risk trend for the overall Labuan market resulted from the enforcement statistics on supervisory activities over recent years.

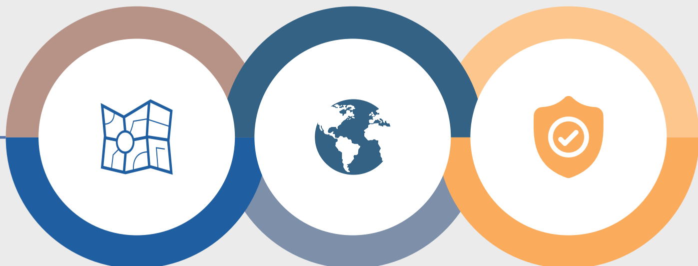
The improved ratings for SRA and LRA for Labuan were mainly attributable to:

(a) Enhanced internal controls instituted by Labuan reporting institutions; and

(b) Intensified supervisory activities and enforcements which include:

- *expanded supervisory resources*
- *increased engagements*
- *higher number of supervisory actions*

AML/CFT Risk Assessments Key Recommendations



Effectiveness of supervisory monitoring can be improved via Suptech and expanding oversight on non-licensed sectors.

Reporting institutions to have continuous AML/CFT awareness and enhancement on compliance programmes such as customer risk profiling, transaction monitoring and Suspicious Transaction Report submission.

With increasing number of digital financial services providers with interlinkages between credit token, payment system and money broker, this warrants a distinctive supervisory measures to be developed.

04
POLICY DEVELOPMENT

- Prudential Policy Development
- Business and Tax Policy Development
- Consultative Bodies Meetings
- Anti-Money Laundering and Combating The Financing of Terrorism (AML/CFT)

POLICY DEVELOPMENT

PRUDENTIAL POLICY DEVELOPMENT

Key regulatory initiatives for 2021 continued to focus on firming up technical requirements of the insurance capital adequacy requirements as well as strengthening the operational continuity and cyber resilience of the Labuan financial institutions (LFIs). This is imperative in view of the new market norms that these entities are operating in following the pandemic.

I. Market testing of the proposed insurance risk-based capital regulations

Through the second Quantitative Impact Study (QIS) undertaken during the year, Labuan FSA had collaborated with the industry in assessing and finalising the requirements of the Insurance Capital Adequacy Framework (ICAF) for Labuan insurers. Among others, this exercise was aimed at aligning the ICAF's requirements against the international capital standard and practices in peer jurisdictions to ensure these would be suited to Labuan insurance market's circumstances. In finalising the ICAF's requirements, the following key modifications were recommended:

(i) Adjustment to the computation formulae for concentration risk to ensure it provides reasonable and meaningful measurement;
(ii) Adoption of more pragmatic concentration threshold to avoid unintended adverse impact to capital position of small-sized insurers; and
(iii) Refined recognition for risk exposures of liquid assets when measuring asset concentration risks.

II. Strengthening market's governance and risk management practices

In response to the market's transition towards operating under the new norms, Labuan FSA embarked on strengthening the operational resilience and cyber risks mitigation within the industry. The key focus areas include promoting good governance and risk management practices through the issuance of:

- **Guiding Principles on Business Continuity Management**

  Labuan FSA issued the *Guiding Principles for Business Continuity Management* on 23 February 2021 which sets out the regulatory expectations for business resumption planning. Taking cognisant that businesses are facing increasing threats of physical and operational disruptions which have been aggravated by the pandemic, the Guidelines were aimed to ensure that LFIs would be able to serve their clients without interruption.

- **Digital Governance Framework**

  The Guidelines on Digital Governance Framework was issued on 13 September 2021 to further strengthen the cyber resilience of financial institutions as part of their overall risk management policy and practices. The Guidelines requires LFIs to adopt a systematic and consistent approach in preserving data confidentiality, system security and resilience that is commensurate with the nature and complexity of their operations.

BUSINESS AND TAX POLICY DEVELOPMENT

Additional Temporary Regulatory Relief Measures for Labuan Entities

As part of Labuan FSA's continuous effort to support the industry players in overcoming the economic challenges during COVID-19 pandemic, Labuan FSA has issued a circular to provide some temporary regulatory reliefs (TRRs) for Labuan entities to facilitate the business operations which was effective starting from 5 August 2021 until 31 December 2022.

The TRRs granted include the following:

a) Reduction of minimum annual turnover for Labuan International Commodity Trading Company under the Guidelines on the Establishment of Labuan International Commodity Trading Company under the Global Incentives for Trading Programme.
b) Reduction of minimum capital requirement and non-interest bearing security deposit for Labuan digital bank under the Labuan Digital Banking Framework.
c) Reduction of minimum income requirement for expatriate's renewal application under the Guidelines on Work Permit Application in Labuan IBFC for Licensed and Non-Licensed Entities.
d) Waiver of approval requirement for the establishment of cell under Protected Cell Companies undertaking Labuan captive insurance business (PCC captive) under the Guidelines on the Establishment of Labuan Protected Cell Companies. The PCC captive is only required to notify Labuan FSA within 14 days after the establishment of its cell(s).

POLICY DEVELOPMENT

Tax Compliance and Exchange of Information

Tax Development

In 2021, Labuan FSA continued to engage relevant stakeholders namely Ministry of Finance, Inland Revenue Board of Malaysia and Labuan Industry players to discuss and deliberate on policy development that are pertinent to the Labuan tax framework including substance requirement to ensure that Labuan IBFC continues to be supportive to the needs of the global businesses and international investors whilst conforming to the international tax standards. Among notable achievement from continuous effort and commitment of Labuan FSA for positive tax development in the centre is the successful gazette of four significant regulations/ orders for Labuan IBFC industry by the Ministry of Finance:

(a) Labuan Business Activity Tax (Requirement for Labuan Business Activity) Regulation 2021 [P.U.(A) 423/2021] which provides tax certainty to the non-licence Labuan entities that undertaking "other trading activities" by including such activities into the schedule and able to enjoy LBATA incentives. This is a very welcoming development as it created clarity and put an ease to almost 2,000 Labuan entities and this development shall bodes well for the future development of the centre.

(b) Labuan Business Activity Tax (Requirement for Labuan International Commodity Trading Company) Regulation 2021 [P.U.(A) 482/2021] which provides tax clarity for substance requirement for Labuan companies incorporated under Labuan companies Act 1990 and licence as Labuan International Commodity Trading company (LITC).

(c) Income Tax (Exemption) (No. 11) Order 2021 [P.U.(A) 425/2021] which provides exemptions for Malaysian resident from non-deductibility rules for payment made to a LITC. This is to provide clarity on the transaction between Malaysian resident with LITC and to ensure competitiveness of business of the LITC in the centre vis-à-vis other jurisdictions that offer similar business solution in commodity trading.

(d) Income Tax (Exemption) (No. 7) 2011 (Amendment) Order 2021 [P.U.(A) 6/2021] which provides extension of exemptions for any individual who is non-Malaysian citizen from the payment of income tax in respect of fee received in his capacity as a director of Labuan entity.

Co-operation on Sharing of Information

Labuan FSA continued to play an active roles in sharing of information with the spirit of co-operation with other regulators by providing accurate, timely, and comprehensive intelligence gathering and information sharing.

With burgeoning and changing landscape of international business activities around the globe with emerging of sophisticated use of technology, the need of mutual understanding and assistance among agencies is inexorable. Guided comprehensive principle that focuses on effective co-operation and collaboration, Labuan FSA had extended mutual assistance to other regulators domestically and internationally. During the year, 43 requests for sharing of information from other regulators were met through various legal arrangements and co-operation medium such as Mutual Legal Assistance on Criminal Matters (MACMA); the International Organisation of Securities Commission (IOSCO); Financial Crimes Enforcement Network via Bank Negara Malaysia, and various bilateral MOUs. Apart from these channels Labuan FSA also provided unsolicited assistance to other authorities by providing intelligence information which was likely to be of relevance to such authorities under its power as an authority of governing Labuan IBFC and its entities.

Islamic Finance Developments

Labuan FSA continues its commitment to promote the growth of Islamic finance as part of its ongoing efforts to position Labuan IBFC as a preferred and conducive business hub for Islamic finance on the global market.

Developing Islamic Finance Ecosystem

The year saw Labuan FSA outlining its future advancement plan to transform the Labuan IBFC into a dynamic and sustainable international financial centre. Among the development strategy is the calls for the growth of prospective niche markets with a focus on digital innovations and shariah-compliant solution offerings. This involved building a sustainable ecosystem for Islamic finance in Labuan IBFC, which includes components for governance, players, products, and infrastructure. The Islamic finance ecosystem will be infused by the digital spectrum in the entire Islamic finance offerings.

POLICY DEVELOPMENT

Fostering Collaboration with Strategic Stakeholders

The year also witnessed the strategic collaboration between Labuan FSA, International Islamic Financial Market (IIFM) and other stakeholders towards the development of Islamic finance globally. In 2021, Labuan FSA had contributed a country-focus write-up (Malaysia) to the 10th edition of the IIFM annual publication, IIFM Sukuk Report 2020, in which the report provided an in-depth analysis on global sukuk development. Labuan FSA had also actively participated in IIFM events throughout the year. The Director General of Labuan FSA, as the vice chairman of IIFM, had delivered his keynote address for the IIFM webinar on publication of the 10th Sukuk Report 2020 as well as welcoming remarks for the IIFM-IILM virtual seminar on Global Benchmark Rate Reforms – Challenges and Solutions for Islamic Finance Industry. In addition, Labuan FSA's staff has attended a Liquidity Management Masterclass being jointly organised by Dar Al Sharia and IIFM. The objectives of the masterclass were to develop an understanding of the underlying Shari'ah structures for liquidity management instruments, identify the required documentation and execution process for Islamic treasury placement and liquidity management instruments as well as the IIFM Standards on inter-bank placement for adoption.

CONSULTATIVE BODIES MEETINGS

Financial Stability Committee

The Financial Stability Committee had three meetings in 2021 to deliberate matters pertaining to the financial stability of Labuan IBFC. The meetings deliberated on prudential and AML/CFT regulations, supervisory issues as well as other matters which are pertinent to Labuan IBFC as follows:

- The prudential policy plan for year 2021 focused on enhancing the regulations for digital-based businesses, modernising the capital and financial regulations for the banking and insurance sector as well as strengthening the cross-border cooperation with targeted peer regulatory bodies;
- The supervisory assessment on composite risk rating of key financial institutions in Labuan IBFC for year 2021, which took into account their capital positions, liquidity, governance as well as compliance issues;
- The market developments of Labuan IBFC in 2020;
- The development of prudential and AML/CFT regulations which include the Digital Governance Framework and Guidelines on Beneficial Ownerships for Labuan Legal Persons and Legal Arrangements;
- Key international assessments on Labuan IBFC such as the updates on National Risk Assessments 2020 and Labuan Risk Assessments 2020;
- Financial surveillance by Bank Negara Malaysia (BNM) on Malaysia's external debts and borrowings including the overall exposure of Labuan banks; and
- Regulatory sharing by BNM on the developments in the domestic banking and insurance sector.

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

Labuan FSA continues to effect anti-money laundering and countering financing of terrorism (AML/CFT) policy enhancements and monitoring initiatives to address money laundering and terrorism of financing (ML/TF) risks. These are undertaken through effecting the recommendations from the mutual evaluation exercise of Malaysia (including Labuan) in 2014 by the Asia/Pacific Group on Money Laundering (APG). The policy changes were also timely as these served as regulatory preparations for the incoming mutual evaluation exercise in 2024/2025.

I. AML/CFT Risk Assessments relating to Labuan IBFC

In 2021, Labuan FSA had completed two AML/CFT risk assessments as part of the National Risk Assessment methodology in relation to Labuan IBFC:

(i) the Sectoral Risk Assessment (SRA); and
(ii) the Labuan IBFC Risk Assessment (LRA), a dedicated risk review of the Centre.

Sectoral Risk Assessment

The net risk ratings of key Labuan sectors showed improvements from previous assessment particularly in financial business segments such as trust company and money broking business. The ratings improved mainly due to enhanced internal controls instituted by the reporting institutions and intensified supervisory activities and enforcements. Overall, the Labuan banking and insurance sectors recorded "low risk" rating whilst the trust company sector showed relatively higher vulnerability for ML risks.

Labuan Risk Assessment

From sectoral ML/TF vulnerability perspective, the results indicated that the level of ML/TF non-compliances was relatively less material. The two key findings of the assessment are as follows:

- The Labuan trust company sector was found to be more vulnerable as reflected from the relatively high number of show cause notices issued by the Authority.
- The banking business, particularly investment banking sector, showed relatively higher risk threat signified by number of AML non-compliances observed in the sector.

Overall, both risk assessments had classified Labuan IBFC as "low risk" In terms of ML/TF threats. Trending-wise, Labuan market showed a reducing risk trend as reflected from the enforcement statistics over the recent years. Notwithstanding this favourable assessment, Labuan FSA would continue to intensify promoting AML/CFT awareness amongst the reporting institutions through targeted engagements. Focus will be accorded to sectors with weaker controls or faced with emerging risks e.g. digital financial business. Emphasis will be made on regulatory expectations particularly on effective and robust compliance programme which includes customer risk profiling, continuous transactions monitoring as well as suspicious transaction reporting.

II. Issuance of Guidelines on Beneficial Ownership for Labuan Legal Persons and Legal Arrangements

Labuan FSA had issued new Guidelines which requires all Labuan entities to have key beneficial ownership information which is then made available to Labuan FSA in a timely manner. This is in line with the Financial Action Task Force (FATF) Recommendation 24 and 25 to enhance beneficial ownership transparency of legal persons and legal arrangements.

The Guidelines clarifies the obligations for Labuan entities to obtain, verify and hold up-to-date beneficial ownership information. It also provides guidance and illustrations on how the beneficial ownership requirements are to be applied for the varying forms and nature of different Labuan entities.

III. Strengthening Market's AML/CFT Compliance

Labuan FSA 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, Labuan FSA had utilised virtual platforms for the training sessions in 2021. In this regard, industry sessions were organised during the year on the following focus areas:

(i) AML/CFT Risk Assessments;
(ii) Counter Proliferation Financing Measures; and
(iii) Beneficial Ownership for Labuan Legal Persons and Legal Arrangements.

Apart from Labuan FSA's internal resource, these sessions were also facilitated by external professionals, among others, from Bank Negara Malaysia and an academia who is a subject matter expert in risk assessments methodology. Overall, the above training sessions were well-received by the market and with attendees from more than 500 Labuan entities.

IV. Regulator's AML/CFT Related Trainings

Labuan FSA also participated in AML/CFT training programmes organised by international organisations such as FATF and the Egmont Centre of FIU Excellence and Leadership (ECOFEL). As an AML/CFT regulator, it is pertinent for the supervisors to keep abreast of current regulatory trends and challenges. In 2021, the AML/CFT training programmes participated by Labuan FSA include:

(i) ECOFEL webinar on *Cooperation and Information Sharing between Financial Intelligence Units, Law Enforcement Authorities and Prosecutors; and*

(ii) FATF webinars on:

- *Risk-Based Supervision of Designated Non-Financial Businesses and Professions.*
- *Implementation of the FATF Standards for Virtual Assets/ Virtual Asset Service Providers.*

05 SUPERVISORY ACTIVITIES

- Supervision and Enforcement
- Investigation
- Enforcement Actions

SUPERVISORY ACTIVITIES

SUPERVISION AND ENFORCEMENT

Supervision

Supervisory theme for 2021 was continuous oversight on Labuan financial institutions (LFIs) with enhanced monitoring on institutions identified as higher risk, in ensuring the LFIs are safe and sound with proper market conduct and comply with the regulatory requirements, including on Anti-Money Laundering/Counter Financing of Terrorism (AML/CFT).

The Risk Based Supervisory Framework (RBSF) continued to be implemented where resources were prioritised towards higher risk LFIs and sectors, identified through individual supervisory assessments as well as the National Risk Assessments on AML/CFT. LFIs and sectors of concerns were closely monitored during the year, with regular updates on their status and actions taken.

As the COVID-19 pandemic and movement restrictions continued to be enforced in 2021, supervisory strategies, priorities and approaches were adjusted accordingly to be pragmatic in supervising the LFIs, as follows:

a. Offsite surveillance was enhanced, focusing on reviews of returns submitted to Labuan FSA and engagements with the board and senior management of the identified LFIs through virtual channels;
b. Flexibility accorded through temporary regulatory reliefs to LFIs on the timelines for reporting to Labuan FSA;
c. Assessments on areas heavily impacted by the pandemic, including operational resilience, credit exposures and liquidity, while maintaining close communications with players;
d. Conducted stress tests on banks and (re)insurance companies to assess financial resiliency based on macroeconomic impact under two adverse scenarios on earnings and capital of the individual entities;
e. Issued surveys to non-licensed entities (NLEs) to update their profiles and assess vulnerabilities; and
f. Enhanced cooperation through information sharing and supervisory colleges with home supervisors.

Supervisory Activities and Outcomes

During the year, offsite desktop reviews were supplemented with 136 supervisory engagements with the LFIs board and senior management to obtain updates on LFIs operations and financial conditions and deliberate on any issues of concerns. A total of 49 engagements were conducted for the insurance sector, followed by 37 for banks, 21 for money brokers and 29 for other sectors. In addition, based on risk assessments, 14 onsite examinations were conducted on identified institutions, comprising five money brokers, three insurance and insurance related entities, three trust companies, two banks and one fund manager.

Supervisory letters were issued to the respective LFIs based on the findings and observations from the supervisory activities, which mainly related to record keeping, prudential standards, outsourcing and customer due diligence. Material non-compliances were forwarded to the Prosecution Unit for enforcement actions, which include the imposition of administrative penalty, suspension or revocation of licence, while LFIs imposed with restriction of business had their names published on Labuan FSA's website, under the enforcement actions taken by Labuan FSA on Labuan licensed entities list.

The Composite Risk Rating for banks and (re)insurance companies and the risk profiling of intermediaries were updated during the year. Based on the updated ratings which had factored into the stress test results, the majority of banks and re(insurance) companies were rated "Moderate" and better, reflecting a sound and well managed institutions. Higher risk institutions, rated "Above Average" and "High" were small, at only 8% of the total population and did not pose systemic risk to the financial system.

Concerned institutions' issues and status as well as supervisory and enforcement actions to be taken were deliberated in the Intervention and Enforcement Committee meeting and were also updated in the Financial Stability Committee periodic meetings, whose members include representatives from Bank Negara Malaysia and Securities Commission Malaysia.

Acknowledging the impact of pandemic to the LFIs, in addition to the general temporary reliefs accorded to LFIs for regulatory submissions, specific individual flexibilities were also granted individually on case-to-case basis to fundamentally sound LFIs facing temporary financial distress during the pandemic.

Risk Surveillance and Stakeholders Engagements

As for the NLEs, supervisory activities were mainly carried out through offsite reviews based on regulatory returns and surveys submitted to Labuan FSA, supervisory engagements and onsite examinations carried out at the offices of their respective trust companies.

During the year, surveys were issued to charitable foundations and registered trusts in order to update their risk profiles and assess their vulnerabilities. Supervisory engagements were conducted with charitable foundations, registered trusts, leasing companies and Labuan International Commodity Trading Companies (LITCs) identified based on their risk profiling of having significant exposures or gaps in operations or governance.

These were further complemented with onsite examinations conducted on Labuan trust companies during the year, which include reviews of selected NLEs files, apart from reviewing the Labuan trust companies' operations and compliance. Supervisory letters were issued based on the supervisory activities, reflecting matters deliberated and areas of concerns that require rectification actions.

In addition to raising supervisory concerns individually to the respective entities, common issues were also conveyed during the periodic meetings with the industry associations, which serves as a platform to convey supervisory expectations, key observations and issues from the supervisory activities as well as discussed implementation issues faced by players.

During the year, a review was conducted across sectors on non-operating and inactive LFIs which pose higher ML/FT risk, as they might conduct undesired activities that Labuan FSA might not be aware of. These inactive and problematic LFIs were engaged and based on supervisory assessments, enforcement actions were taken on some of the LFIs, including restriction of business and revocation of licence. An exercise was also undertaken to strengthen compliance function, to ensure designated compliance officers were internally appointed and not outsourced, as it is an important part of corporate governance in ensuring compliance to regulatory requirements and effective implementation of AML/CFT measures.

Supervisory Capabilities and Home-Host Cooperation

As digital financial businesses continued to gain traction in Labuan IBFC, supervisors' knowledge and capability developments during the year were focused towards fintech, cyber risks, supervision and AML/CFT areas which were achieved mostly through online trainings and certifications, organised by local and international organisations, 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.

Being an international financial centre and the host country for multinational groups, relationships with the home supervisors are important. The home-host initiatives which had been initiated in previous years, were further strengthened during the year. Results of supervisory assessments on entities originated from the United Kingdom, United States of America, Singapore, Japan, China and Taiwan were shared with the respective countries' home supervisors. In addition, we also participated in three supervisory colleges held virtually by the home supervisors, namely the Central Bank of UAE, Taiwan FSC and UK PRA. These platforms were beneficial in obtaining updates, identifying emerging risks, evaluating alternative options for responding to identified risks and coordinating actions, including communications, to mitigate risks.

Conclusion

The uncertainties posted by COVID-19 pandemic had impacted the LFIs operations and business within the Labuan IBFC. The key supervisory focus continue to be on the higher risk institutions, where differentiated supervisory approach is required when dealing with different sectors. Moving forward, the modernised supervisory approach leveraging on technology is essential to ensure efficient and effective supervisory function, particularly to address the emerging risk posted by digital finance activities.

INVESTIGATION

Bracing through the unprecedented COVID-19 pandemic time, Labuan FSA remains committed and vigilant to ensuring the centre remains clear from being used by irresponsible persons to launder money or engage in any illegal activities.

Numerous investigations had been carried out throughout 2021 arising from our surveillance, public information as well as referral made by other law enforcement agencies on suspicious conducts by Labuan entities, including dubious entities who made use the Labuan IBFCs name in carrying out their scam and illicit activities.

While strong enforcement actions were taken against Labuan entities found to be committing offenses by violating laws and requirements, in tackling dubious entities that were found to appear themselves as a Labuan company, actions were also taken against them, which amongst other includes making a police report for further investigation by the Royal Malaysian Police and listing those entities on Labuan FSA's website to serve as an alert to the public.

Collaboration With Other Enforcement Agencies

In 2021, Labuan FSA continues to demonstrate its unwavering commitment to combating financial crimes in Malaysia including Labuan by actively participating in inter-agency coordination and collaboration enforcement activities with other financial regulation and law enforcement agencies via platform established by National Anti-Financial Crime Committee. Among others, the members are Bank Negara Malaysia, Securities Commission, Attorney General's Chambers, Inland Revenue Board, Royal Malaysian Police and Malaysian Anti-Corruption Commission.

ENFORCEMENT ACTIONS

To control and reduce the risk to Labuan IBFC, Labuan FSA continued to be firm and diligent in implementing enforcement actions against offenses committed under the laws of Labuan IBFC. Labuan FSA remained focused and committed to resolving misconduct and violations through strict enforcement activities even when the spread of the COVID-19 epidemic has not subsided in 2021.

Various measures had also been taken in 2021 to deal with the effects of regulatory violations in Labuan IBFC and mitigate the impact of COVID-19 on industry participants with the further extension of "Temporary Regulatory Reliefs for Labuan Entities" as one of Labuan FSA's proactive measures to support the Labuan entities affected by the pandemic.

Nevertheless, Labuan FSA undertook effective, impartial and fair enforcement action against any violation of Labuan IBFC laws and regulations with a total of 288 enforcement cases in 2021, including 209 show-cause notices, 29 financial penalties, 16 licences revocations, and 34 warning notices, were taken against various Labuan entities.

FINANCIAL STATEMENTS

- Statement by the Members of the Labuan Financial Services Authority
- Statutory Declaration by the Officer Primarily Responsible for the Financial Management of Labuan Financial Services Authority
- Statements of Comprehensive Income
- Statements of Financial Position
- Statements of Changes in Reserves
- Statements of Cash Flows
- Notes to the Financial Statements

CERTIFICATE OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF LABUAN FINANCIAL SERVICES AUTHORITY FOR THE YEAR ENDED 31 DECEMBER 2021

Certificate on the Audit of the Financial Statements

Opinion

I have authorised a private audit firm pursuant to Subsection 7 (3) of the Audit Act 1957 [Act 62] to undertake an audit of the Financial Statements of the Labuan Financial Services Authority. The financial statements comprise the Statements of Financial Position as at 31 December 2021 of the Group and of the Labuan Financial Services Authority and the Statements of Comprehensive Income, Statements of Changes in Reserves 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 58.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Labuan Financial Services Authority as at 31 December 2021, 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) requirements.

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.

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

a. identify and assess the risks of material misstatement of the Financial Statements of the Group and of the Labuan Financial Services Authority, whether due to fraud or error, design and perform audit procedures 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 the Labuan Financial Services Authority's internal control;

c. evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors;

d. conclude on the appropriateness of the Board of Directors's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Labuan Financial Services Authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required 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 Auditor's Certificate;

e. evaluate the overall presentation, structure and content of the Financial Statements of the Group and of the Labuan Financial Services Authority, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and

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.

Independence and Other Ethical Responsibilities

I am independent of the Group and of the 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 the 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 the 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) requirements. The Board of Directors is also responsible for such internal control as the Board of Directors determines is necessary to enable the preparation of the Financial Statements of the Group and of the Labuan Financial Services Authority that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements of the Group and of the Labuan Financial Services Authority, the Board 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 the 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.

The Board of Directors has been informed regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I have identify during the audit.

I have also disclosed to the Board of Directors that I have complied with the ethical requirements regarding independence, and communicated with them all relationships and other matters that may reasonably be thought to bear on my independence, and if applicable, actions taken to eliminate threats or safeguards applied.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the 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 to the Board of Directors of the Labuan Financial Services Authority in accordance with the Labuan Financial Services Authority Act 1996 (Act 545) requirements, 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
MALAYSIA

W.P. LABUAN
14 OCTOBER 2022

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 2021 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

30 September 2022

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
30 September 2022

Before me

STATEMENTS OF **COMPREHENSIVE INCOME**

FOR THE YEAR ENDED 31 DECEMBER 2021

		The Group		The Authority	
	Note	2021 RM	2020 RM	2021 RM	2020 RM
REVENUE	4	**65,753,685**	64,581,817	**62,838,416**	61,819,192
Other operating income					
Income from investments	5	**2,500,850**	2,733,670	**2,500,850**	2,733,670
Other income	7	**256,120**	121,610	**–**	11,888
Government grant	16	**1,847,677**	1,772,535	**1,655,420**	1,580,278
Other operating expense					
Finance cost	6	**(187,074)**	(202,548)	**(119,407)**	(181,414)
Other expenses	7	**(12,348,850)**	(12,799,835)	**(17,083,309)**	(18,048,973)
Staff costs	8	**(34,121,867)**	(34,232,680)	**(26,631,070)**	(26,756,201)
Depreciation of property, plant and equipment	10	**(5,489,451)**	(5,991,244)	**(4,973,536)**	(5,389,545)
Surplus before tax		**18,211,090**	15,983,325	**18,187,364**	15,768,895
Income tax expenses	9	**(34,429)**	(58,156)	**–**	–
NET SURPLUS FOR THE YEAR		**18,176,661**	15,925,169	**18,187,364**	15,768,895
Other comprehensive income, net of income tax		**–**	–	**–**	–
TOTAL COMPREHENSIVE SURPLUS FOR THE YEAR		**18,176,661**	15,925,169	**18,187,364**	15,768,895
TOTAL COMPREHENSIVE SURPLUS ATTRIBUTABLE TO THE AUTHORITY		**18,176,661**	15,925,169	**18,187,364**	15,768,895

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

STATEMENTS OF FINANCIAL POSITION

AS OF 31 DECEMBER 2021

		The Group		The Authority	
	Note	2021 RM	2020 RM	2021 RM	2020 RM
ASSETS					
Non-current assets					
Property, plant and equipment	10	**74,333,522**	79,324,995	**73,412,200**	78,218,827
Investment in subsidiary	11	**–**	–	**1,422,410**	1,408,313
Deferred tax asset	12	**12,283**	6,770	**–**	–
Other receivables	13	**444,290**	520,626	**444,290**	520,626
		74,790,095	79,852,391	**75,278,900**	80,147,766
Current assets					
Fees and receivables	13	**13,574,258**	14,179,905	**15,272,170**	16,314,552
Inventories	14	**276,970**	357,768	**–**	–
Cash and bank balances	15	**127,616,265**	100,007,524	**117,039,724**	90,613,787
		141,467,493	114,545,197	**132,311,894**	106,928,339
TOTAL ASSETS		**216,257,588**	194,397,588	**207,590,794**	187,076,105
RESERVES AND LIABILITIES					
Reserves					
Accumulated surplus		**117,187,058**	99,010,397	**111,606,447**	93,419,083
Non-current liabilities					
Deferred income	16	**67,438,341**	69,125,871	**67,438,341**	69,125,871
Other payables	17	**154,676**	156,687	**154,676**	156,687
Lease liability	18	**961,081**	2,404,098	**961,081**	2,263,882
		68,554,098	71,686,656	**68,554,098**	71,546,440
Current liabilities					
Deferred income	16	**2,373,946**	2,534,094	**2,181,689**	2,149,579
Other payables	17	**26,667,022**	19,394,631	**23,913,312**	17,387,003
Amount due to subsidiary	17	**–**	–	**–**	990,000
Lease liability	18	**1,475,464**	1,771,810	**1,335,248**	1,584,000
		30,516,432	23,700,535	**27,430,249**	22,110,582
TOTAL LIABILITIES		**99,070,530**	95,387,191	**95,984,347**	93,657,022
TOTAL RESERVES AND LIABILITIES		**216,257,588**	194,397,588	**207,590,794**	187,076,105

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 2021

	Accumulated surplus RM
THE GROUP	
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
Opening balance at 1 January 2021	**99,010,397**
Net surplus for the year	**18,176,661**
CLOSING BALANCE AT 31 DECEMBER 2021	**117,187,058**
THE AUTHORITY	
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
Opening balance at 1 January 2021	**93,419,083**
Net surplus for the year	**18,187,364**
CLOSING BALANCE AT 31 DECEMBER 2021	**111,606,447**

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 2021

	The Group		The Authority	
	2021 RM	2020 RM	2021 RM	2020 RM
OPERATING ACTIVITIES				
Net surplus for the year	**18,176,661**	15,925,169	**18,187,364**	15,768,895
Adjustments for:				
Income tax (expenses)/credit	**(5,513)**	8,533	**–**	–
Unrealised loss on foreign exchange	**(447,129)**	(37,144)	**(447,129)**	(37,144)
Depreciation of property, plant and equipment	**5,489,451**	5,991,244	**4,973,536**	5,389,545
Bad debt written off	**22,822**	–	**–**	–
Bad debt recovered	**(11,733)**	–	**–**	–
Utilisation of government grant	**(1,847,678)**	(1,772,535)	**(1,655,420)**	(1,580,278)
Gain on disposal of property, plant and equipment	**(8,079)**	(1,245,555)	**(1,020)**	(1,240,555)
Property, plant and equipment written off	**2**	794,739	**–**	794,739
Finance Cost	**126,082**	202,548	**119,407**	181,414
Interest income from investments and staff loans	**(2,514,624)**	(2,744,770)	**(2,514,624)**	(2,744,770)
Net fair value gain on other receivables	**(12,715)**	(9,645)	**(12,715)**	(9,645)
Allowance for impairment losses on fees and trade receivables recognised	**3,003,322**	3,410,785	**3,000,212**	3,379,983
Allowance for impairment losses on fees and trade receivables reversed	**(3,188,498)**	(4,015,767)	**(3,157,696)**	(4,004,850)
Amount owing by subsidiaries written off	**–**	–	**–**	–
Fees and trade receivables written off	**2,892,361**	3,380,700	**2,892,261**	3,380,700
Operating Surplus Before Working Capital Changes	**21,674,732**	19,888,302	**21,384,176**	19,278,034
Changes in working capital:				
Increase in:				
Fees and trade receivables	**(2,067,308)**	(1,212,088)	**(2,113,419)**	(1,181,003)
Other receivables	**(28,344)**	1,465,384	**369,029**	1,988,644
Inventories	**80,798**	4,344	**–**	–
Increase/(Decrease) in:				
Fees received in advance	**1,614,171**	2,553,298	**1,614,171**	2,553,298
Refundable deposits	**2,367,491**	917,486	**2,309,843**	900,000
Other payables and accruals	**3,319,201**	(2,810,209)	**2,600,284**	(2,182,075)
Amount due to subsidiary	**–**	–	**(990,000)**	990,000
Cash Generated From Operating Activities	**26,960,741**	20,806,517	**25,174,084**	22,346,898
Income tax paid	**(99,453)**	(35,446)	**–**	–
Interest received	**31,918**	91,097	**31,918**	91,097
Net Cash Generate From Operating Activities	**26,893,206**	20,862,168	**25,206,002**	22,437,995

	The Group		The Authority	
	2021 RM	**2020 RM**	**2021 RM**	**2020 RM**
INVESTING ACTIVITIES				
Net increase in fixed deposits with maturity period of more than 3 months	**(27,153,932)**	(28,924,736)	**(27,020,000)**	(28,744,208)
Proceeds from disposal of plant and equipment	**22,990**	1,979,749	**15,931**	1,974,749
Additions of property, plant and equipment	**(512,891)**	(774,985)	**(181,820)**	(603,275)
Additions to investment in subsidiary	**–**	–	**(14,097)**	(11,005)
Cash received from government grant	**–**	**317,165**	**–**	317,165
Interest received	**2,623,752**	2,679,544	**2,623,752**	2,679,544
Net Cash Used In Investing Activities	**(25,020,081)**	(24,723,263)	**(24,576,234)**	(24,387,030)
FINANCING ACTIVITIES				
Repayment of leased liabilities	**(1,739,363)**	(1,699,665)	**(1,551,553)**	(1,521,992)
Interest Paid	**(126,082)**	(202,548)	**(119,407)**	(181,414)
Repayment of government loans	**–**	(2,000,000)	**–**	(2,000,000)
Net Cash Used In Financing Activities	**(1,865,445)**	(3,902,213)	**(1,670,960)**	(3,703,406)
Net increase/(decrease) in cash and cash equivalents	**7,680**	(7,763,308)	**(1,041,192)**	(5,652,441)
Cash and cash equivalents at 1 January	**3,932,561**	11,658,725	**1,833,787**	7,449,084
Effect of exchange difference	**447,129**	37,144	**447,129**	37,144
Cash and cash equivalents at 31 December (Note 21)	**4,387,370**	3,932,561	**1,239,724**	1,833,787

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

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 2021, 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 2021.

Descriptions	Effective for annual periods beginning on or after
Covid-19- Related Rent Concessions (Amendment to MFRS 16 Leases)	1 June 2020
Extension of the Temporary Exemption from Applying MFRS 9 (Amendments to MFRS 4 Insurance Contracts)	17 August 2020
Interest Rate Benchmark Reform (Amendments to MFRS 9, MFRS 139, MFRS 7)	1 January 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Standards issued but not yet effective

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

Descriptions	Effective for annual periods beginning on or after
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 August 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
Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to MFRS 112)	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

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Basis of consolidation (continued)

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

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

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

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

Business combinations

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

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

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

2.5 Subsidiaries

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

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

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

2.6 Foreign currencies

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

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

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

2.7 Revenue recognition

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

a) Fee income from business

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Revenue recognition (continued)

b) Other fees

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

c) Interest income

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

d) Dividend income

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

e) Rental income

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

2.8 Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. Where the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset. The remaining balance are accounted as deferred income.

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

2.9 Taxes

a) Current income tax

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

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

b) Deferred tax

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Taxes (continued)

b) Deferred tax (continued)

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

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

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

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

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Taxes (continued)

b) Deferred tax (continued)

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 18.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Financial instruments

i) Financial assets

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

Initial recognition and measurement

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

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

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

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

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

Subsequent measurement

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

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

Financial assets at amortised cost (debt instruments)

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

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

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

NOTES TO THE **FINANCIAL STATEMENTS**
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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 12 months 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.

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.

ii) Financial liabilities

The categories of financial liabilities at initial recognition are as follows:

Fair Value through profit or loss ("FVTPL")

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term.

Gain or losses on liabilities held for trading are recognised in the statement of profit or loss. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at initial date of recognition, and only if the criteria in MFRS 9 are satisfied.

Amortised cost (loan and borrowings)

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

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

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Financial instruments (continued)

ii) Financial liabilities

Derecognition

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

2.13 Fair value measurement

The Group and the Authority measure financial instruments, such as, derivatives, and non-financial assets such as investment properties, at fair value at each reporting date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 20.

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

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

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

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

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

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Fair value measurement (continued)

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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 recognised 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 JUDGEMENTS AND ESTIMATES

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

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

3.1 Key sources of estimation uncertainty

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

a) Impairment of fees and receivables

The Group and the Authority assesses at each reporting date whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Group and the Authority considers factors

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (CONTINUED)

3.1 Key sources of estimation uncertainty (continued)

a) Impairment of fees and receivables (continued)

such as the probability of insolvency or significant financial difficulties of the receivables and default or significant delay in payments.

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

b) Deferred tax assets

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

c) Estimated useful lives of property, plant and equipment

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

d) 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.

e) 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).

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4. REVENUE

	The Group		The Authority	
	2021 RM	**2020 RM**	**2021 RM**	**2020 RM**
Fee income from: Licence Fees	**39,180,231**	40,095,677	**39,180,231**	40,095,677
Annual Fees	**13,407,986**	14,781,395	**13,407,986**	14,781,395
Incorporation & Registration	**593,750**	787,047	**593,750**	787,047
Marketing/Admin Office	**2,477,290**	2,432,784	**2,477,289**	2,432,784
Other fees	**10,094,428**	6,484,914	**7,179,160**	3,722,289
	65,753,685	64,581,817	**62,838,416**	61,819,192

5. INCOME FROM INVESTMENTS

	The Group		The Authority	
	2021 RM	**2020 RM**	**2021 RM**	**2020 RM**
Interest received from:				
Fixed deposits	**2,482,706**	2,653,674	**2,482,706**	2,653,674
Money at call	**18,144**	79,996	**18,144**	79,996
	2,500,850	2,733,670	**2,500,850**	2,733,670

6. FINANCE COST

	The Group		The Authority	
	2021 RM	**2020 RM**	**2021 RM**	**2020 RM**
Interest on lease liability	**126,082**	176,108	**119,407**	181,414
Interest expenses on loan fair value	**60,992**	26,440	**–**	–
	187,074	202,548	**119,407**	181,414

7. OTHER INCOME/(EXPENSES)

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

	The Group		The Authority	
	2021 RM	**2020 RM**	**2021 RM**	**2020 RM**
Other operating income:				
Interest income from Others	**13,774**	11,100	**13,774**	11,100
Rental income	**15,530**	35,375	**12,000**	192,000
Miscellaneous income	**155,589**	136,030	**12,327**	33,090
Gain on disposal of property, plant and equipment	**8,079**	1,245,555	**1,020**	1,240,555
(Loss)/Gain on foreign exchange:				
Realised	**(609,279)**	(1,528,439)	**(599,948)**	(1,528,439)
Unrealised	**447,129**	37,144	**447,129**	37,144
Bad debt recovered	**11,733**	–	**–**	–
Other operating expenses:				
Allowance for impairment losses on fees and trade receivables reversed	**3,188,499**	4,015,767	**3,157,697**	4,004,850
Audit fees:				
Current year	**(89,962)**	(77,077)	**(39,762)**	(28,077)
Under provision in prior year	**(1,850)**	(1,520)	**–**	–
Depreciation of property, plant and equipment	**(5,489,451)**	(5,991,244)	**(4,973,536)**	(5,389,545)
Rental of premises	**(5,500)**	26,692	**(5,500)**	26,692
Bad debt written off	**(22,822)**	–	**–**	–
Fees and trade receivable written off	**(2,892,361)**	(3,380,700)	**(2,892,361)**	(3,380,700)
Members' remuneration	**(487,448)**	(360,833)	**(411,730)**	(282,300)
Contributions to Labuan FSA Staff Welfare Fund	**(200,000)**	(200,000)	**(200,000)**	(200,000)
Property, plant and equipment written off	**(2)**	–	**–**	–
Grant to a subsidiary	**–**	–	**(3,580,000)**	(4,200,000)
Marketing fees to a subsidiary company	**–**	–	**(4,700,000)**	(4,860,000)
Lease of machinery and equipment	**(91,881)**	(41,624)	**(54,645)**	(41,624)
Tuition fees paid to a subsidiary	**–**	–	**(103,358)**	(101,969)
Allowance for impairment losses on fees and trade receivables recognised	**(3,003,332)**	(3,410,785)	**(3,000,212)**	(3,379,983)
Net fair value gain on other receivables	**12,715**	9,645	**12,715**	9,645

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8. STAFF COSTS

	The Group		The Authority	
	2021 RM	**2020 RM**	**2021 RM**	**2020 RM**
Staff costs*	**34,121,867**	34,232,680	**26,631,070**	26,756,201

* These included the following staff costs:

	The Group		The Authority	
	2021 RM	**2020 RM**	**2021 RM**	**2020 RM**
Key management personnel:				
Salaries	**6,150,278**	6,238,301	**4,562,973**	4,775,650
Allowances	**920,154**	779,984	**902,910**	706,911
Employees Provident Fund	**1,099,086**	1,126,522	**852,010**	942,017

9. INCOME TAX EXPENSE

	The Group		The Authority	
	2021 RM	**2020 RM**	**2021 RM**	**2020 RM**
Statement of comprehensive income:				
Current Income Tax:				
Malaysian income tax	**21,303**	49,896	**–**	–
Under/(Over) provision in prior year	**18,639**	(273)	**–**	–
	39,942	49,623	**–**	–
Deferred Tax:				
Relating to origination of temporary differences	**(793)**	(7,036)	**–**	–
(Over)/under provision in prior year	**(4,720)**	15,569	**–**	–
	(5,513)	8,533	**–**	–
	34,429	58,156	**–**	–

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 07 July 2021, Ministry of Finance granted a further extension of five years on the exemption period until the year of assessment 2025.

Income tax for other subsidiaries is calculated at the statutory tax rate of 24% (2020: 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 2021 and 2020 are as follows:

	The Group		The Authority	
	2021 RM	**2020 RM**	**2021 RM**	**2020 RM**
Surplus before tax	**18,211,090**	15,983,325	**18,187,365**	15,768,895
Taxation at Malaysian statutory tax rate of 24% (2020: 24%)	**4,370,662**	3,835,998	**4,364,968**	3,784,535
Effect of income not subject to tax	**(4,452,712)**	(3,870,798)	**(4,364,968)**	(3,784,535)
Effect of expenses not deductible for tax purposes	**73,910**	74,885	**–**	–
Reversal of temporary differences previously not recognised	**–**	–	**–**	–
Under provision of deferred tax in prior year	**28,650**	16,285	**–**	–
Deferred tax assets not recognised	**18,639**	2,775	**–**	–
Overprovision of income tax in prior year	**(4,720)**	(989)	**–**	–
Tax expense for the year	**34,429**	58,156	**–**	–

NOTES TO THE **FINANCIAL STATEMENTS**
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10. PROPERTY, PLANT AND EQUIPMENT

The Group	Leasehold land	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 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
At 1 January 2021	–	83,230,962	1,325,073	9,098,639	8,218,475	8,285,135	1,791,393	111,949,677
Additions	–	–	4,774	30,858	334,954	–	142,305	512,891
Disposals	–	–	–	(29,993)	(52,977)	–	–	(82,970)
Write off	–	–	–	(6,439)	–	–	–	(6,439)
Reclassification	–	–	–	1,723,872	–	–	(1,723,872)	–
At 31 December 2021	–	83,230,962	1,329,847	10,816,937	8,500,452	8,285,135	209,826	112,373,159
Accumulated depreciation								
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
At 1 January 2021	–	12,401,289	1,057,882	8,020,589	6,791,920	4,353,002	–	32,624,682
Charge for the year	–	1,664,619	114,092	1,100,901	912,175	1,697,664	–	5,489,451
Disposals	–	–	–	(24,920)	(43,139)	–	–	(68,059)
Write off	–	–	–	(6,437)	–	–	–	(6,437)
At 31 December 2021	–	14,065,908	1,171,974	9,090,133	7,660,956	6,050,666	–	38,039,637
Carrying amounts								
At 31 December 2020	–	70,829,673	267,191	1,078,050	1,426,555	3,932,133	1,791,393	79,324,995
At 31 December 2021	–	69,165,054	157,873	1,726,804	839,496	2,234,469	209,826	74,333,522

* Included in the building cost is the Labuan International School building with the cost of RM83,070,962. The ownership of Labuan International School building is belong to Labuan Financial Services Authority excluding the land ownership that owned by Federal Government under the name of Federal Land Commissioner.

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 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)	(794T,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
At 1 January 2021	–	83,230,962	662,046	8,642,675	5,507,753	7,502,004	1,791,393	107,336,833
Additions	–	–	–	30,858	8,657	–	142,305	181,820
Disposals	–	–	–	(29,993)	(19,020)	–	–	(49,013)
Reclassification	–	–	–	1,723,872	–	–	(1,723,872)	–
At 31 December 2021	–	83,230,962	662,046	10,367,412	5,497,390	7,502,004	209,826	107,469,640
Accumulated depreciation								
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
At 1 January 2021	–	12,401,289	615,983	7,619,467	4,629,979	3,851,288	–	29,118,006
Additions	–	1,664,619	35,225	1,066,313	678,565	1,528,814	–	4,973,536
Disposals	–	–	–	(24,920)	(9,182)	–	–	(34,102)
At 31 December 2021	–	14,065,908	651,208	8,660,860	5,299,362	5,380,102	–	34,057,440
Carrying amounts								
At 31 December 2020	–	70,829,673	46,063	1,023,208	877,774	3,650,716	1,791,393	78,218,827
At 31 December 2021	–	69,165,054	10,838	1,706,552	198,028	2,121,902	209,826	73,412,200

* Included in the building cost is the Labuan International School building with the cost of RM83,070,962. The ownership of Labuan International School building is belong to Labuan Financial Services Authority excluding the land ownership that owned by Federal Government under the name of Federal Land Commissioner.

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11. INVESTMENTS IN SUBSIDIARY

	The Authority	
	2021 RM	**2020 RM**
Fair value of loan to subsidiary	**497,308**	497,308
Other contributions	**25,102**	11,005
Unquoted shares, at cost	**900,000**	900,000
	1,422,410	1,408,313

Name	Country of incorporation	Principal activities	Proportion (%) of ownership interest 2021	Proportion (%) of ownership interest 2020
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 deferred tax assets are in respect of plant and equipment.

	The Group		The Authority	
	2021 RM	**2020 RM**	**2021 RM**	**2020 RM**
At beginning of year	**6,770**	7,476	**–**	–
Effect of adopting MFRS 16	**–**	8,543	**–**	–
Recognised in the statements of profit or loss	**5,513**	(9,249)	**–**	–
At end of year	**12,283**	6,770	**–**	–

12. DEFERRED TAX ASSETS (CONTINUED)

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

	The Group		The Authority	
	2021 RM	**2020 RM**	**2021 RM**	**2020 RM**
Unabsorbed capital allowance	**111,252**	–	–	–
Other deductible temporary differences	**138,887**	105,141	–	–
	250,139	105,141	–	–

13. FEES AND RECEIVABLES

	The Group		The Authority	
	2021 RM	**2020 RM**	**2021 RM**	**2020 RM**
Current				
Fees and trade Less:				
Allowance for Fees and trade	**13,379,245**	14,204,288	**13,368,213**	14,147,056
Less:				
Allowance for impairment	**(2,768,038)**	(2,953,204)	**(2,764,917)**	(2,922,402)
Fees and trade receivables, net	**10,611,207**	11,251,084	**10,603,296**	11,224,654
Other receivables:				
Amount due from subsidiary	**–**	–	**2,001,024**	2,470,032
Staff housing loans	**42,827**	41,182	**42,827**	41,182
Staff vehicle loans	**33,509**	49,190	**33,509**	49,190
Staff advances/sundry debtors	**96,658**	66,149	**40,740**	34,592
Refundable deposits	**675,696**	705,748	**472,812**	446,078
Interest receivable	**1,633,335**	1,774,381	**1,633,335**	1,774,381
Prepayments	**449,393**	274,873	**444,627**	274,443
Tax Refundable	**31,633**	17,298	**–**	–
	2,963,051	2,928,821	**4,668,874**	5,089,898
	13,574,258	14,179,905	**15,272,170**	16,314,552
Non-current				
Other receivables:				
Staff housing loans	**439,505**	482,332	**439,505**	482,332
Staff vehicle loans	**4,785**	38,294	**4,785**	38,294
	444,290	520,626	**444,290**	520,626
Total fees and other receivables (current and non-current)	**14,018,548**	14,700,531	**15,716,460**	16,835,178

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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	
	2021 RM	2020 RM	2021 RM	2020 RM
Neither past due nor impaired	**9,854,197**	11,251,084	**9,846,286**	11,224,654
More than 31 days past due but not impaired	**757,010**	–	**757,010**	–
Impaired	**2,768,038**	2,953,204	**2,764,917**	2,922,402
	13,379,245	14,204,288	**13,368,213**	14,147,056

Receivables that are neither past due nor impaired

Fees and trade receivables that are neither past due nor impaired are creditworthy debtors with good payment records with the Group and the Authority. The entire Group's and the Authority's fees and trade receivables arise from customers with more than four years of experience with the Authority and losses have occurred infrequently.

None of the Group's and the Authority's fees and trade receivables that are neither past due nor impaired has been renegotiated during the financial year.

Receivables that are past due but not impaired

The Group has fees and trade receivables amounting to RM757,010 (2020: RM nil) that are past due at the reporting date but not impaired.

Receivables that are impaired

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

	Active impaired		Overdue impaired		Lifetime impaired		Total	
	2021 RM	2020 RM	2021 RM	2020 RM	2021 RM	2020 RM	2021 RM	2020 RM
The Group								
Fees and trade receivables – nominal amounts	**1,307,193**	1,310,271	**1,460,845**	1,642,933	**–**	–	**2,768,038**	2,953,204
Less: Allowance for impairment	**(1,307,193)**	(1,310,271)	**(1,460,845)**	(1,642,933)	**–**	–	**(2,768,038)**	(2,953,204)
	–	–	**–**	–	**–**	–	**–**	–
The Authority								
Fees and trade receivables – nominal amounts	**1,307,193**	1,310,271	**1,457,724**	1,612,131	**–**	–	**2,764,917**	2,922,402
Less: Allowance for impairment	**(1,307,193)**	(1,310,271)	**(1,457,724)**	(1,612,131)	**–**	–	**(2,764,917)**	(2,922,402)
	–	–	**–**	–	**–**	–	**–**	–

13. FEES AND RECEIVABLES (CONTINUED)

a) Fees and Trade Receivables (continued)

Movement in allowance account to record the expected credit losses:

	The Group		The Authority	
	2021 RM	**2020 RM**	**2021 RM**	**2020 RM**
At 1 January	**2,953,204**	3,558,186	**2,922,402**	3,547,269
Impairment losses recognised	**3,003,332**	3,410,785	**3,000,212**	3,379,983
Impairment losses reversed	**(3,188,498)**	(4,015,767)	**(3,157,697)**	(4,004,850)
At 31 December	**2,768,038**	2,953,204	**2,764,917**	2,922,402

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 (2020: 30 years and 9 years respectively). The interest charged on these loans ranges from 2% to 3% (2020: 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	
	2021 RM	**2020 RM**	**2021 RM**	**2020 RM**
At cost:				
Books and stationeries	**109,351**	166,316	**–**	–
Uniforms, fabrics and t-shirts	**167,619**	191,452	**–**	–
	276,970	357,768	**–**	–

During 2021, RM184,602 (2020: RM145,172) was recognised as an expense for inventories carried at net realisable value.

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15. CASH AND BANK BALANCES

	The Group		The Authority	
	2021 RM	**2020 RM**	**2021 RM**	**2020 RM**
Cash on hand and at banks	**4,387,370**	3,932,561	**1,239,724**	1,833,787
Fixed deposits with licensed banks	**115,800,000**	96,074,963	**115,800,000**	88,780,000
Money market placement	**7,428,895**	–	**–**	
Cash and bank balances	**127,616,265**	100,007,524	**117,039,724**	90,613,787

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 2021 for the Group and the Authority were 2.40% (2020: 2.78%) per annum with maturity period of 3 to 365 days (2020: 30 to 365 days). Foreign currency exposure profile for cash and bank balances is as follows:

	The Group		The Authority	
	2021 RM	**2020 RM**	**2021 RM**	**2020 RM**
Cash at banks:				
United States Dollar	**878,563**	878,123	**878,563**	878,123

16. DEFERRED INCOME

Deferred income comprises the followings:

		The Group		The Authority	
		2021 RM	**2020 RM**	**2021 RM**	**2020 RM**
Grant related to income	(a)	**718,526**	910,784	**526,269**	526,269
Grant related to assets	(b)	**69,093,761**	70,749,181	**69,093,761**	70,749,181
		69,812,287	71,659,965	**69,620,030**	71,275,450

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 RM1,847,677 and RM1,655,420 (2020: RM1,772,535 and RM1,580,278) respectively.

16. DEFERRED INCOME (CONTINUED)

The expected utilisation of the grants as at 31 December 2021 are as follows:

	The Group		The Authority	
	2021 RM	**2020 RM**	**2021 RM**	**2020 RM**
Within 12 months	**2,373,946**	2,534,094	**2,181,689**	2,149,579
After 12 months	**67,438,341**	69,125,871	**67,438,341**	69,125,871
	69,812,287	71,659,965	**69,620,030**	71,275,450

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	
	2021 RM	**2020 RM**	**2021 RM**	**2020 RM**
At 1 January	**910,784**	1,103,041	**526,269**	526,269
Less:				
Recognised in profit or loss	**(192,258)**	(192,257)	**–**	–
At 31 December	**718,526**	910,784	**526,269**	526,269

b) Grant related to assets

	The Group		The Authority	
	2021 RM	**2020 RM**	**2021 RM**	**2020 RM**
Grant related to assets:				
At 1 January	**83,070,963**	82,753,798	**83,070,963**	82,753,798
Received during the financial year	**–**	317,165	**–**	317,165
At 31 December	**83,070,963**	83,070,963	**83,070,963**	83,070,963
Cumulative credits:				
At 1 January	**(12,321,782)**	(10,741,504)	**(12,321,782)**	(10,741,504)
Credited to statements of profit or loss during the year	**(1,655,420)**	(1,580,278)	**(1,655,420)**	(1,580,278)
At 31 December	**(13,977,202)**	(12,321,782)	**(13,977,202)**	(12,321,782)
Net carrying amount:				
Current	**1,655,420**	1,623,310	**1,655,420**	1,623,310
Non-current	**67,438,341**	69,125,871	**67,438,341**	69,125,871
	69,093,761	70,749,181	**69,093,761**	70,749,181

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17. OTHER PAYABLES

	The Group		The Authority	
	2021 RM	**2020 RM**	**2021 RM**	**2020 RM**
Non-current liabilities:				
Employee benefit	**154,676**	156,687	**154,676**	154,676
	154,676	156,687	**154,676**	154,676
Current liabilities:				
Amount due to subsidiary	**–**	–	**–**	990,000
Fees received in advance	**13,667,931**	12,053,760	**13,667,931**	12,053,760
Refundable deposits	**4,362,709**	1,995,218	**3,812,043**	1,502,200
Retention payables	**–**	406,165	**–**	406,165
Accruals	**6,871,434**	1,179,609	**5,426,366**	604,063
Others	**1,764,948**	3,714,703	**1,006,972**	2,820,815
Income tax payable	**–**	45,176	**–**	–
	26,667,022	19,394,631	**23,913,312**	18,377,003
TOTAL OTHER PAYABLES	**26,821,698**	19,551,318	**24,067,988**	18,533,690

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.

18. 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
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
As at 1 January 2021	4,175,908
Accretion of interest	126,082
Payments	(1,865,445)
As at 31 December 2021	2,436,545

	Interest Rate	Maturity	RM
Current	4%	2022	1,475,464
Non-current	4%	2024	961,081
			2,436,545

The following are the amounts recognised in profit or loss:

	The Group	
	2021 RM	**2020 RM**
Depreciation expense of right-of-use assets	**1,697,664**	1,755,954
Interest expense on lease liabilities	**126,082**	202,548
TOTAL AMOUNT RECOGNISED IN PROFIT OR LOSS	**1,823,746**	1,958,502

The Group had total cash outflows for leases of RM1,865,445 in 2021.

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18. 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
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
As at 1 January 2021	3,847,882
Accretion of interest	119,407
Payments	(1,670,960)
As at 31 December 2021	2,296,329

	Interest Rate	Maturity	RM
Current	4%	2022	1,335,248
Non-current	4%	2024	961,081
			2,296,329

The following are the amounts recognised in profit or loss:

	The Authority	
	2021 RM	**2020 RM**
Depreciation expense of right-of-use assets	**1,528,814**	1 ,551,194
Interest expense on lease liabilities	**119,407**	181,414
Total Amount Recognised In Profit Or Loss	**1,648,221**	1,732,608

The Authority had total cash outflows for leases of RM1,670,960 in 2021.

19. RELATED PARTIES DISCLOSURES

a) Services rendered

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

	The Group		The Authority	
	2021 RM	**2020 RM**	**2021 RM**	**2020 RM**
Rental income received from a subsidiary	**–**	–	**–**	180,000
Tuition fees paid to a subsidiary	**–**	–	**(103,358)**	(101,969)
Contribution to Labuan Financial Services Authority Staff Welfare Fund*	**(200,000)**	(200,000)	**(200,000)**	(200,000)
Marketing fees paid to a subsidiary	**–**	–	**(4,700,000)**	(4,860,000)
Management services fee			**(3,580,000)**	(4,200,000)

* During the year, the contribution distributed as follows:

	The Group		The Authority	
	2021 RM	**2020 RM**	**2021 RM**	**2020 RM**
Labuan Financial Services Authority Staff Welfare Fund	**200,000**	182,042	**200,000**	182,042
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	
	2021 RM	**2020 RM**	**2021 RM**	**2020 RM**
Salaries	**6,150,278**	6,238,301	**4,562,973**	4,775,650
Allowances	**920,154**	779,984	**902,910**	706,911
Employee Provident Fund	**1,099,086**	1,126,522	**852,010**	942,017
	8,169,518	8,144,807	**6,317,893**	6,424,578

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20. FINANCIAL INSTRUMENTS

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

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

a) Credit risk

The financial instruments which potentially subject the Group and the Authority to credit risk are fee receivables. Concentration of credit risk with respect to fee receivables is limited due to a large number of Labuan companies in various industries. The Authority is of the opinion that the risk of incurring material losses in excess of the allowance for expected credit losses 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 2021 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	
	2021 RM	**2020 RM**	**2021 RM**	**2020 RM**
United States Dollar	**87,857**	87,813	**87,857**	87,813

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.

20. 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
2021				
Non-derivative financial assets:				
Fees and other receivables	**10,161,814**	**–**	**–**	**10,161,814**
Cash and bank balances	**127,616,265**	**–**	**–**	**127,616,265**
Total undiscounted non-derivative financial assets	**137,778,079**	**–**	**–**	**137,778,079**
Non-derivative financial liabilities:				
Other payables	**8,636,382**	**–**	**–**	**8,636,382**
Total undiscounted non-derivative financial liabilities	**8,636,382**	**–**	**–**	**8,636,382**
Total net undiscounted non-derivative financial assets/ (liabilities)	**129,141,697**	**–**		**129,141,697**
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:				
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

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20. 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
2021				
Non-derivative financial assets:				
Fees and other receivables	**10,158,669**	**–**	**–**	**10,158,669**
Cash and bank balances	**117,039,724**	**–**	**–**	**117,039,724**
Total undiscounted non-derivative financial assets	**127,198,393**	**–**	**–**	**127,198,393**
Non-derivative financial liabilities:				
Other payables	**6,433,338**	**–**	**–**	**6,433,338**
Total undiscounted non-derivative financial liabilities	**6,433,338**	**–**	**–**	**6,433,338**
Total net undiscounted non-derivative financial assets/ (liabilities)	**120,765,055**	**–**		**120,765,055**
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:				
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	104,622,322	364,620	338,105	105,325,047

20. FINANCIAL INSTRUMENTS (CONTINUED)

d) Liquidity risk (continued)

Fair Values of Financial Assets and Financial Liabilities

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

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

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

	The Group and The Authority	
	2021 RM	**2020 RM**
Loans and receivables carried at fair value		
Staff housing and vehicle loans	**520,625**	610,998

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**
2021				
Staff housing and vehicle loans	**–**	**520,625**	**–**	**520,625**
2020				
Staff housing and vehicle loans	–	610,998	–	610,998

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

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21. CASH AND CASH EQUIVALENTS

	The Group		The Authority	
	2021 RM	**2020 RM**	**2021 RM**	**2020 RM**
Cash on hand and at bank	**4,387,370**	3,932,561	**1,239,724**	1,833,787
Fixed deposits placed with licensed banks	**115,800,000**	96,074,963	**115,800,000**	88,780,000
Money market placement	**7,428,895**	–	**–**	–
	127,616,265	100,007,524	**117,039,724**	90,613,787
Less:				
Fixed deposits with maturity period of more than 3 months	**(123,228,895)**	(96,074,963)	**115,800,000)**	88,780,000)
Cash and cash equivalents for statements of cash flows purposes	**4,387,370**	3,932,561	**1,239,724**	1,833,787

22. CAPITAL MANAGEMENT

Capital includes equity attributable to the equity holders of the Authority.

The primary objective of the Authority's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Authority manages its capital structure and makes adjustments to it in light of changes in economic condition. To maintain or adjust the capital structure, the Authority may adjust the dividend payment to shareholder, return of capital to shareholder or issue new shares.

No changes were made in the objectives, policies or processes during the years ended 31 December 2021 and 2020.

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

The Group and the Authority have 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 authorised for issue by the Members of the Authority on 30 September 2022.

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