Labuan FSA
Financial Services Authority

TRANSFORMING LABUAN

Annual Report 2017

www.labuanibfc.com

Mission Statement

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

Corporate Values

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

1. China
2. Japan
3. Hong Kong
4. Singapore
5. Indonesia
6. Australia

Highlights of 2017

71%

of Labuan entities are Asia Pacific origin

Insurance premiums grew to

USD1.4 billion

19.1%

growth in new company incorporation

USD755.4 million

Labuan International Commodity Trading Companies' Profit Before Tax

Niche products continued to draw interest

- Foundations
- Labuan International Commodity Trading Company
- Money Broking

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OUR BUSINESS

The diverse selection of Labuan IBFC's financial products and services brings to investors a wealth of business opportunities, covering the areas of banking, insurance, trust company business, capital market, wealth management and other Labuan financial businesses.

LABUAN COMPANY

Any person is allowed to establish companies in Labuan IBFC to undertake business in non-ringgit with non-residents or residents in accordance with the provisions of the Labuan Companies Act 1990. The Act provides for the incorporation, registration and administration of Labuan companies. Labuan companies can carry out either trading or non-trading activities in, from or through Labuan. The incorporation of Labuan companies is through the "COR@L" system, which is an online core registration system that promotes convenience and security to its users with real-time access. Upon lodgement of complete documentation and payment of fees as well as clearance from the due diligence process conducted by Labuan FSA, a Labuan company can be approved for incorporation or registration within 24 hours.

BANKING

Labuan banks are in the business of providing credit facilities, receiving deposits, investment banking services, building credit business, credit token, development finance business, leasing business, factoring, money broking, Islamic banking business, or such other activities as approved by the Minister of Finance, Malaysia. All Labuan banks are governed and regulated under the Labuan Financial Services and Securities Act 2010.

Banks licensed to operate in Labuan IBFC can conduct transactions with Malaysian residents and have the option of operating a marketing office in either Kuala Lumpur or Iskandar Malaysia.

INSURANCE

Labuan insurance business includes life, general, reinsurance, captive insurance, insurance manager, underwriting manager and insurance broking, but does not include domestic insurance business and it is transacted in foreign currency. Labuan (re)insurers may carry on (re)insurance of domestic insurance business in Malaysian currency and such other business as may be specified by Labuan FSA.

The Labuan (re)insurance activities are governed by the Labuan Financial Services and Securities Act 2010.

WEALTH MANAGEMENT

Labuan IBFC offers a comprehensive array of wealth management products suitable for high net-worth individuals, family offices and other wealth managers needing structures for efficient wealth transfer and inheritance management.

The relevant Acts related to wealth management include the Labuan Trusts Act 1996 and the Labuan Foundations Act 2010 that accord the establishment of a wide diversity of structures such as trusts and foundations for the management of international and approved Malaysian assets.

ISLAMIC FINANCE

The wide range of Islamic financial products and services available in Labuan IBFC includes Islamic banking, Islamic capital market, takaful, retakaful, Islamic funds, waqf and Islamic trusts administration. The products and services are offered under various Shariah-compliant schemes by the Islamic financial institutions in Labuan.

The Labuan Islamic Financial Services and Securities Act 2010 streamlines procedures and requirements for all Shariah-related activities in the Labuan IBFC.

LEASING AND COMMODITY TRADING

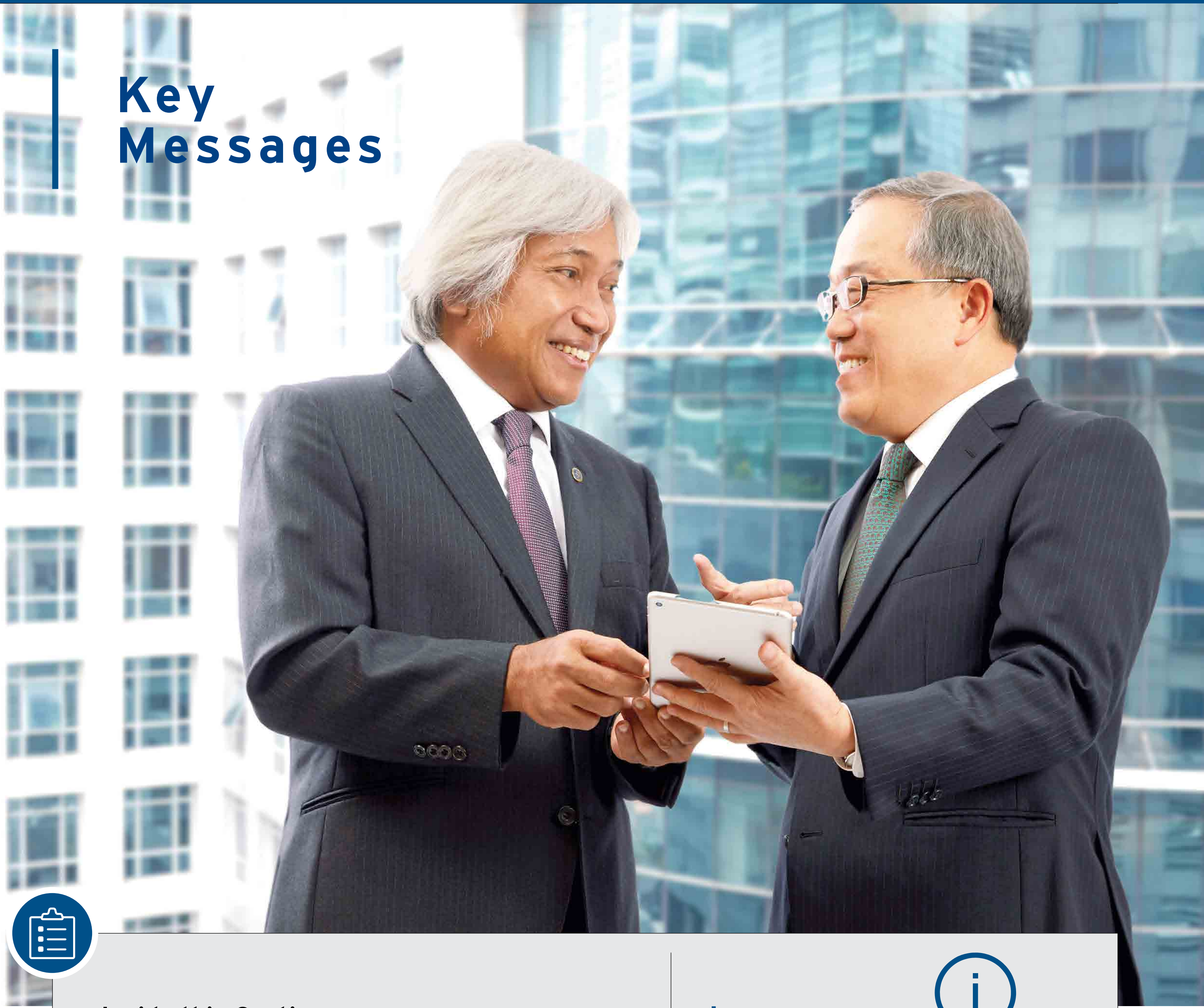
Labuan IBFC also offers niche financial products ie. leasing and commodity trading to cater for the needs of investors.

Leasing is the business of letting or subletting property on hire for the use of such property by the hirer, regardless whether the letting is with or without an option to purchase the property, or such business as approved by the Labuan FSA. Property includes any plant, machinery, equipment or other chattel attached or to be attached to the earth, and charters of ships means bareboat charters only and does not include the transportation of passengers, cargo by sea or the charter of ships on a voyage or time charter basis. Leasing business could be transacted via conventional means or in accordance with Shariah principles.

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

Labuan leasing business and commodity trading business are governed under the Labuan Financial Services and Securities Act 2010.

Key Messages



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For further information, please go to https://www.labuanibfc.com

Did you know?

2017 - Labuan IBFC is home to:

54 banks

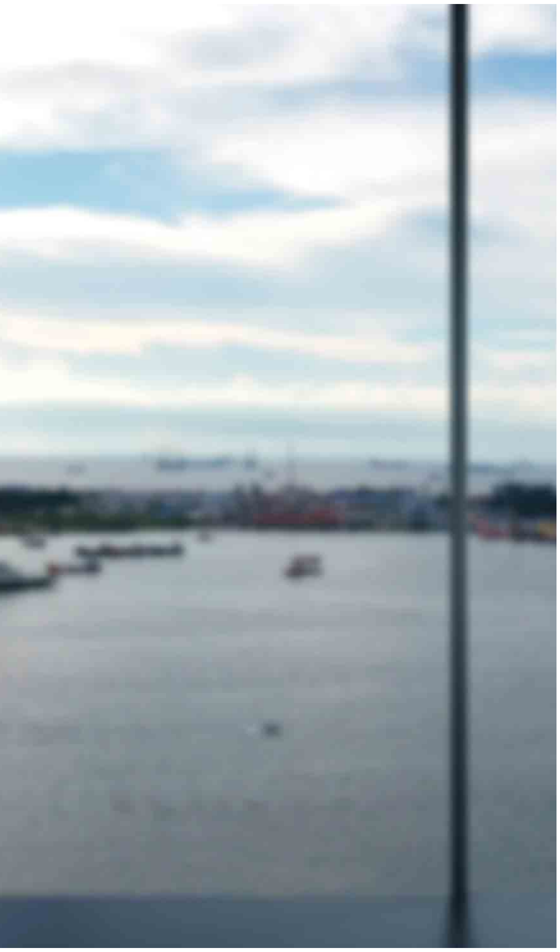
CHAIRMAN'S STATEMENT

The year 2017 witnessed the strengthening of the global economic recovery, largely driven by a rebound in cross-border investments, trade activities and increased market confidence. The encouraging global growth trend is expected to continue in 2018 with Asian economies contributing to almost half of global growth. Against this global backdrop, the Malaysian economy is well positioned for the year ahead with continued expansion across most of the domestic sectors. As a Centre facilitating business linkages, Labuan IBFC is poised to gain from the positive spillovers and growing business optimism in the region.

MUHAMMAD BIN IBRAHIM
Chairman

For further information about Muhammad Bin Ibrahim, please go to page 88, Members of the Authority

In 2017, the progressive implementation of global fiscal reforms has reshaped the business landscape of international financial centres. These reforms, supported by efforts carried out by governments and international standard-setting bodies, were directed towards greater transparency requirements and prevention of profit shifting activities to curb harmful tax practices. During the year, more than 100 member jurisdictions, including Malaysia, were assessed under the Organisation for Economic Co-operation and Development (OECD) Forum on Harmful Tax Practices as part of the implementation of Base Erosion and Profit Shifting. Following the appraisal, the Authority has effected the required policy changes and remains committed towards supporting and conforming to the standards on global tax policy and practices. In line with this, a series of measures are being pursued to further refine existing business regulations, commencing with the leasing and international commodity trading business activities.



Commensurate with the progressive developments in the global and regional economy, the growth of business activities in Labuan IBFC has been positive. Labuan IBFC has continued to play a key role, not only to intermediate businesses within the region but to serve as a catalyst for the island's economic growth. However, we need to be cognisant of potential headwinds, including rising trade protectionism, geopolitical tensions, financial market volatility arising from drastic policy shifts, cybersecurity threats, and natural calamities and catastrophes.

Moving forward, Labuan IBFC will need to shift its focus towards creating and promoting products and structures that meet the economic needs of the broader economy. In other words, it needs to transform itself to remain relevant. This requires the Centre to be adaptive, agile and anticipatory to be well-positioned to reap on new business opportunities as they emerge. To this end, Labuan FSA has formulated a strategic economic transformation plan to enhance the resiliency and sustainability of Labuan IBFC and the island as a whole. This transformation plan will also entail measures that reinforce the bond between Labuan IBFC and the island's development to create the symbiotic relationship as envisaged at the inception of the Centre.

The key initiatives include strengthening the commercial presence of Labuan entities by creating more business substance and activities, as well as broadening the economic base in the island. By generating economic spillovers, Labuan businesses would be able to directly contribute towards the island's local economy and its growth. In addition, the Authority would also be expanding the breadth of its business support to cover real economic activities which have high potential as the island's economic drivers. To support this, key enablers have been identified to facilitate the transformation plan. One of the pillars relate to upscaling of connectivity of the Centre and includes the construction of a bridge between Labuan Island and mainland Sabah. This will not only galvanise the economic development of Labuan and its community, but also of the connecting towns. The bridge will facilitate greater flows of commercial activities and further improve the liveability quality of the island.

Aside from the on-going formulation of the long-term economic transformation plan, intensified efforts were made to further increase the market access. This was undertaken via issuance of new and revised business guidelines on Labuan product offerings including for Islamic finance products. Taking cognisance of the waves of technological innovations in the market, the Centre is also

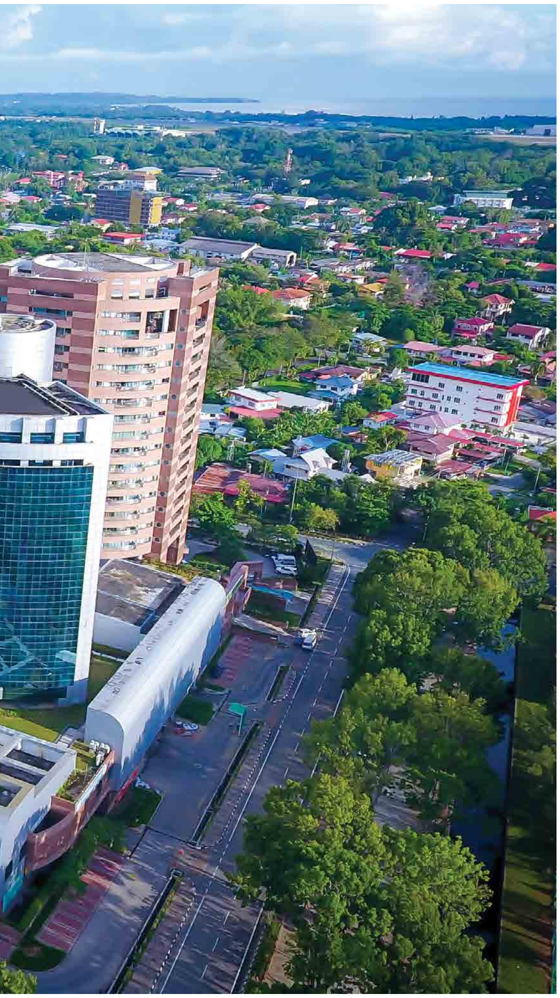
Moving forward, Labuan IBFC will need to shift its focus towards creating and promoting products and structures that meet the economic needs of the broader economy.

developing new business spaces by catering to Fintech-related business propositions.

On the regulatory front in 2017, various efforts were made to upscale the prudential and macro surveillance measures, primarily on strengthening the prudential regulations on Labuan service providers' market conduct. As the external policy shifts and socio-economic fundamentals continue to unfold, the strong prudential and regulatory framework will certainly provide the needed controls to reduce the magnitude of potential risks to the Centre. One area of focus is the enhancement of statistical data reporting to allow for deeper understanding on the Centre's activities, vulnerabilities and potential impacts from economic shocks and policies.

This supplements the ongoing risk-based supervisory monitoring by the Authority, whereby targeted sectoral risk reviews were undertaken to ensure that the soundness of Labuan entities and the stability of the Centre remains intact. This is further underscored by cross-agency initiatives such as joint examinations between supervisors of the Authority and Bank Negara Malaysia. In this regard, the bilateral agreements between Labuan FSA and other supervisors have fostered closer inter-agency cooperation which serves as a platform for information sharing on supervisory findings and relevant practices. Arising from the supervisory monitoring, enforcement actions were taken against regulatory non-compliances and money laundering offences by the industry players. The Authority will continue to be an active member and engage with international

On the regulatory front in 2017, various efforts were made to upscale the prudential and macro surveillance measures, primarily on strengthening the prudential regulations on Labuan service providers' market conduct.



organisations and standard-setting bodies, other authorities and MoU partners in areas of supervisory and regulatory approaches, business strategies and talent enrichment.

Faced with increasing demands by sophisticated investors for a well-equipped financial ecosystem, Labuan FSA is also committed to provide a vibrant and enabling operational environment for the Centre. In pursuing this goal, the Authority places high priority on continuous investment in talent development. A significant milestone in 2017 was the Authority's collaboration with industry associations and professional training institutions to better equip industry players with the appropriate training to elevate their professionalism and capabilities. This would augment the readiness of our players to tap into new opportunities amidst a rapidly changing environment.

Ensuring the overall well-being of the local community where Labuan IBFC operates remains a key priority. Throughout 2017, various community programmes were conducted to improve the health, livelihood, social and physical well-being of Labuan's underprivileged groups. Also included were initiatives to promote green living and reduce carbon footprint, as well as to assist high achievers via student awards and scholarships and promote the island's arts and culture. The Labuan IBFC Charitable Foundation was also established to provide funding for groups in need in a more structured manner. It is heartening to note that industry players have also been supporting the interests of the Labuan community on their own initiatives. As we move forward, I urge for more efforts from the industry on this front.

With this, I would like to extend my appreciation to the International Advisory Panel, Shariah Supervisory Council, Financial Stability Committee, Government authorities and the Labuan industry players for their continued support and commitment. My gratitude also goes to Datuk Ahmad Hizzad Baharuddin, former Director General, whose term ended in October 2017 and to welcome Director General Mr. Danial Mah Abdullah to head Labuan FSA. I would also like to thank the staff for their dedication throughout the year.

Chairman's Quotes

"Faced with increasing demands by sophisticated investors for a well-equipped financial ecosystem, Labuan FSA is also committed to provide a vibrant and enabling operational environment for the Centre."

DIRECTOR GENERAL'S REPORT

The Labuan International Business and Financial Centre (Labuan IBFC) has progressively become a reputable business and financial centre in the Asia Pacific region. Over the years, it has weathered the challenges from various events that have taken place in the world economy.

It has sustained growth despite these greater uncertainties in the global economy and the volatility of financial markets emanating from major policy and socio-political shifts that have tested many businesses. As a financial centre with a high degree of market openness, Labuan IBFC is inevitably exposed to such a dynamic external environment. To address these changes, the Authority had embarked on a comprehensive review of the Centre's development to ensure that its growth momentum and competitiveness are enhanced. A new business model needed to be formulated and implemented as the current way of doing business may no longer be tenable to remain relevant and sustainable in the regional and international business landscape.

With this in mind, Labuan FSA has resolved to transform the Centre into a well-integrated regional economic hub to better serve business, investment and intermediation needs of the region, including the East Malaysian and Asian markets. Through the transformation plan, Labuan IBFC is also expected to contribute more meaningfully to Labuan Island, and to become a more integral component of the nation's economy. The transformation plan will create more sustainable and symbiotic business activities with the island's economy, and elevate its stature as an economic growth component for Malaysia. This transformation plan is underpinned by intensively promoting the development of identified business niches and creating a more modern and competitive fiscal regulatory framework.

To support the transformation of Labuan IBFC into an integrated economic regional hub, we will be focusing on five key pillars; by being more business-focused with equal commitment to reputational

DANIAL MAH BIN ABDULLAH
Director General

For further information about Danial Mah bin Abdullah, please go to page 89, Members of the Authority

DIRECTOR GENERAL'S REPORT

resilience coupled with higher visibility of the Centre; prudent organisational financial management; strong stakeholder management as well as effective human capital development. The enhanced infrastructural support will catalyse the speed and the effectiveness of the transformation strategies.

In 2017, Labuan FSA completed the key milestones under its Corporate Action Plan 2015 – 2017 (CAP). It has helped to strengthen the regulatory environment and supervisory oversight, elevate international cooperation and diversify the financial landscape. These achievements were supported by the implementation of organisational wide initiatives, including upscaling of the industry's talent capabilities and professionalism.

Through the CAP, Labuan FSA sought to further strengthen its regulatory framework and supervisory regime in line with international requirements and norms. Labuan FSA also ensured that the regulatory environment facilitates the growth of the market while maintaining the Centre's stability and promoting business integrity. We are committed to maintaining a sufficient level of supervisory oversight to ensure that the safety and soundness of the institutions and the overall market will never be compromised. Under the CAP, the Centre has established an appropriate regulatory and supervisory framework that was well-received by the industry. The stability of Labuan's financial sector and investor confidence had remained intact with continuous efforts in place to strengthen the foundation and boost the resilience of industry players to better weather any business adversities.

As part of the long-term strategic intent, Labuan FSA has continued to nurture Labuan IBFC as a centre of choice for the establishment of international businesses and placement for cross-border investments. To improve market access, business regulations and guidelines have been reinforced to provide better clarity and certainty for businesses that are established in Labuan IBFC. To facilitate new business innovations, an enabling framework for technology-related business propositions will be introduced in 2018. In Islamic finance, Labuan FSA has continued to work with key players to further develop the shariah-compliant financial market and to increase market awareness of opportunities and benefits that are offered.

From the regulatory policy perspective, efforts were directed to building higher financial capacity and resilience, as evidenced by the roll-out of the first phase of Insurance Capital Adequacy Framework (ICAF) for (re) insurers and retakaful operators. Focus was also on improving financial disclosure and transparency by enhancing the role of external auditors for the annual audit engagements of key financial institutions. In recognising the important role played by the market intermediaries, efforts have also been made to promote professionalism and sound market practices amongst Labuan trust officers and money brokers.

Labuan FSA has continued to improve its risk-based supervisory framework, thereby ensuring the supervisory regime is in line with international standards practices. Towards this end, more engagements with industry players were undertaken in 2017 to allow for deeper understanding of business activities and to provide clarity on the needed supervisory intensity for the Authority's surveillance of the market. This is complemented by continuous efforts in augmenting supervisory cooperation with other home regulatory bodies to achieve a more cohesive supervisory reach and monitoring.

Reinforcing its commitment towards cross-border supervisory cooperation, Labuan FSA has remained committed to the exchange of information with its counterpart regulatory bodies. A pivotal effort was made towards implementing a robust regulatory and supervisory function when Labuan FSA set up strong investigation and enforcement measures to handle any non-compliance with Labuan laws and regulations as well as cases related to anti-money laundering (AML) in the centre. With regard to AML, progressive efforts were also carried out to strengthen the AML/CFT policy and supervisory framework in line with the implementation of the National Strategic Action Plan under the ambit of Malaysia's National Risk Assessment works.

Labuan FSA has continued to heighten its visibility in the international financial market community by actively participating and engaging with international bodies like GIICS and GIFCS. Labuan FSA has continued to represent the Asia Pacific and provide the region's voice in the GIIC's executive committee. In the international arena, Labuan FSA is committed to conforming to international policy requirements. In support of the international initiative to create a level playing field in global fiscal agenda, Labuan FSA has actively participated in various related meetings including the OECD Inclusive Framework for implementation of Base Erosion and Profit Shifting and the implementation of CRS.

Notwithstanding the challenging business environment, Labuan IBFC has continued to fortify its business reputation and affluence in the regional landscape. This is despite the slight business moderation in certain market segments, particularly from the matured sectors. During the year, a total of 941 new Labuan companies have been registered; an increase of about 19.1% as compared to the previous year. Registration of Labuan companies' has exceeded 14,000 - this growth reflected an increased interest from other regions in addition to the continued domination by Asia Pacific investors.

In terms of licensing, 2017 witnessed positive business activities, a trend consistent with other financial centres and supported by the flexibility and adaptability of the Labuan regulatory framework. The number of banks increased to 54 as there was heightened interest in setting up investment banks for wealth management activities. There were fourteen approvals granted in insurance and insurance-related business, with captive business as the popular take-up. It is worthwhile to note that insurance premiums continued to be above than the USD1 billion mark. However, the increased claims experience due to natural disasters and catastrophe categories had slightly moderated the bottom-line of a few global reinsurers in the market.

Solid performance from the Labuan niches has contributed to the robust business

Director General's Quotes

"Notwithstanding the challenging business environment, Labuan IBFC has continued to fortify its business reputation and affluence in the regional landscape."

performance. Supporting this was strong growth in wealth management structures, Labuan International Commodity Trading Companies (LITC) and money broking activities. The establishment of Labuan foundations continued to draw interest for the purpose of wealth management and LITC recorded ten additional new companies, a growth of 14% from the previous year. Money brokers, a growth business sector, had started to gain traction in recent years as demonstrated by significant growth of 314.3% since 2013. The Centre continued to attract global leasing companies particularly for aviation leasing. During the year, Labuan registered a total of 380 leasing companies with assets valued at USD48.8 billion. There is enormous potential for aviation leasing, particularly for the Asia Pacific region, and Labuan IBFC is positioning itself to enhance its leasing regime to tap that potential.

While Labuan IBFC has evolved itself over the years as a centre for the Asia-Pacific region, it is equally important to take stock of its role in the development of Labuan Island. The Centre has contributed significantly to Labuan, acting as a catalyst to spur the development of the island's infrastructures and amenities. Labuan FSA has also owns an international school as part of its overall corporate social responsibility for the Labuan community. The IBFC employs about 5,500 people of which about 30% are from Labuan and the surrounding areas of Labuan. In the future, Labuan FSA intends to contribute more to the island's local community and throughout the year, regular dialogue sessions were conducted with the industry players and local business chambers and associations to exchange ideas on how to further contribute to the island's progression. Labuan FSA has recently established the Labuan IBFC Foundation to enhance its contribution to the island. The foundation undertakes charitable activities, which include providing assistance in form of scholarship to the underprivileged deserving students as well as internship programmes. This initiative is part of Labuan FSA's inspiration to equip the island's young generation with relevant skills to improve their future employability prospects.

With the impending requirements for more substance by the institutions in Labuan, it is expected that more economic activities, including the creation of employment opportunities will be generated in the island. The support and commitment of the institutions of Labuan IBFC is critical for achieving these goals, which were encapsulated in the transformation plan, that will change the business model for Labuan IBFC.

I am pleased to announce that for the year ended 31 December 2017, Labuan FSA Group recorded an operating income of RM63.74 million with total reserves increased to RM70.45 million compared to RM67.45 in the previous year.

In concluding, I would to record my deep appreciation to the Chairman and members of the Authority for their wisdom, continuous guidance and support. I would also like to extend my gratitude to Datuk Ahmad Hizzad Baharuddin, my predecessor, for his contribution to Labuan IBFC and to the staff of Labuan FSA and its subsidiaries for their hard work and dedication to the organisation.

Who We Are and What We Do

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For further information, please go to https://www.labuanibfc.com

Did you know?

2017 - Labuan IBFC is home to:

203 Insurance and Insurance-Related Licensees

WHO WE ARE AND WHAT WE DO

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

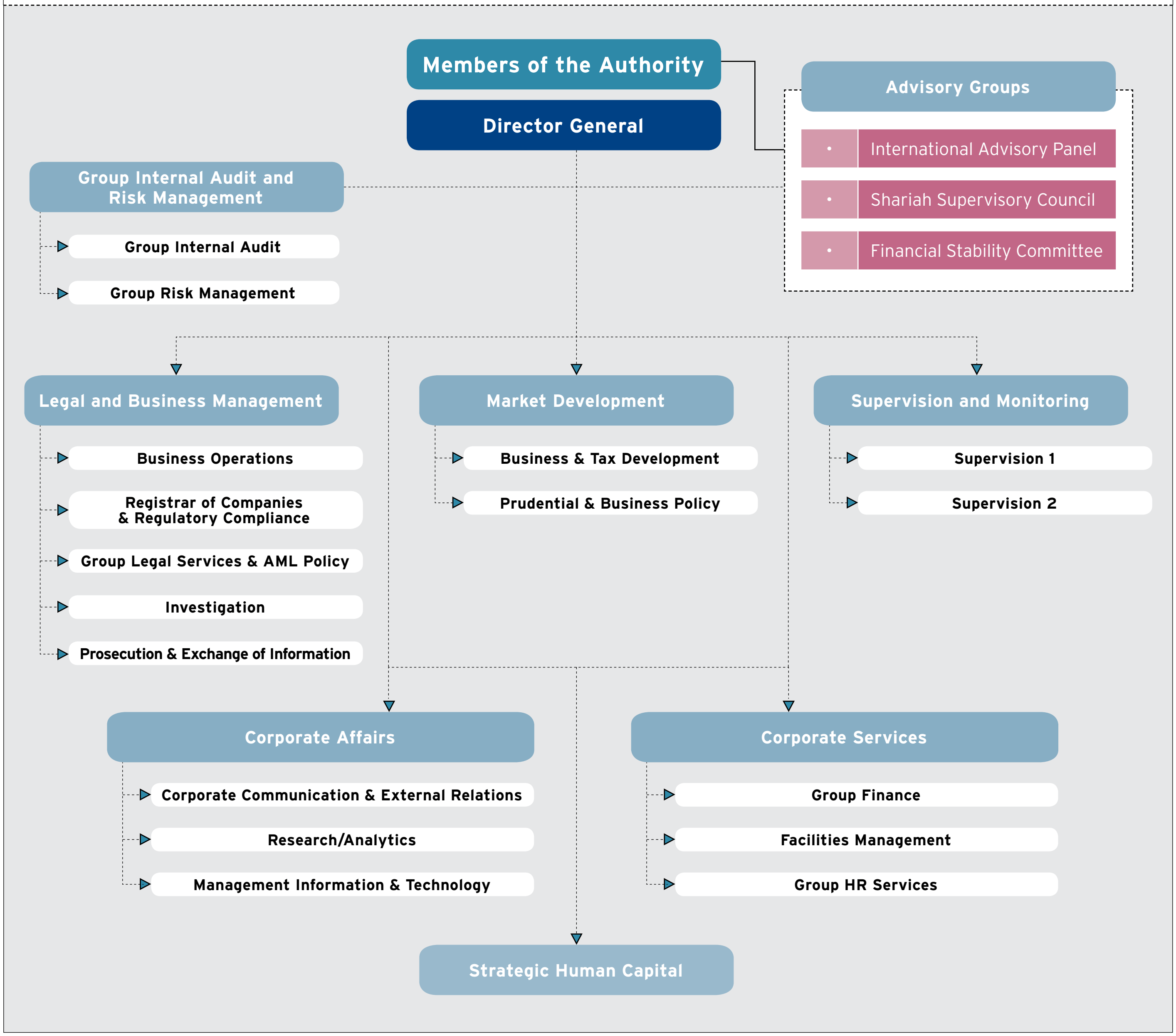
In discharging our regulatory mandate, we are entrusted with the following statutory functions:

- **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 core departments, namely Group Internal Audit and Risk Management, Legal and Business Management, Market Development, Supervision and Monitoring, Corporate Affairs, Corporate Services and Strategic Human Capital. The structure enables us to regulate and supervise the international financial institutions in Labuan IBFC effectively.

Labuan FSA Organisation Chart



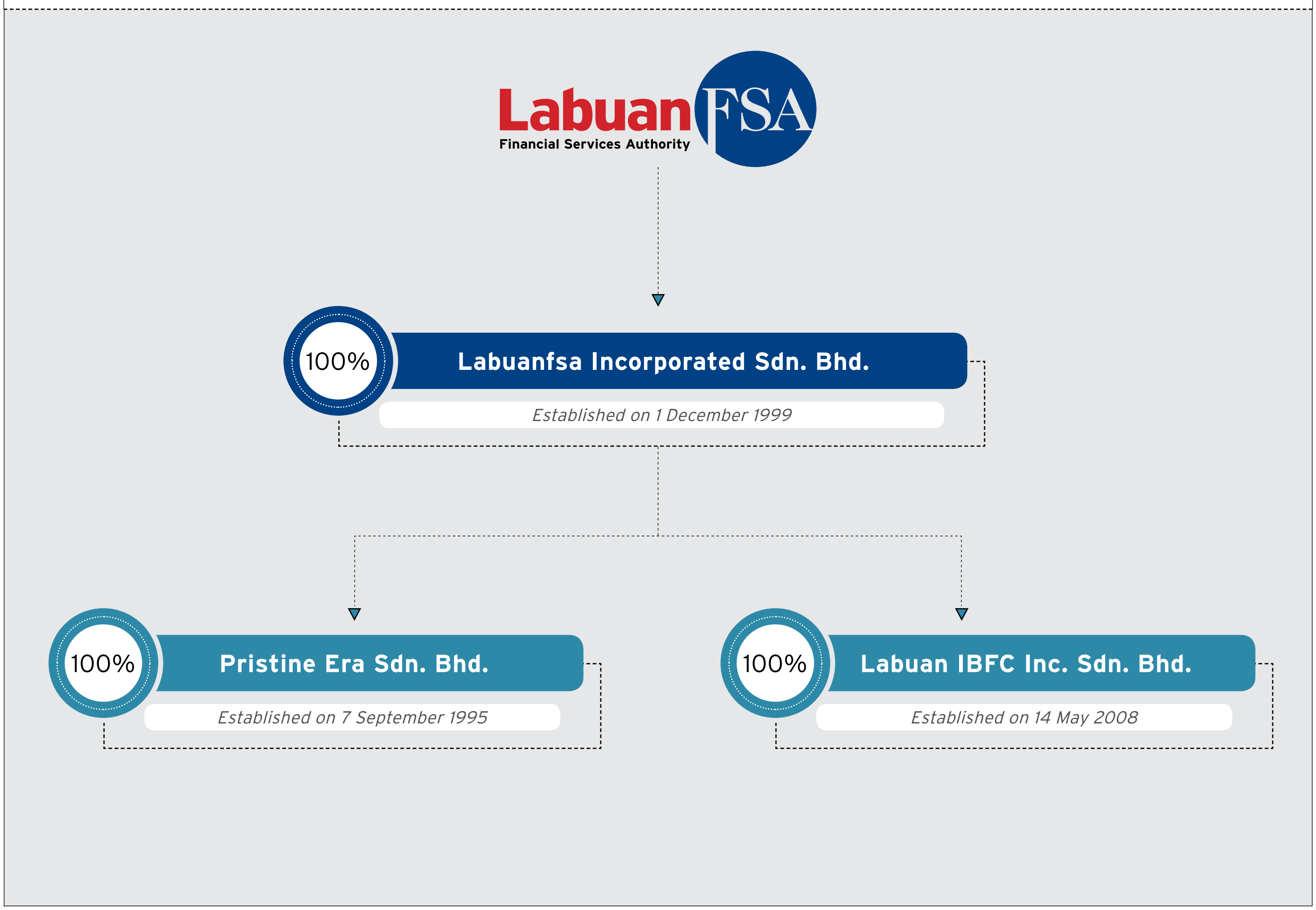
ORGANISATIONAL STRUCTURE

SUBSIDIARIES

Labuan FSA owns Labuanfsa Incorporated Sdn. Bhd., an investment holding company that was established in December 1999. Pristine Era Sdn. Bhd. and Labuan IBFC Inc. Sdn. Bhd. are subsidiaries of Labuanfsa Incorporated Sdn. Bhd.

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

Labuan FSA Subsidiaries Chart



INTERNATIONAL MEMBERSHIPS

Labuan FSA is a member of eight international organisations that promote the attainment of high regulatory standards among international financial centres, as well as enhance cooperation to advance their development.

International Organisations

Member since	
1998	**International Association of Insurance Supervisors (IAIS)** IAIS, established in 1994, represents insurance regulators and supervisors from more than 200 jurisdictions. It works closely with financial sector standards setting bodies and international organisations to promote financial stability. It also issues global insurance principles, standards and guidance papers; provides training and support on issues related to insurance supervision; and organises meetings and seminars for insurance supervisors.
1999	**Group of International Finance Centre Supervisors (GIFCS)** GIFCS was formed in October 1980 to promote the adoption of and compliance with international regulatory standards among its members, especially in the banking, fiduciary and AML/CFT arena.
1999	**Group of International Insurance Centre Supervisors (GIICS)** GIICS is a grouping of insurance regulators and supervisors from jurisdictions that provide international insurance services. The objectives of GIICS are to promote proper supervision of international insurance business and to provide mechanisms and fora to discuss areas of mutual interest as well as to formulate policies.
2000	**Asia/Pacific Group on Money Laundering (APG)** APG is an autonomous and collaborative international organisation of more than 40 members founded in 1997. It facilitates improvements for compliance with the anti-money laundering and counter financing of terrorism (AML/CFT) standards. It also assesses members' compliance with the global AML/CFT standards through mutual evaluation and conducts research into money laundering and terrorist financing methods, trends, risks and vulnerabilities.
2002	**International Islamic Financial Market (IIFM)** IIFM is the global standardisation body elevating transparency and robustness of the Islamic capital and money market within the Islamic financial system. Its primary focus lies in the standardisation and Shariah harmonisation of Islamic products, documentations and related processes. IIFM also provides a universal platform to market participants through various working groups and collaborative processes for the development of the Islamic capital and money market.

INTERNATIONAL MEMBERSHIPS

International Organisations

Member since

2003

International Organisation of Securities Commissions (IOSCO)

IOSCO is the worldwide association of national securities regulatory commissions. It assists members to promote high regulatory standards and acts as a forum for international cooperation among national regulators. Labuan FSA is currently a full signatory to the IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information.

2003

Islamic Financial Services Board (IFSB)

IFSB is an international standard-setting organisation that promotes and enhances the soundness and stability of the Islamic financial services industry. It also conducts research and coordinates initiatives on Islamic industry related issues, besides organising roundtables, seminars and conferences for regulators and industry stakeholders.

2016

Financial Action Task Force (FATF)

FATF is an inter-governmental body established in 1989 to set up standards and promote the implementation of effective legal, regulatory and operational measures to combat money laundering, terrorist financing and other activities that threaten the integrity of the international financial system. It monitors the progress of its members in implementing necessary measures; reviews money laundering and terrorist financing techniques and counter-measures; and promotes the adoption and implementation of appropriate measures globally.

In addition, through our subsidiary Pristine Era Sdn. Bhd., Labuan FSA is involved in managing the Labuan International School, and is admitted as a member of the International Schools Association.

Member since

2014

International Schools Association (ISA)

The ISA was founded under Swiss Law in 1951 and is the first educational NGO to be granted consultative status at UNESCO. The objectives of ISA are to encourage the creation of new international schools and foster cooperation among international or internationally-minded schools through consultation on teaching and administrative questions; facilitate or undertake the study of educational matters of interest to such schools; and to nurture interest in national schools of international matters as a means of improving international understanding.

EVENT HIGHLIGHTS 2017

Labuan FSA held its scheduled bilateral meetings with each of the Labuan IBFC associations, namely, the Association of Labuan Banks (ALB), the Labuan International Insurance Association (LIIA), the Association of Labuan Trust Companies (ALTC) and the Labuan Investment Banks Group (LIBG), to provide updates on the overall performance of the industry and to inform the industry about any latest developments. The meetings also served as a platform for the industry to share its outlook and business prospects for the year.

Labuan FSA participated in meetings and forums with international financial centre groupings including GIICS and GIFCS to discuss issues of mutual interest affecting IBFCs and the formulation of regulatory policies.

Labuan FSA attended meetings with international standard-setting bodies namely, the Organisation for Economic Co-operation and Development (OECD), APG and IIFM to keep abreast of the latest global developments in tax policies, compliance with anti-money laundering and combating financing of terrorism and regulatory standards.

Labuan FSA participated in Home-Host Outreach Programme hosted by the Bermuda Monetary Authority to foster closer working relations with home-host supervisory authorities and discuss regulatory and supervisory issues of mutual interest.

Labuan FSA signed a Memorandum of Understanding with the Abu Dhabi Global Market Financial Services Regulatory Authority and a Multilateral Memorandum of Understanding with the Group of International Finance Centre Supervisors to foster closer cooperation and to facilitate mutual assistance amongst others, on supervision and sharing of information.

A seminar was conducted in Sabah to promote financing opportunities in Labuan IBFC for entrepreneurs involved in the Sabah Development Corridor and members of the Malaysian International Chamber of Commerce and Industry.

The Director General of Labuan FSA delivered a keynote address at the ADVOC International Business Law Conference to share key international developments that are defining the roles of regulators and businesses. The keynote address also explained how Labuan IBFC responded to the global transformation of the industry in order to remain relevant and competitive.

EVENT HIGHLIGHTS 2017

A seminar on "Opportunities in the Asian Debt Financial Markets" was conducted for the Labuan IBFC industry to provide insights into opportunities in debt financial markets and asset securitisation. The seminar also discussed how Islamic instruments and structures can act as innovative alternatives to conventional solutions in fund raising as well as how the Labuan IBFC can provide the market's liquidity needs.

The annual Labuan International Finance Lecture Series invited speakers to share their views on 'The Fourth Industrial Revolution: Fintech, Enabling the Future of Financial Services'. The topic attracted great interest from the industry, especially the discussions on cryptocurrency and tail risks as well as on how businesses can ensure that they have the right infrastructure and governance in place to prevent, detect and recover in the event of cyberattacks.

Labuan FSA conducted dialogue sessions with the Labuan IBFC industry and the local Labuan Chambers of Commerce and Industries to understand the issues and challenges faced by the Labuan business communities. The discussion aimed to develop measures to strengthen the local economy and enhance the business environment in Labuan Island and the IBFC.

The Labuan Industry Annual Dinner took place in October to celebrate the industry's achievements for the year.

Labuan FSA, together with Maybank International Labuan Branch, conducted a two-day workshop on 'Reach Independence and Sustainable Entrepreneurship' for the Labuan community, to upscale the skillsets and knowledge of the local entrepreneurs and to provide training for those who wish to venture into business.

Labuan FSA initiated and took part in corporate social responsibility programmes throughout the year in the areas of community wellness among others, including donations, sponsorships and aid to poor and underprivileged groups; education excellence awards and industrial trainings for higher learning institutions.

Our Strategic Performance

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For further information, please go to https://www.labuanibfc.com

Did you know?

2017 - Labuan IBFC is home to:

52 Trust Companies

STRATEGIC INTENT OF LABUAN FSA

2017 marks the final year of the three-year Corporate Action Plan (CAP), which set out the priorities for the development of Labuan IBFC from 2015-2017. In these three years, the implementation of CAP has enabled us to strengthen the regulatory and supervisory regime in the Labuan IBFC; enhance the vibrancy of the Centre and foster closer international collaboration and cooperation; raise the industry capabilities and professionalism of service providers as well as improve the efficiency of organisational delivery.

The global challenges facing international business financial centres and emerging trends and opportunities in the regional business landscape has required Labuan IBFC to evolve in order to remain relevant and visible. To embrace the evolution of the industry, Labuan FSA embarked on a repositioning study, and formulating a plan to transform Labuan IBFC into an integrated economic regional hub. In tandem with the transformation plan, Labuan FSA has formulated a strategic business plan for the period 2018 to 2020 to steer the organisation on the path of the new business model. The plan entails specific strategies focusing on five key areas:

i. Modernise and realign the tax regime
ii. Deepen linkages to the island's development
iii. Reinforce a competitive business edge
iv. Maintain stability and international recognition
v. Promote organisational upscaling

Strategic Business Plan 2018-2020

The strategic business plan will see the Centre integrate with Labuan Island's growth agenda in playing a more significant and sustainable role in both the domestic and regional economies.

Financial Management

Improve the financial sustainability of the organisation and its subsidiaries.

Business-focused

- Enhance the business friendly environment.
- Improve and diversify products and services.
- Create a vibrant ecosystem to focus on financial niche areas.
- Promote higher business substance by the financial sector.
- Modernise the tax framework.
- Enhance Labuan IBFC's legal framework.

Stakeholder Management

Closer collaboration and cooperation with stakeholders and international counterparts.

Visibility

Increase Labuan FSA's prominence within the island and the region.

Reputation Resilience

- Provide effective home supervisor support and collaboration.
- Enhance Governance & Market Conduct Standards.
- Strengthen financial regulations.
- Continually share information.
- Implement focused and pre-emptive supervision and enforcement.
- Revise legal framework to promote prudent business conduct.

Human Capital Development

Talent enrichment and capacity building in the island through structured talent management and development and effective succession planning.

Infrastructure Support

- Efficient system and faster turnaround
- Enhanced connectivity and accessibility to Labuan Island
- Enhancement of IT infrastructure and improvements to the delivery system

LABUAN IBFC INDUSTRY PERFORMANCE

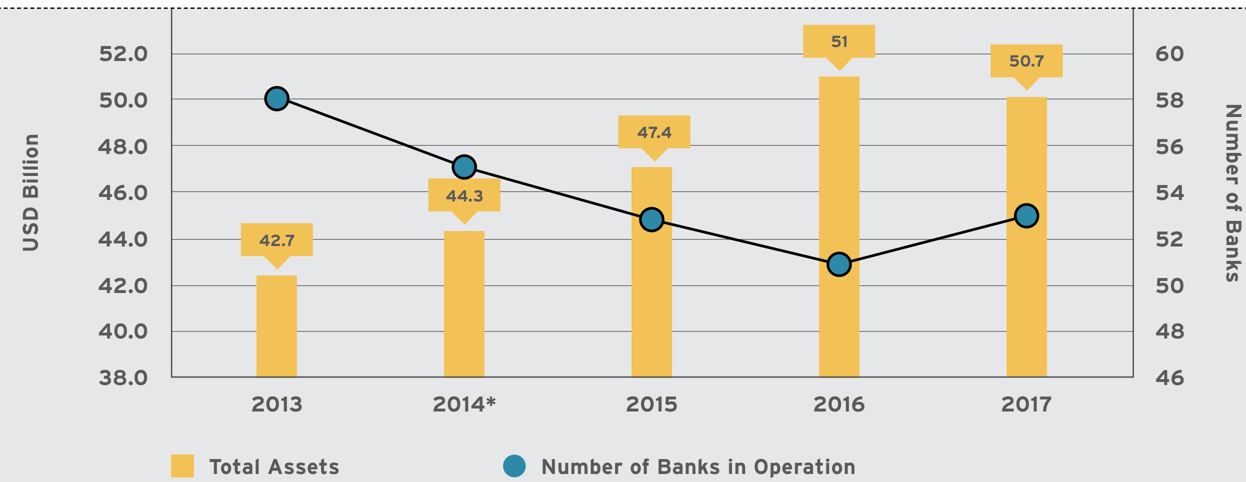
LABUAN BANKING

- In year 2017, Labuan FSA approved three investment banking licences bringing the total number of approved banks to 54, an increase of 5.9% over the previous year. Of the total approval, 53 banks were in operation. During the year, one foreign branch bank surrendered its banking licence due to the strategic decisions taken at the bank's head office to rationalise its banking operations globally. One investment bank licence was revoked due to the bank's non-compliance with the provisions under the Labuan Financial Services and Securities Act 2010.

- During the year, the banking sector reported slower growth and a decrease in profits. However, amidst the challenging economic and operating environment, the Labuan banking sector remained resilient with good capital buffers. Credit risk remained stable in the long-term due to continuous improvements in both asset quality and financial strength.

- The total assets of Labuan banks fell slightly by 0.5% to USD50.7 billion in 2017 (2016: USD51 billion). The decrease was primarily the result of a reduction in the total loan outstanding amounted to USD4 billion.

Chart 1: Total Assets and Number of Banks in Operation



** Restated*

LABUAN BANKING

- The main source of funding for Labuan banks was borrowings from head offices and financial institutions, which made up 72.2% or USD36.6 billion (2016: USD35.2 billion) of the total loan sources.
- These funds were mainly utilised for loans and advances, interbank placement with head office and branches outside Malaysia, which accounted for 54.9% or USD27.8 billion and for 30.8% or USD15.6 billion of the total funds, respectively.
- On the banks' investment portfolio, money market instruments such as government debt securities, corporate debt securities and negotiable instruments of deposit (NID) accounted for 74.4% of the total investments by Labuan banks and dealing in securities contributed 25.6%.

Table 1: Sources and Uses of Funds

	2013	2014*	2015	2016	2017	change (%)	share (%)
	USD Million						
Sources:							
Deposits	10,743.6	9,137.2	10,773.2	11,232.1	8,313.0	(26.0)	16.4
Amount due to financial Institution/ Interbank borrowing	27,820.1	31,020.1	32,495.1	35,210.7	36,617.7	4.0	72.2
Others	4,126.3	4,119.1	4,123.7	4,544.1	5,799.1	27.6	11.4
Total	**42,690.1**	**44,276.5**	**47,392.0**	**50,986.9**	**50,729.8**	**(0.5)**	**100.0**
Uses:							
Cash and Short-term Funds	1,192.3	1,922.1	1,680.0	2,691.8	1,926.1	(28.4)	3.8
Balances due from Head Office and Branches Outside Malaysia	7,428.8	3,429.5	5,290.3	10,814.4	15,649.8	44.7	30.8
Investments	4,430.1	4,118.5	3,806.5	3,200.5	3,070.8	(4.1)	6.1
Loans and Advances	27,742.4	31,971.0	32,318.2	31,809.1	27,838.3	(12.5)	54.9
Fixed Assets	7.5	4.1	3.8	3.7	3.8	4.7	0.0
Others	1,889.0	2,831.3	4,293.3	2,467.5	2,241.0	(9.2)	4.4
Total	**42,690.1**	**44,276.5**	**47,392.0**	**50,986.9**	**50,729.8**	**(0.5)**	**100.0**

** Restated*
Note: Figures may not necessarily add up due to rounding

LABUAN BANKING

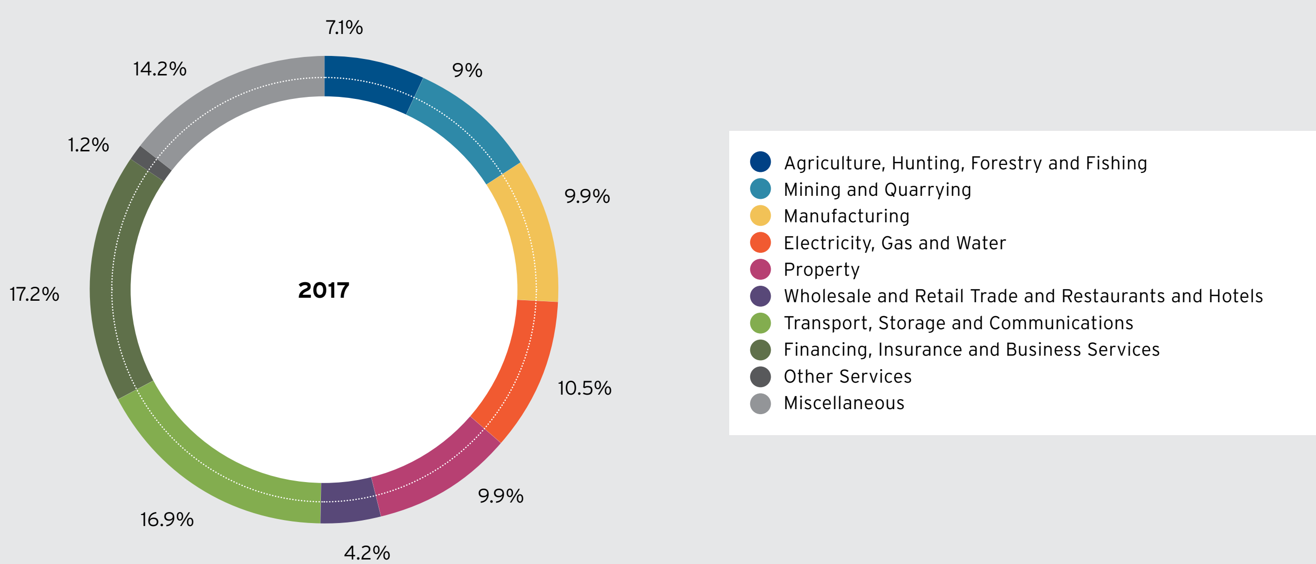
- The main business lines funded by the Labuan banks were transportation, storage and communications; financing, insurance and business services; and miscellaneous sectors which consist of loans granted to investment holding companies, sovereign and special purpose companies.

Table 2: Loans by Sectors

Loans by Sectors	2013	2014	2015	2016	2017
	USD Million				
Agriculture, Hunting, Forestry and Fishing	2,321.0	2,417.4	2,419.1	1,802.1	1,964.4
Mining and Quarrying	4,455.8	4,590.5	4,464.1	4,329.7	2,492.4
Manufacturing	2,400.2	2,817.0	2,857.7	2,614.1	2,767.8
Electricity, Gas and Water	1,925.7	3,894.2	2,927.9	3,190.1	2,915.0
Property	2,494.3	2,174.6	2,518.0	2,900.2	2,756.5
Wholesale/Retail Trade and Restaurants/Hotels	843.4	1,312.5	1,108.1	923.5	1,161.6
Transport, Storage and Communications	5,107.1	5,357.9	4,408.3	5,737.9	4,705.9
Financing, Insurance and Business Services	5,115.8	5,547.0	6,707.8	5,348.1	4,795.0
Other Services	134.6	280.2	253.7	293.6	336.0
Miscellaneous	2,944.5	3,579.5	4,653.6	4,669.6	3,943.8
Total	**27,742.4**	**31,971.0**	**32,318.2**	**31,809.1**	**27,838.3**

** Restated*
Note: Figures may not necessarily add up due to rounding

Chart 2: Direction of Lending by Sectors



LABUAN BANKING

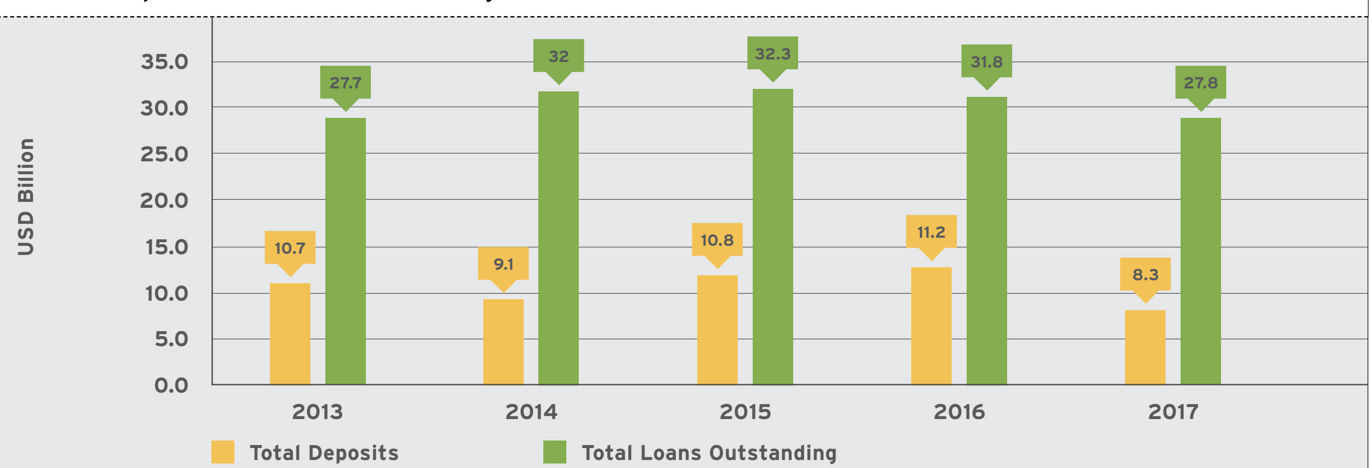
- The total loans outstanding contracted by 12.5% to USD27.8 billion (2016: USD31.8 billion). The reduction was mainly due to a higher level of loans being settled by residents, particularly in the mining and quarrying sector and lower credit lines granted to oil and gas industry.
- Non-resident clients made up 68% of the share of total loans (2016: 62.4%).
- In terms of geographical distribution, 66.1% of the total loans and advances were granted to customers originated from ASEAN countries, the majority from Malaysia including Labuan and other Asian countries namely Japan, Hong Kong, Australia, India and others contributed 20.4%. The remaining were originated from European (11.1%), Latin American (1.3%), Middle Eastern (0.9%) and African (0.1%) countries.

Table 3: Deposits and Loans Outstanding of Non-Bank Customers

Loans by Sectors	2013	2014	2015	2016	2017	change (%)
	USD Million					
Total Deposits	**10,743.6**	**9,137.2**	**10,773.2**	**11,232.1**	**8,313.0**	**(26.0)**
Residents	3,883.4	2,758.4	5,590.6	6,044.9	4,943.7	(18.2)
% share	36.1	30.2	51.9	53.8	59.5	-
Non-Residents	6,860.3	6,378.9	5,182.5	5,187.3	3,369.3	(35.0)
% share	63.9	69.8	48.1	46.2	40.5	-
Total Loans Outstanding	**27,742.4**	**31,971.0**	**32,318.2**	**31,809.1**	**27,838.3**	**(12.5)**
Residents	11,050.6	14,315.2	12,923.5	11,971.5	8,919.9	(25.5)
% share	39.8	44.8	40.0	37.6	32.0	-
Non-Residents	16,691.7	17,655.8	19,394.7	19,837.5	18,918.4	(4.6)
% share	60.2	55.2	60.0	62.4	68.0	-

Note: Figures may not necessarily add up due to rounding

Chart 3: Deposits and Loans Outstanding



LABUAN BANKING

- Total deposits also decreased by 26% to USD8.3 billion (2016: USD11.2 billion). The decrease was due to the withdrawal of fixed deposit placement due to maturity.

- 66.6% of total deposits were derived from fixed deposit with the remaining from current accounts. Residents constituted the majority of the depositors, which accounted for 59.5% or USD4.9 billion of the total deposits (2016: 53.8% or USD6 billion).

- In terms of geographical distribution, 87.8% of the total deposits were from ASEAN countries, mainly from Malaysia including Labuan (81.7%), Thailand (3.6%), Singapore (2.3%) and Indonesia (0.1%). The remaining 12.2% of total deposits were from other countries (9.4%), European (1.6%), African (0.5%), Middle Eastern (0.2%) and Latin American countries (0.4%).

- Malaysian-based banks had a larger deposit base (77.5%) while foreign banks were the major contributors to total loans outstanding (69.8%) in Labuan IBFC.

Table 4: Deposits and Loans by Country for Non-Bank Customers

	2016		2017	
	Loans	Deposits	Loans	Deposits
	USD Million			
ASEAN	22,832.7	8,631.1	18,408.1	7,302.1
Europe	2,830.6	1,398.1	3,099.7	134.3
Latin America	390.9	32.2	351.9	31.7
Africa	27.0	110.1	39.1	44.5
Middle East	497.8	54.3	264.1	18.9
Other Countries	5,230.1	1,006.3	5,675.4	781.5
Total	**31,809.1**	**11,232.1**	**27,838.3**	**8,313.0**

Note: Figures may not necessarily add up due to rounding

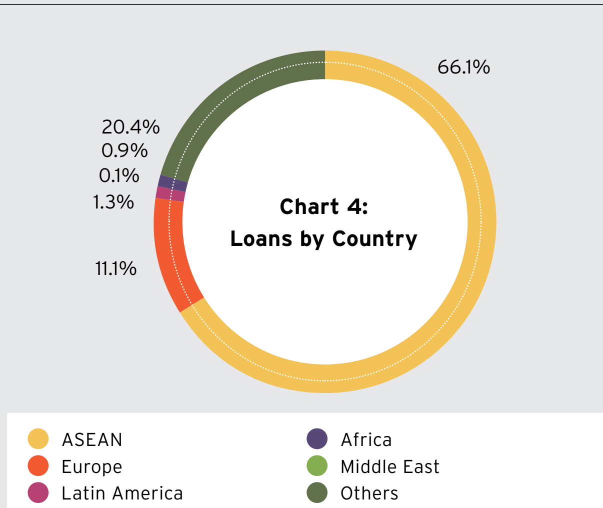


Chart 4: Loans by Country

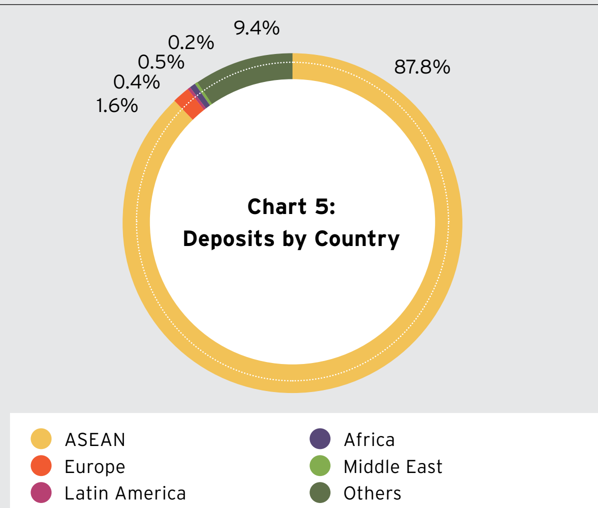


Chart 5: Deposits by Country

LABUAN BANKING

- The Labuan Islamic banking sector recorded moderate growth in year 2017.

- The Islamic banking industry in Labuan IBFC comprised three full-fledged banks, two full-fledged investment banks and 11 Islamic windows of conventional banks.

- Islamic asset growth has outstripped the growth of conventional banking assets. The market share of Islamic assets has significantly increased to USD3.1 billion or 6.1% of the total banking industry's assets compared to the previous year (2016: USD1.9 billion or 3.7%).

- The growth of total Islamic assets was in line with the increase of Islamic financing granted by Labuan Islamic banks, including the conventional banks with Islamic windows, which has risen by 61.6% to USD2.5 billion (2016: USD1.6 billion). The increase was due to new Islamic financing granted to customers.

- Islamic financing made up of 9.1% of the total loans and advances of the banking industry (2016: 4.9%), with non-resident clients accounting for 69.4% of the total Islamic financing.

- The total Islamic deposits generated by the Labuan Islamic banks, including the conventional banks with Islamic windows, accounted for a 2.3% share of the total deposits of the industry, or USD193.4 million, a decrease of 3.6% from the previous year (2016: 1.8% or USD200.8 million). The decrease was mainly due to the withdrawal of Islamic deposits by non-resident clients amounting to USD7.5 million.

- The non-resident depositors accounted for the majority share of the 98.1% or USD189.8 million of total Islamic deposits (2016: 98.3% or USD197.3 million).

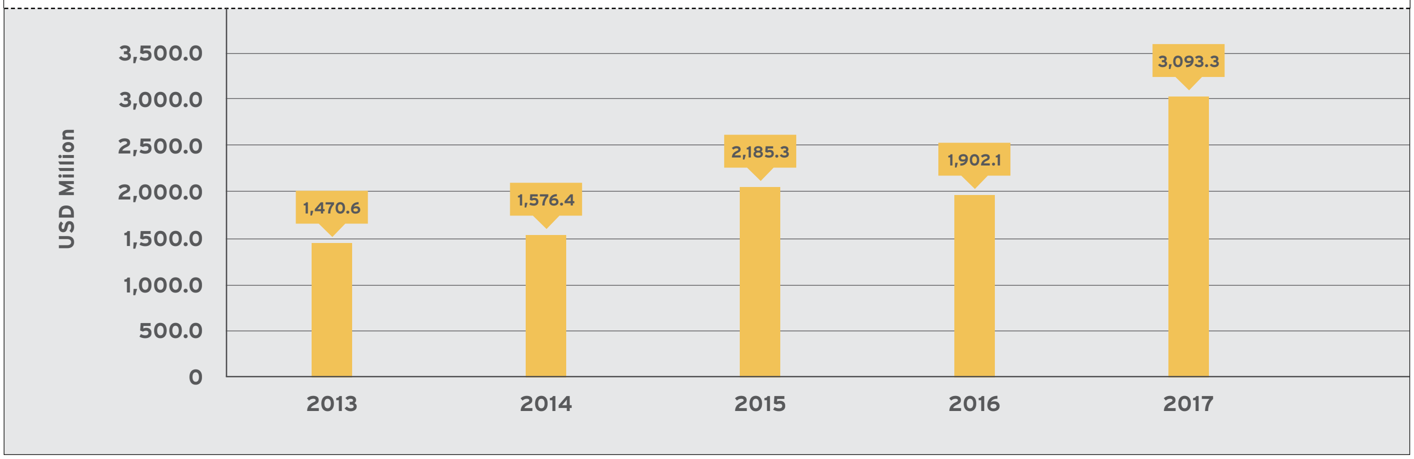
Table 5: Total Islamic Assets, Financing and Deposits

	2013	2014	2015	2016	2017	change (%)
	USD Million					
Total Islamic Assets	1,470.6	1,576.4	2,185.3	1,902.1	3,093.3	62.6
% Market Share	3.4	3.6	4.6	3.7	6.1	
Total Deposits	**222.7**	**162.8**	**155.1**	**200.8**	**193.4**	**(3.6)**
Residents	8.5	9.1	4.6	3.5	3.6	3.9
Non-Residents	214.2	153.7	150.5	197.3	189.8	(3.8)
% Market share	2.1	1.8	1.4	1.8	2.3	
Total Financing	**775.6**	**1,161.8**	**1,807.7**	**1,570.2**	**2,537.6**	**61.6**
Residents	236.8	442.7	411.2	230.8	777.4	236.8
Non-Residents	538.8	719.2	1,396.5	1,339.4	1,760.2	31.4
% Market share	2.8	3.6	5.6	4.9	9.1	

Note: Figures may not necessarily add up due to rounding

LABUAN BANKING

Chart 6: Total Islamic Assets



- Labuan bank subsidiaries remained well capitalised with RWCR at 37.9% (2016: 35.7%). In 2018, the ratio is expected to be lower upon the implementation of the revised Banking Capital Adequacy Framework which will take effect on 1 July 2018.
- The asset quality remained manageable with gross non performing loans ratio at 2.2% (2016: 0.7%).
- In 2017, Labuan banks remained profitable with profit before tax stood at USD454.6 million (2016: USD553.5 million), a slightly lower as compared to the previous year attributable to increased interest expenses and higher provisioning. The ROA and ROE, therefore, decline to 0.9% and 14.0% respectively (2016: 1.1% and 21.0% respectively).
- Overall, Labuan banks exhibited continued resilience with moderate performance in 2017 amid global economic recovery.

LABUAN BANKING

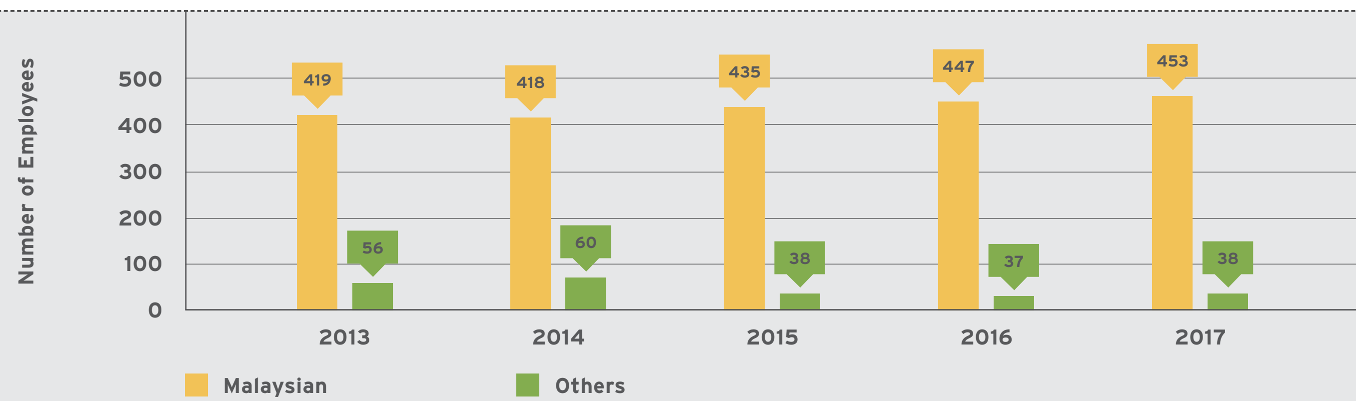
Table 6: Key Ratios

	2013	2014*	2015*	2016*	2017
PBT (USD mil)	575.0	461.1	622.9	553.5	454.6
Total Assets (USD mil)	42,690.1	44,276.5	47,392.0	50,986.9	50,729.8
Shareholders' Funds (USD mil)	2,743.9	2,503.5	2,625.2	2,757.2	3,255.5
CCR (%)	23.1	31.6	31.9	36.8	39.0
RWCR (%)	23.1	31.6	31.9	35.7	37.9
Gross NPL Industry (%)	1.5	1.5	0.8	0.7	2.2
Net NPL Industry (%)	0.8	0.9	0.5	0.2	1.2
ROE (%)	21.0	18.4	23.7	20.1	14.0
ROA (%)	1.3	1.0	1.3	1.1	0.9

** Restated*

- For the past five years, the number of Malaysian employees working in the Labuan banks has increased gradually from 419 in 2013 to 453 in 2017. On the other hand, the number of expatriates has decreased to 38 from 56 in the same period.
- The increasing number of Malaysian employees working in Labuan banks shows that the banking sector in Labuan has adequate Malaysian talent force to manage the operations and business of the Labuan banks.
- The total number of Labuan co-located offices and marketing offices in Kuala Lumpur and Iskandar Malaysia is seven and 23, respectively. The presence of these offices provides Labuan banks with more flexibility to conduct their banking business in Labuan IBFC and contribute to the growth of the international financial market in Malaysia.

Chart 7: Employment



LABUAN INSURANCE

- In year 2017, Labuan FSA approved 14 insurance and insurance-related licences, comprising six captives, four brokers, two reinsurers, one life insurer and one general insurer. This brings the total number of approved Labuan insurance and insurance-related entities to 203, a decline of 0.5% from the previous year (2016: 204).

- The slight decrease in total number of entities was due to surrender of 13 licences because of strategic and business decisions for some and an inability to continue their business on a going concern basis for others. In addition, one of the approvals granted was regarded as null and void due to failure to satisfy the licensing conditions and one licence was revoked due to non-compliance with the provisions under the Labuan Financial Services and Securities Act 2010.

- Despite the surrender of licences by some entities during the year, there were new entrance of insurance companies to Labuan IBFC, including (re)insurance entities. Two well-rated general reinsurance companies specialising in property and casualty insurance originated from South Korea and Hong Kong, were granted licences. One 'A' rated general insurer from the U.S. was licensed to set up their branch in Labuan IBFC focusing on financial lines and marine and international maritime shipping. In addition, one reputable life insurer whose Group is based in Canada also set up their operations in Labuan. These entities set-up their businesses in Labuan due to the comprehensive regulatory framework and low operating cost.

- Labuan IBFC is also home to captive insurance companies. In 2017, six captives were approved, bringing the total number of approved captive insurance companies to 43 (2016: 39). These captives were set up by large corporations and SMEs originated from Australia, Singapore and Malaysia. The wide range of captive structures including PCCs have attracted more corporations to set-up captive business in Labuan IBFC.

Table 1: Number of Approved Entities

Type of Licence	2013	2014	2015	2016	2017
Life	5	5	7	8	9
General	14	13	13	14	13
Composite	2	2	2	2	1
Reinsurance	46	46	46	44	43
Captive	41	40	40	39	43
Insurance Manager	4	3	3	3	3
Underwriting Manager	20	21	20	20	19
Broker	81	79	78	74	72
Total	**213**	**209**	**209**	**204**	**203**

LABUAN INSURANCE

Chart 1: Number of Labuan Insurance Licences

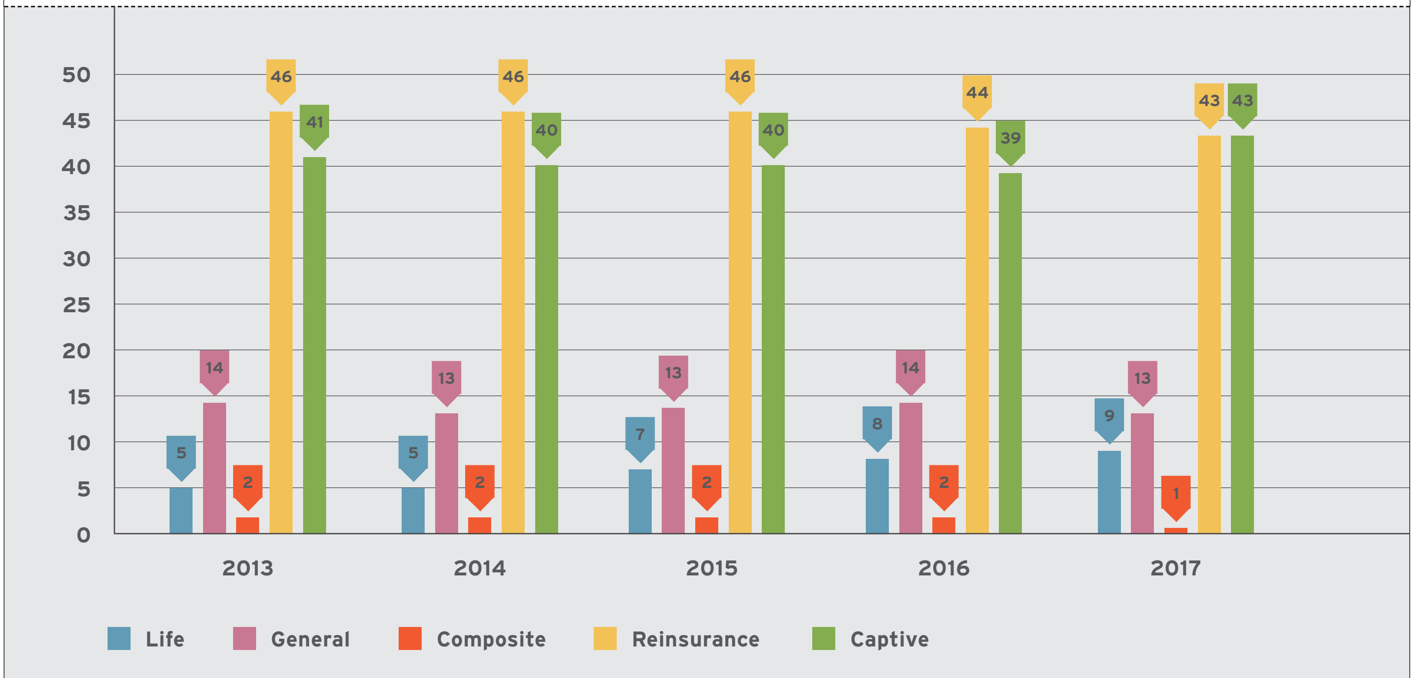
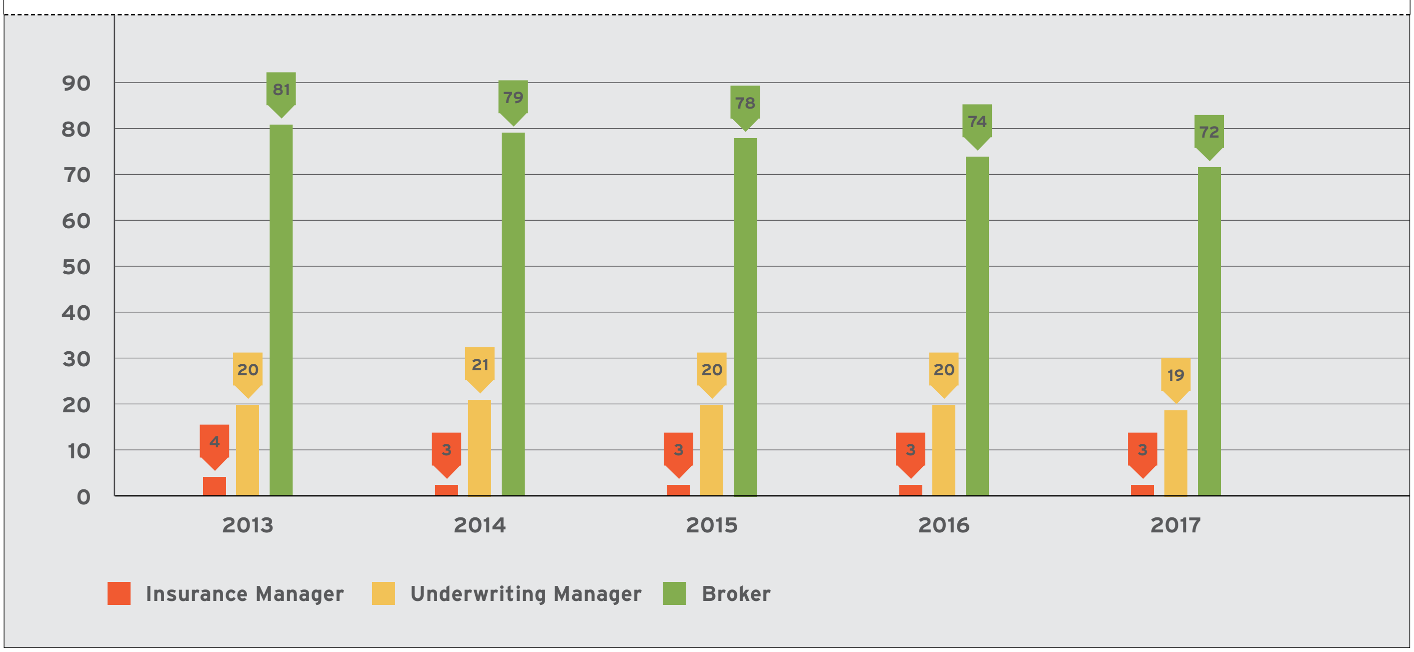


Chart 2: Number of Labuan Insurance-Related Licences



LABUAN INSURANCE

- Total capitalisation of the Labuan insurance industry decreased by 13.8% to USD715.3 million from previous year (2016: USD829.9 million). The decrease was due to the surrender of licences by three general reinsurers, two general insurers and one composite insurer.

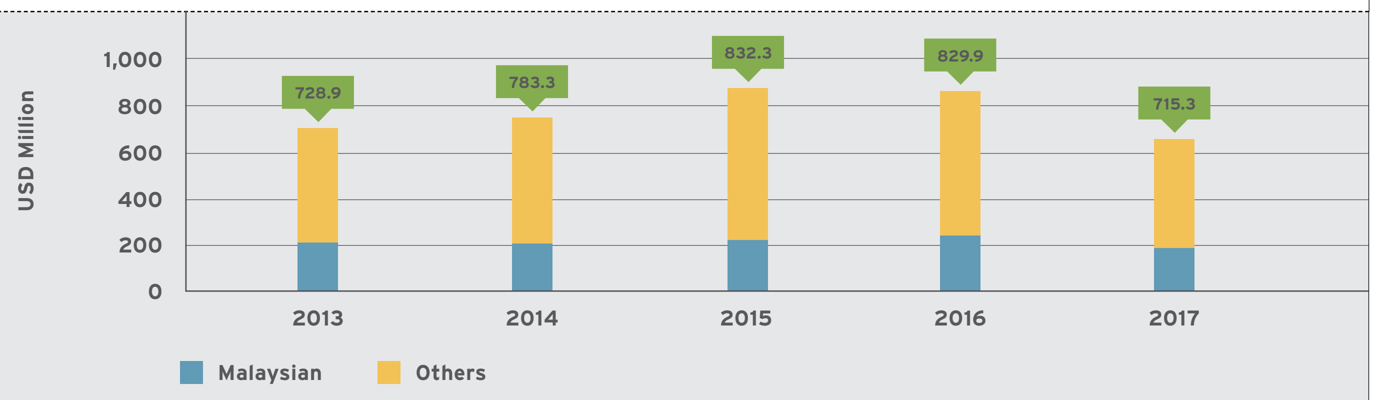
- For the past five years, the total shareholdings for the Labuan insurance industry have been dominated by foreign shareholdings. In 2017, foreign shareholdings accounted for 72.8% (2016: 71.5%).

Table 2: Total Capitalisation

Held By	2013		2014		2015		2016		2017	
	USD '000	share (%)	USD '000	share (%)	USD '000	share (%)	USD '000	share (%)	USD '000	share (%)
Malaysian	207,296	28.4	206,928	26.4	216,399	26.0	236,149	28.5	194,606	27.2
Others	521,597	71.6	576,353	73.6	615,929	74.0	593,704	71.5	520,739	72.8
Total	**728,893**	**100.0**	**783,281**	**100.0**	**832,328**	**100.0**	**829,853**	**100.0**	**715,345**	**100.0**

Note: Figures may not necessarily add up due to rounding

Chart 3: Total Capitalisation



LABUAN INSURANCE

- Parallel with the decrease in total capitalisation, the total assets recorded in 2017 also decreased by 1.5% to USD4.1 billion (2016: USD4.2 billion). This was mainly due to the decrease in investments, fixed deposits placement and money market investment.

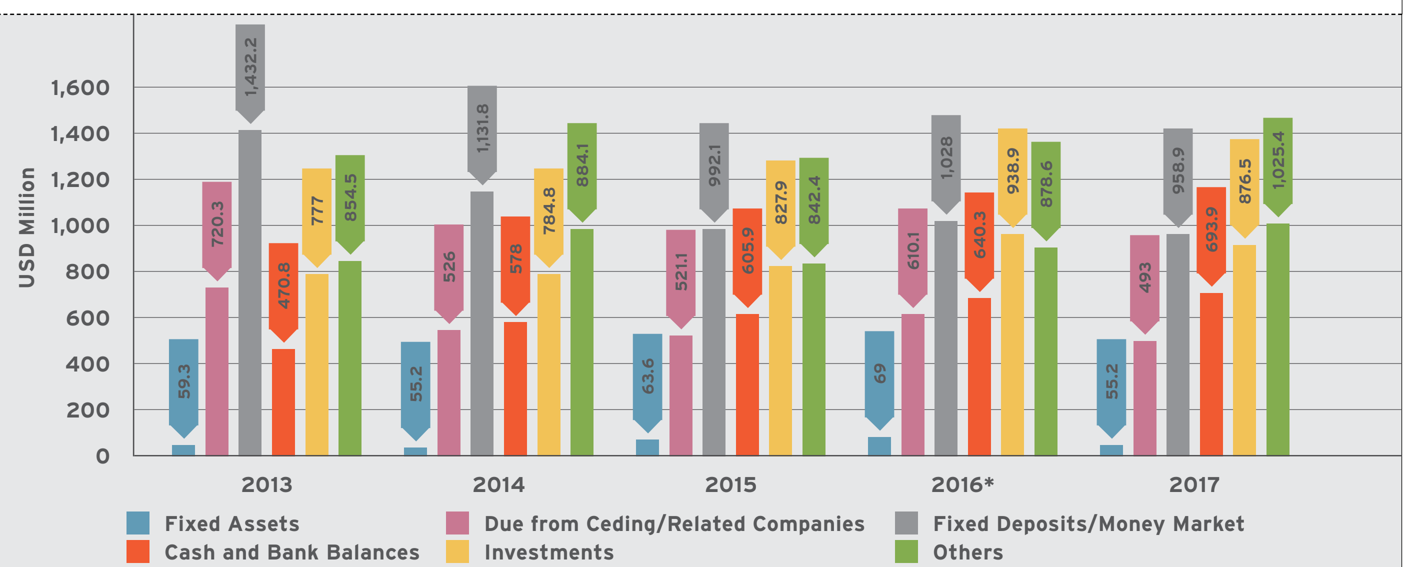
- Due to uncertainty of the global market and risk aversion appetite, fixed deposits and money market remained the largest component of total assets representing 23.4% or USD958.9 million (2016: 24.7% and USD1 billion).

Table 3: Total Assets

Assets	2013		2014		2015		2016*		2017	
	USD '000	share (%)	USD '000	share (%)	USD '000	share (%)	USD '000	share (%)	USD '000	share (%)
Fixed Assets	59,341	1.4	55,234	1.4	63,641	1.7	68,998	1.7	55,220	1.3
Due from Ceding/ Related Companies	720,278	16.7	526,018	13.3	521,126	13.5	610,090	14.6	493,036	12.0
Fixed Deposits/ Money Market	1,432,202	33.2	1,131,825	28.6	992,065	25.7	1,028,000	24.7	958,897	23.4
Cash and Bank Balances	470,821	10.9	578,021	14.6	605,901	15.7	640,341	15.4	693,876	16.9
Investments	777,020	18.0	784,809	19.8	827,850	21.5	938,870	22.5	876,501	21.4
Others	854,457	19.8	884,103	22.3	842,354	21.9	878,563	21.1	1,025,414	25.0
Total	**4,314,119**	**100.0**	**3,960,011**	**100.0**	**3,852,938**	**100.0**	**4,164,862**	**100.0**	**4,102,943**	**100.0**

** Restated*
Note: Figures may not necessarily add up due to rounding

Chart 4: Total Assets



** Restated*

LABUAN INSURANCE

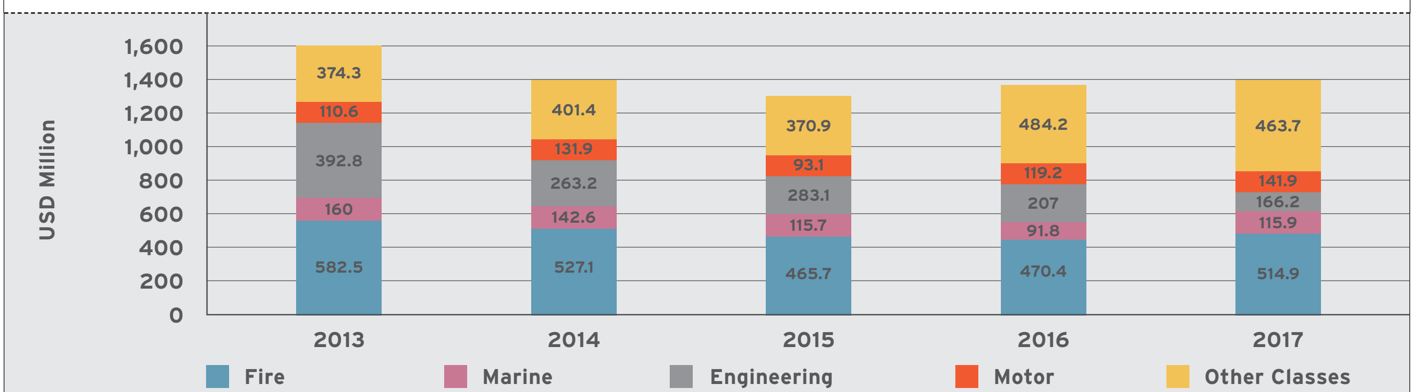
- In 2017, there was a slight increase of 2.2% in total gross premiums to USD1.4 billion (2016: USD1.37 billion). This was mainly due to a significant increase in gross premiums written on fire and marine insurance outside Malaysia by the Labuan general reinsurers.
- Non-resident business continued to contribute the highest share of 60.9% (2016: 57.9%) as compared to resident business. This is in tandem with the Centre's efforts to promote out-out (re) insurance business.
- The fire sector remained the biggest contributor accounting for 36.7% or USD514.9 million (2016: 34.3% or USD470.4 million) of the total gross premiums.

Table 4: Distribution of Gross Premiums

Year	Total		Fire	Marine	Engineering	Motor	Other Classes	Total
	Malaysian	Others	USD'000					
2013	766,913	853,184	582,483	159,978	392,782	110,595	374,260	**1,620,098**
2014	735,371	730,721	527,058	142,558	263,173	131,872	401,431	**1,466,092**
2015	656,137	672,427	465,724	115,683	283,118	93,128	370,912	**1,328,564**
2016	577,530	795,070	470,416	91,791	207,042	119,162	484,189	**1,372,600**
2017	548,793	853,793	514,935	115,915	166,169	141,903	463,663	**1,402,585**
change (%)								
2013	(4.3)	(9.0)	(13.3)	(20.2)	27.0	(32.6)	(4.8)	**(6.8)**
2014	(4.1)	(14.4)	(9.5)	(10.9)	(33.0)	19.2	7.3	**(9.5)**
2015	(10.8)	(8.0)	(11.6)	(18.9)	7.6	(29.4)	(7.6)	**(9.4)**
2016	(12.0)	18.2	1.0	(20.7)	(26.9)	28.0	30.5	**3.3**
2017	(5.0)	7.4	9.5	26.3	(19.7)	19.1	(4.2)	**2.2**
share (%)								
2013	47.3	52.7	36.0	9.9	24.2	6.8	23.1	**100.0**
2014	50.2	49.8	35.9	9.7	18.0	9.0	27.4	**100.0**
2015	49.4	50.6	35.1	8.7	21.3	7.0	27.9	**100.0**
2016	42.1	57.9	34.3	6.7	15.1	8.7	35.3	**100.0**
2017	39.1	60.9	36.7	8.3	11.8	10.1	33.1	**100.0**

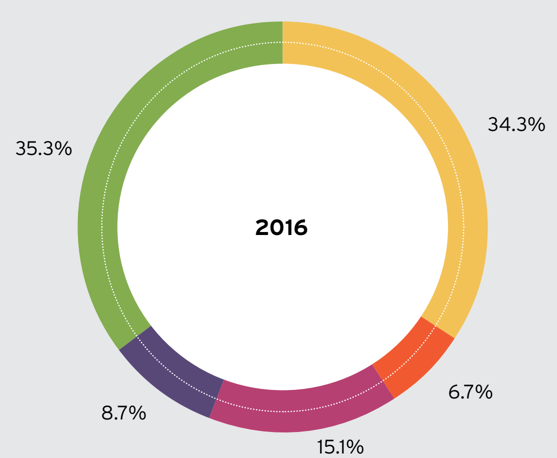
Note: Figures may not necessarily add up due to rounding

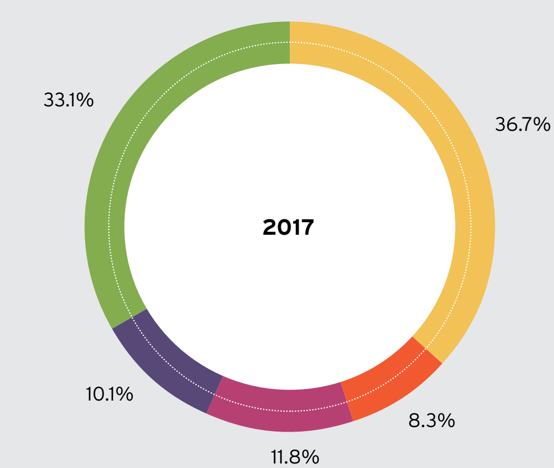
Chart 5: Distribution of Gross Premiums



LABUAN INSURANCE

Chart 6: Distribution of Gross Premiums





- The overall net retention ratio of the industry decreased to 63.2% compared to the previous year (2016: 71.9%) mainly due to lower retention in the marine sector.
- For the past four years, motor sector has recorded the highest net retention. In 2017, other classes of insurance edged ahead of motor, with the highest net retention ratio of 77.5% (2016: 77.9%).

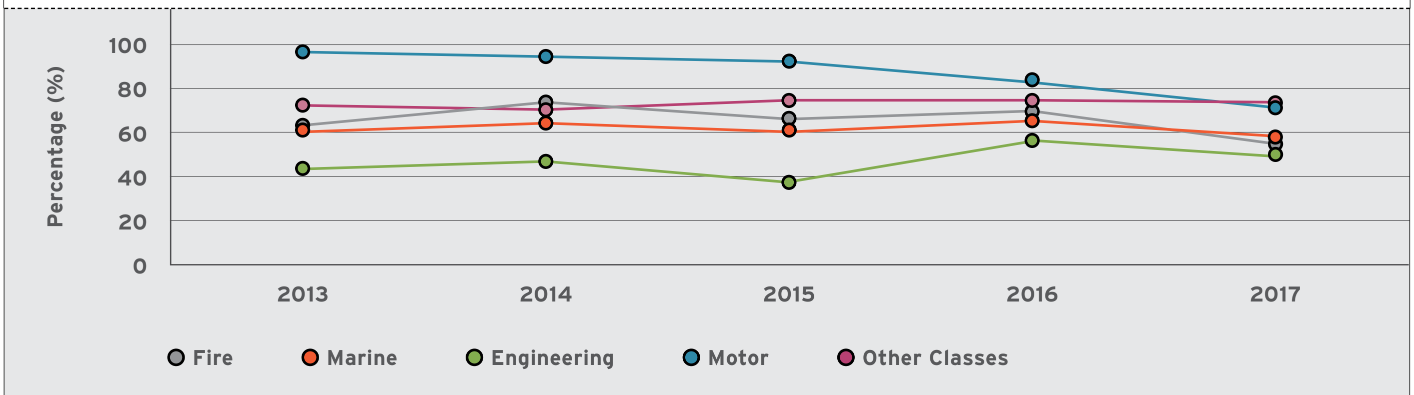
Table 5: Net Retention Ratio (%)

Year	Malaysian	Others	Fire	Marine	Engineering	Motor	Other Classes	Total
2013	53.4	76.3	68.6	68.6	42.3	97.3	73.9	**65.4**
2014	54.5	77.0	70.5	61.3	43.9	96.5	65.1	**65.7**
2015	55.4	72.7	64.6	69.6	38.7	91.8	74.4	**64.1**
2016	58.7	81.5	68.7	72.5	58.4	83.1	77.9	**71.9**
2017	54.8	68.6	54.9	52.1	44.8	77.2	77.5	**63.2**

Note: Figures may not necessarily add up due to rounding

LABUAN INSURANCE

Chart 7: Net Retention Ratio



- In tandem with the trend of reduced net retention ratio, the industry's earned premium income for 2017 also decreased by 11.1% to USD862.4 million (2016: USD970.1 million).
- The ratio of net claims increased significantly to 63.5% from the previous year (2016: 35.2%) resulting in a significant decrease of the underwriting margin to 10.7% from the previous year (2016: 37.8%).
- Commissions and management expenses declined by 12.1% and 22.2% to USD172.7 million and USD50.5 million, respectively (2016: USD196.6 million and USD64.9 million, respectively).
- Consequently, profit before tax fell by 56.1% to USD170 million (2016: USD387.3 million).
- The impact of natural catastrophes such as hurricanes, storms and wildfires in 2017 had a significant impact on Labuan insurance industry and resulted in a rise of claims paid by Labuan (re)insurers.

Table 6: Underwriting Experience

Year	Earned Premium Income	Net Claims Incurred		Commission		Management Expenses		Underwriting Margin	
	USD'000	USD'000	ratio (%)	USD'000	ratio (%)	USD'000	ratio (%)	USD'000	ratio (%)
2013	1,085,450	513,125	47.3	234,944	21.6	60,920	5.6	276,462	25.5
2014	999,663	454,614	45.5	191,376	19.1	67,883	6.8	285,790	28.6
2015	945,824	388,020	41.0	173,214	18.3	60,017	6.3	324,572	34.3
2016	970,085	341,523	35.2	196,567	20.3	64,863	6.7	367,131	37.8
2017	862,413	547,392	63.5	172,687	20.0	50,469	5.9	91,865	10.7

Note: Figures may not necessarily add up due to rounding

LABUAN INSURANCE

Table 7: Profit Before Tax

	2013	2014	2015	2016	2017
	USD'000				
Total	264,920	328,627	253,922	387,338	170,000

- For investment-linked products underwritten, a total of 553 new policies were issued in 2017, an increase of 64.6% (2016: 336). The total number of policies in force also increased by 27.5% to 2,136 (2016: 1,675).

- In terms of value, USD13.2 million of premiums was underwritten, compared to USD8.3 million in 2016. The total sum insured increased to USD15.2 million (2016: USD8.5 million).

Table 8: Statistics on Investment-Linked Policies

Year		New Policies			Policies in Force		
		Malaysian	Others	Total	Malaysian	Others	Total
2013	**No. of Policies**	**183**	**12**	**195**	**652**	**53**	**705**
		USD'000					
	Sum Insured	4,658	609	5,267	20,858	2,209	23,067
	Single Premiums	3,383	288	3,671	19,606	1,676	21,282
2014	**No. of Policies**	**182**	**2**	**184**	**781**	**49**	**830**
		USD'000					
	Sum Insured	8,339	519	8,858	31,436	2,185	33,621
	Single Premiums	4,854	533	5,387	16,579	1,513	18,093
2015	**No. of Policies**	**144**	**5**	**149**	**875**	**49**	**924**
		USD'000					
	Sum Insured	4,384	168	4,552	30,933	1,400	32,333
	Single Premiums	5,166	175	5,340	19,877	1,589	21,466
2016	**No. of Policies**	**64**	**272**	**336**	**903**	**772**	**1,675**
		USD'000					
	Sum Insured	2,565	5,972	8,537	31,402	20,678	52,080
	Single Premiums	2,131	6,136	8,267	19,645	21,491	41,135
2017	**No. of Policies**	**236**	**317**	**553**	**1,104**	**1,032**	**2,136**
		USD'000					
	Sum Insured	7,519	7,651	15,170	43,972	33,467	77,439
	Single Premiums	6,600	6,598	13,198	25,697	25,445	51,142

Note: Figures may not necessarily add up due to rounding

LABUAN INSURANCE

- In year 2017, the total gross premium for captive insurance business increased by 3.5% to USD360.9 million (2016: USD348.6 million). This was mainly due to the increase in gross premiums underwritten from Japan in other classes of insurance. Despite the increase in total gross premiums, the earned premiums for captive insurance business decreased by 9.0% to USD229.2 million (2016: USD252 million), due to lower retention for the engineering sector.

- Nonetheless, the engineering sector and other classes of business continued to make the highest contribution to the gross premiums, accounting for 28.1% or USD101.5 million and 58.8% or USD212.2 million, respectively (2016: 37.7% or USD131.3 million and 51.1% or USD178 million, respectively).

- The major portion of the total gross premiums for captive insurance business for 2017 were derived from outside Malaysia, in line with efforts to expand business regionally and globally.

Table 9: Distribution of Gross Premiums for Captive Business

Year	Malaysian	Others	Fire	Marine	Engineering	Motors	Other Classes	Total
					USD'000			
2013	287,804	146,551	36,497	21,171	274,718	36	101,934	**434,356**
2014	242,978	135,278	40,646	22,929	164,350	631	149,701	**378,257**
2015	232,336	142,254	28,379	14,500	209,830	216	121,665	**374,589**
2016	161,423	187,174	22,276	14,844	131,293	2,148	178,036	**348,596**
2017	129,982	230,900	25,488	19,585	101,517	2,071	212,221	**360,882**
					change (%)			
2013	24.3	53.5	6.8	(12.6)	48.4	0.0	21.9	**32.8**
2014	(15.6)	(7.7)	11.4	8.3	(40.2)	1,648.0	46.9	**(12.9)**
2015	(4.4)	5.2	(30.2)	(36.8)	27.7	(65.8)	(18.7)	**(1.0)**
2016	(30.5)	31.6	(21.5)	2.4	(37.4)	894.5	46.3	**(6.9)**
2017	(19.5)	23.4	14.4	31.9	(22.7)	(3.6)	19.2	**3.5**
					share (%)			
2013	66.3	33.7	8.4	4.9	63.2	0.0	23.5	**100.0**
2014	64.2	35.8	10.7	6.1	43.4	0.2	39.6	**100.0**
2015	62.0	38.0	7.6	3.9	56.0	0.1	32.5	**100.0**
2016	46.3	53.7	6.4	4.3	37.7	0.6	51.1	**100.0**
2017	36.0	64.0	7.1	5.4	28.1	0.6	58.8	**100.0**

Note: Figures may not necessarily add up due to rounding

LABUAN INSURANCE

Chart 8: Distribution of Gross Premiums for Captive Business

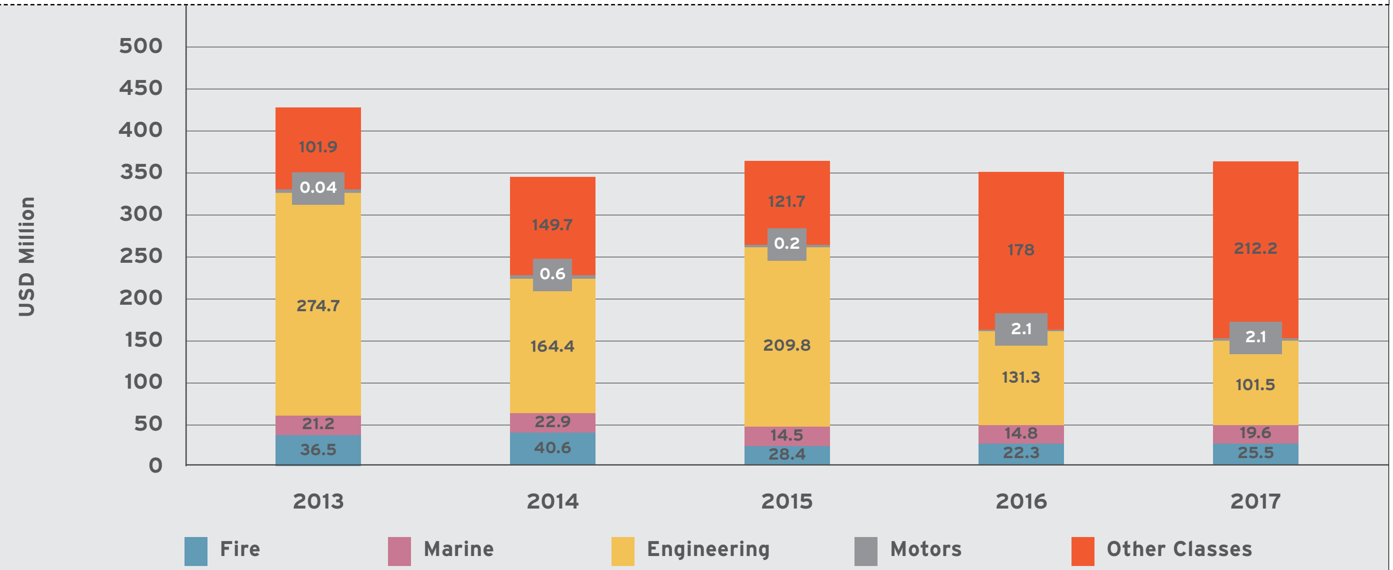


Table 10: Underwriting Experience of Captive Business

Year	Earned Premium Income	Net Claims Incurred		Commission		Management Expenses		Underwriting Margin	
	USD'000	USD'000	ratio (%)	USD'000	ratio (%)	USD'000	ratio (%)	USD'000	ratio (%)
2013	129,914	34,461	26.5	(15,721)	(12.1)	4,389	3.4	106,785	82.2
2014	180,816	111,179	61.5	(1,903)	(1.1)	3,687	2.0	67,853	37.5
2015	212,110	126,345	59.6	(8,940)	(4.2)	2,939	1.4	91,766	43.3
2016	252,020	129,629	51.4	5,846	2.3	3,522	1.4	113,023	44.8
2017	229,249	139,087	60.7	3,576	1.6	4,131	1.8	82,454	36.0

Note: Figures may not necessarily add up due to rounding

LABUAN INSURANCE

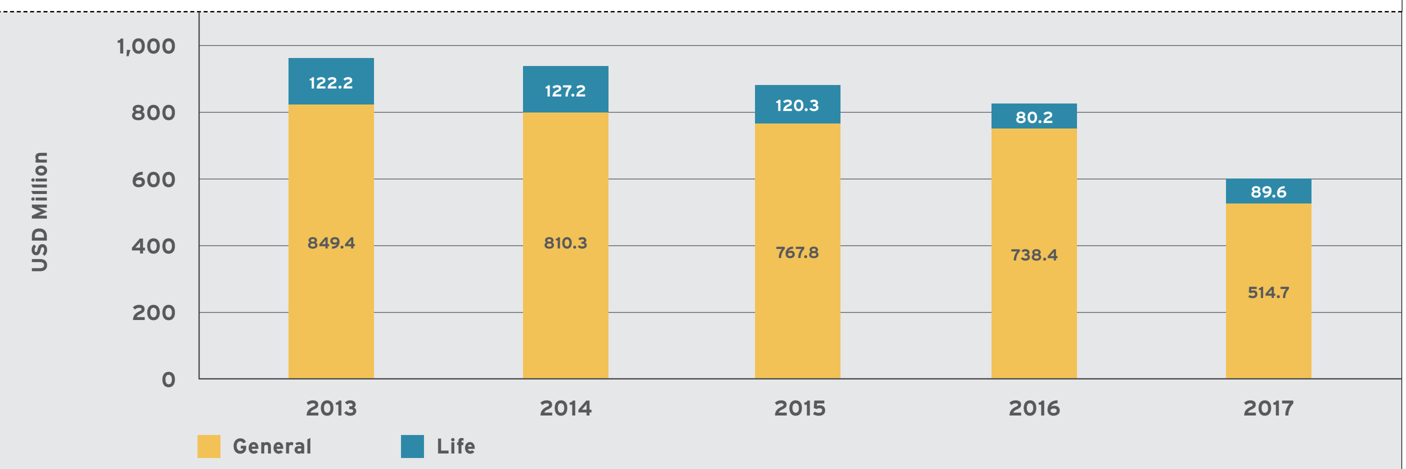
- There has been a downward trend in the premium placement by Labuan insurance brokers over the past five years. In 2017, the total premium placements by Labuan insurance brokers further declined by 26.2% to USD604.4 million (2016: USD818.5 million). The general insurance business contributed 85.2% to the total premiums placement.
- The premiums placement for general insurance business by the Labuan insurance brokers was mainly derived from the domestic market.
- The decline which was mainly due to the decrease in premium placements by general insurance brokers, has resulted in the brokerage fees earned by the Labuan insurance brokers fell by 5.7% to USD46.5 million (2016: USD49 million).

Table 11: Premiums Placement by Insurance Brokers

	2013	2014	2015	2016	2017	Yearly Change	Market Share
General Business			**USD'000**			**(%)**	
Labuan	138,223	111,228	104,205	113,742	110,900	(2.5)	18.4
Malaysia	317,097	338,748	268,851	240,963	206,760	(14.2)	34.2
Others	394,048	360,326	394,695	383,657	197,087	(48.6)	32.6
Sub Total	**849,368**	**810,302**	**767,751**	**738,362**	**514,748**	**(30.3)**	**85.2**
Life Business			**USD'000**			**(%)**	
Labuan	4,901	1,595	2,249	4,247	5,997	41.2	1.0
Malaysia	-	-	-	1	-	(100.0)	0.0
Others	117,328	125,653	118,040	75,906	83,635	10.2	13.8
Sub Total	**122,229**	**127,247**	**120,289**	**80,154**	**89,632**	**11.8**	**14.8**
Grand Total	**971,597**	**937,549**	**888,040**	**818,515**	**604,379**	**(26.2)**	**100.0**

Note: Figures may not necessarily add up due to rounding

Chart 9: Premiums Placement by Insurance Brokers



LABUAN IBFC INDUSTRY PERFORMANCE

LABUAN INSURANCE

Table 12: Brokerage Fee Earned by Insurance Brokers

	2013	2014	2015	2016	2017	Yearly Change	Market Share
General Business			USD'000			(%)	
Labuan	6,641	5,524	4,832	10,069	5,940	(41.0)	12.7
Malaysia	12,710	13,119	9,896	7,397	12,226	65.3	26.3
Others	45,041	36,141	25,532	22,607	19,258	(14.8)	41.4
Sub Total	**64,392**	**54,785**	**40,260**	**40,073**	**37,425**	**(6.6)**	**80.4**
Life Business			USD '000			(%)	
Labuan	324	135	454	949	1,149	21.1	2.5
Malaysia	-	2	3	1	-	(100.0)	0.0
Others	10,465	11,280	11,109	8,017	7,964	(0.7)	17.1
Sub Total	**10,789**	**11,417**	**11,566**	**8,967**	**9,113**	**1.6**	**19.6**
Grand Total	**75,181**	**66,201**	**51,826**	**49,039**	**46,537**	**(5.1)**	**100.0**

Note: Figures may not necessarily add up due to rounding

- For (re)takaful sector, the total gross contribution recorded a significant increase of 68% to USD91.9 million (2016: USD54.7 million). In 2017, the motor sector contributed the highest share of 46.3% or USD42.5 million (2016: 38% or USD20.8 million).
- Over the past five years, it was noted that the Labuan (re)takaful operators had to compete with the conventional insurers on pricing as well as the need to continuously optimise their business structures.

Table 13: Gross Contribution of Retakaful Business

Year	Total		Fire	Marine	Engineering	Motor	Other Classes	Total
	Malaysian	Others			USD'000			
2013	17,232	119,627	64,534	14,088	14,902	6,253	37,082	**136,859**
2014	53,728	(15,591)	13,120	(4,074)	(1,455)	34,971	(4,425)	**38,136**
2015	44,565	10,730	21,432	1,818	3,218	25,202	3,624	**55,295**
2016	42,716	11,958	23,953	1,785	3,173	20,800	4,964	**54,675**
2017	71,849	20,006	31,677	2,777	5,744	42,533	9,124	**91,855**
				change (%)				
2013	(81.8)	(59.5)	(54.6)	(55.8)	(50.9)	(91.5)	(67.1)	**(64.9)**
2014	211.8	(113.0)	(79.7)	(128.9)	(109.8)	459.3	(111.9)	**(72.1)**
2015	(17.1)	(168.8)	63.4	(144.6)	(321.2)	(27.9)	(181.9)	**45.0**
2016	(4.1)	11.5	11.8	(1.8)	(1.4)	(17.5)	37.0	**(1.1)**
2017	68.2	67.3	32.2	55.6	81.0	104.5	83.8	**68.0**
				share (%)				
2013	12.6	87.4	47.2	10.3	10.9	4.6	27.1	**100.0**
2014	140.9	(40.9)	34.4	(10.7)	(3.8)	91.7	(11.6)	**100.0**
2015	80.6	19.4	38.8	3.3	5.8	45.6	6.6	**100.0**
2016	78.1	21.9	43.8	3.3	5.8	38.0	9.1	**100.0**
2017	78.2	21.8	34.5	3.0	6.3	46.3	9.9	**100.0**

Note: Figures may not necessarily add up due to rounding

LABUAN INSURANCE

Chart 10: Retakaful & Takaful - Growth in Gross Contributions

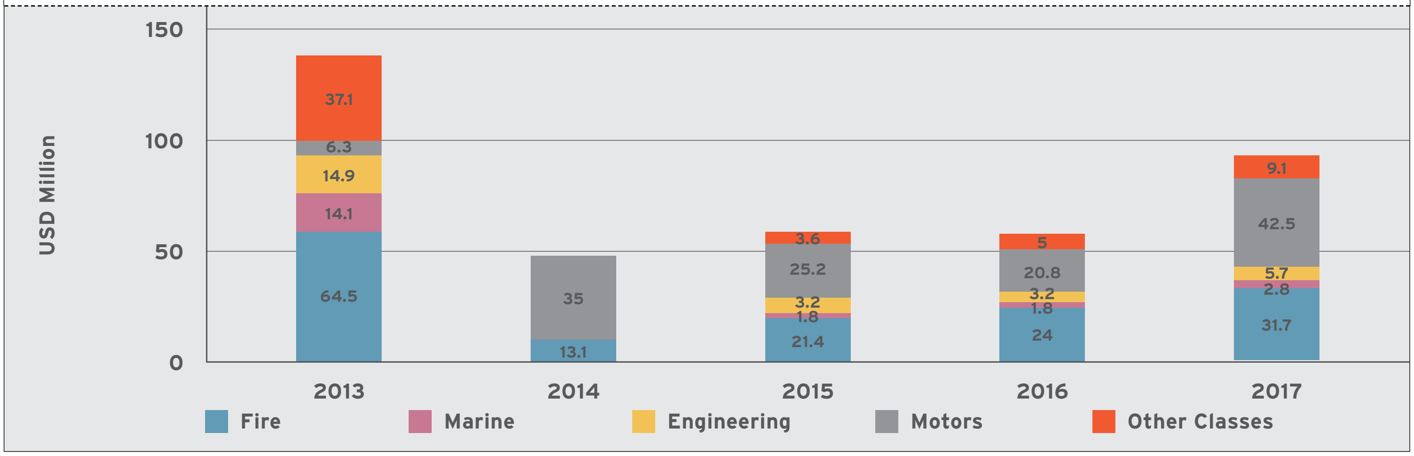
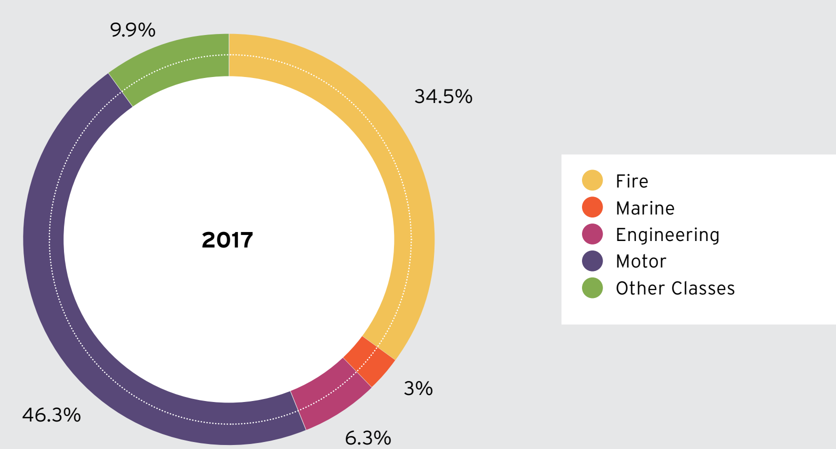


Chart 11: Gross Contribution of Retakaful Business

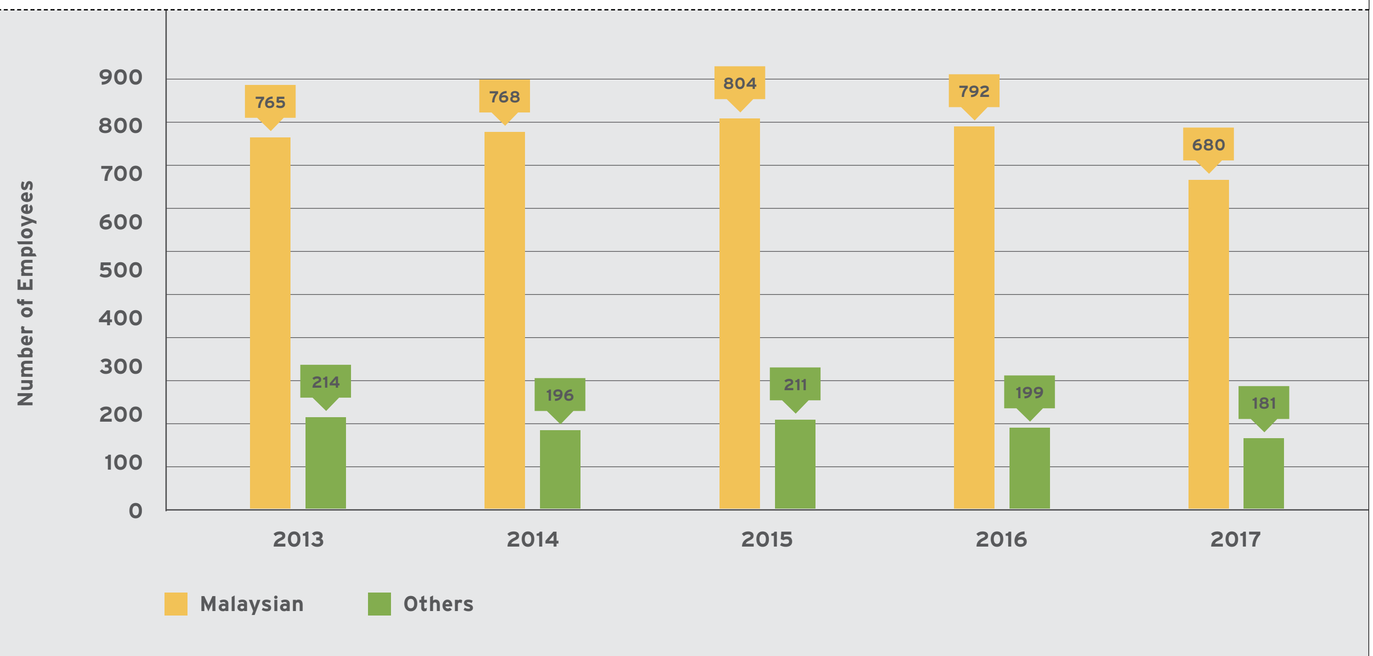


LABUAN INSURANCE

- A total of 861 employees were employed by the Labuan insurance and insurance-related entities, reflecting a decline of 13.1% from the previous year (2016: 991). Nevertheless, the number is expected to increase in the future upon establishment of management, marketing or co-located offices in Labuan or Malaysia.

- Majority employees are Malaysian, holding middle and senior management, supervisory and supporting positions.

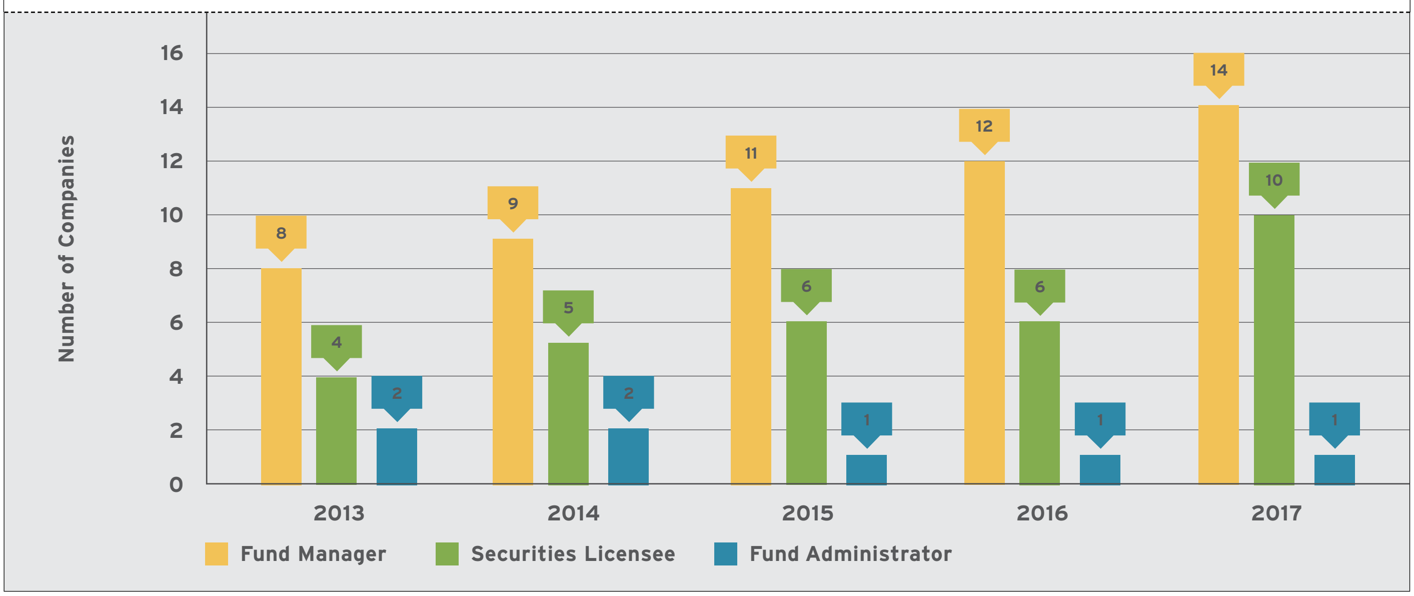
Chart 12: Employment



LABUAN CAPITAL MARKET

- Labuan capital market intermediaries consist of fund management companies, securities licensees and fund administrators. These intermediaries offer different types of traditional financial services in Labuan IBFC. The growth of financial technology (Fintech) is transforming the financial and capital market landscape. In 2017, a new Fintech business opportunity was introduced by utilising the fund management licence in Labuan IBFC, to provide digital financial advice with asset management solutions through the platform.
- In 2017, Labuan FSA approved two fund management companies from Singapore and the Seychelles and approved four securities licensees from Japan and Malaysia. This brings the total number of approved fund management companies and securities licensees to 14 and 10, respectively.
- In respect of geographical distribution, 50% of these fund managers were originated from Asia and the Pacific region, mainly from Malaysia (21%) and Singapore (29%), followed by the Far East (14.3%), the American (14.3%), European (14.3%) and the Middle Eastern (7.1%) region.

Chart 1: Number of Approved Fund Management Companies and Securities Licensees



LABUAN CAPITAL MARKET

Table 1: Cumulative Fund Size

	2013	2014	2015	2016	2017
Number of Private Funds	59	61	65	73	54
		USD Million			
Private Fund Size	12,048	12,153	12,265	13,086	12,016

Chart 2: Fund Manager by Region

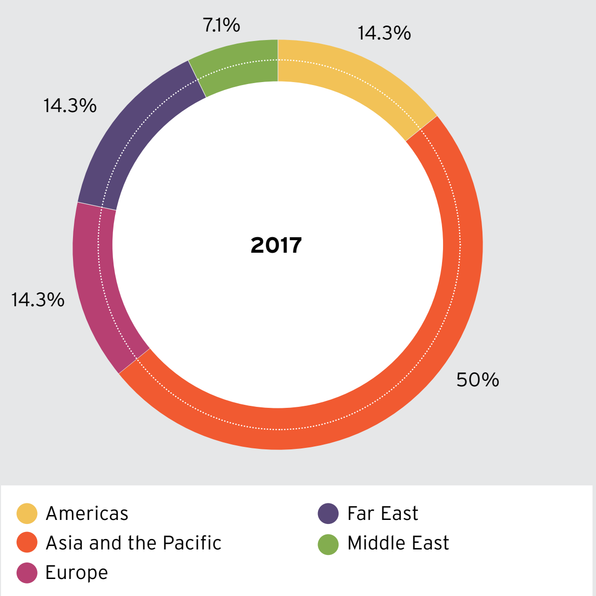
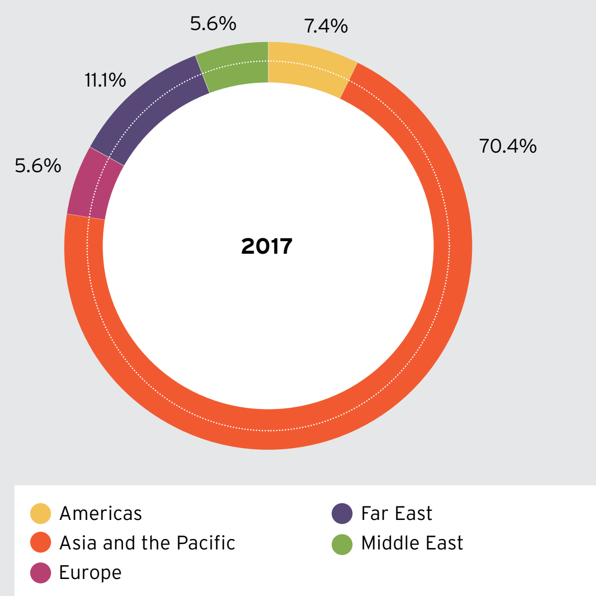


Chart 3: Mutual Funds by Region



- In terms of geographical distribution, 70.4% of the Labuan private funds originated from Asia and the Pacific region. The remaining 29.6% were from the Far East (11.1%), the Americas (7.4%), the Middle East (5.6%) and Europe (5.6%). Most of these private funds were used as investment vehicles for various infrastructure projects in the Asia Pacific region.

- In 2017, a total of 29 private funds ceased operations while 10 new private funds were registered. The total number of private funds now stands at 54 (2016: 73), and the cumulative fund size has decreased by 8.2% to USD12 billion (2016: USD13.1 billion).

LABUAN LEASING

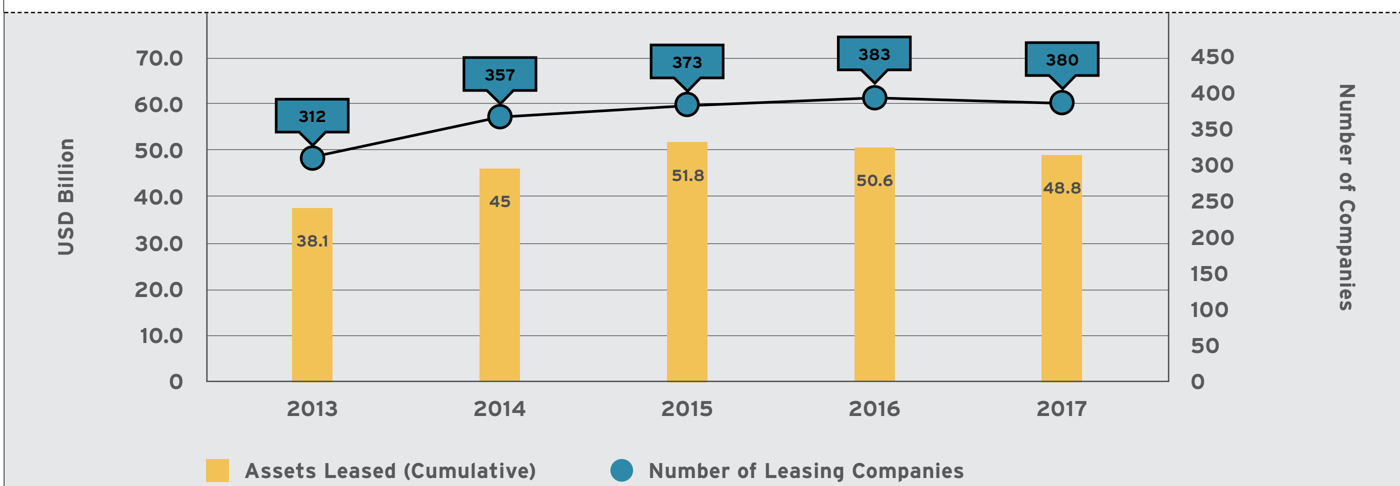
- In 2017, Labuan FSA approved 35 new leasing companies (2016: 36 companies) and the total number of approved leasing companies stood at 380 (2016: 383). The decrease was due to surrender of 36 leasing approvals on completion of leasing agreements and novation of existing leasing arrangements. Two approvals granted were deemed null and void due to the applicants' decision not to proceed with the leasing business. Of the total approved, 240 companies were involved in the oil and gas sector, 108 in the aviation sector and the remaining were from other sectors.

- In addition, 68 approvals were granted to the existing leasing companies to conduct subsequent leasing transactions.

- For aviation sector, 19 new leasing companies (2016: 24 companies) were established to carry on aircraft leasing. In addition, 53 subsequent leasing transactions were approved to facilitate the increasing demand for aircraft by the domestic airlines.

- The cumulative value of assets leased decreased by 3.6% to USD48.8 billion (2016: USD50.6 billion), with the oil and gas and aviation sectors contributing 66.9% and 31.9% of the total assets leased, respectively.

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



LABUAN LEASING

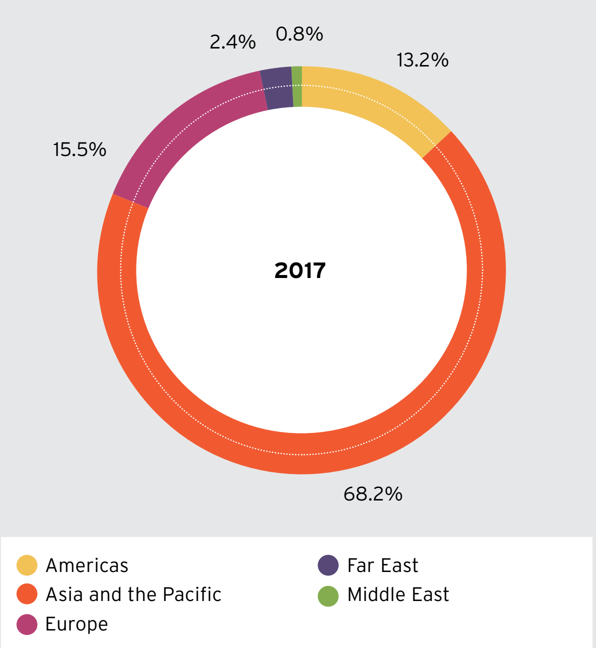
- In terms of geographical distribution, 68.2% of the Labuan leasing companies were originated from Asia and the Pacific region. The remaining 31.8% were from the Europe (15.5%), the Americas (13.2%), Far East (2.4%) and the Middle East (0.8%).

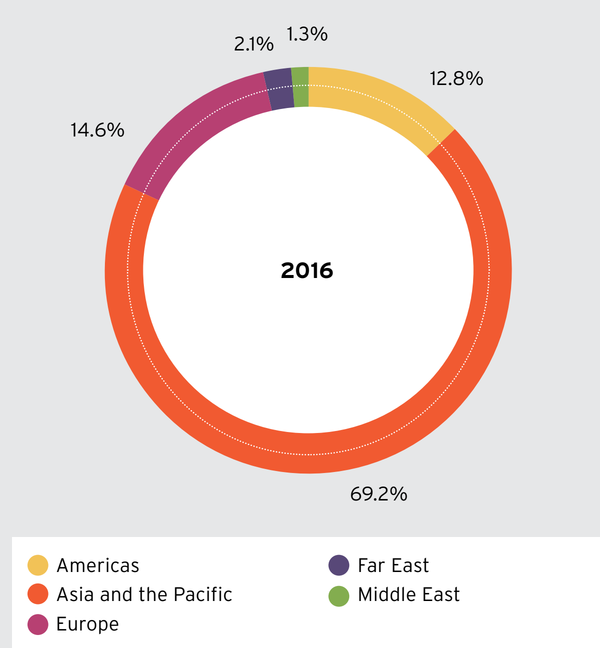
Table 1: Leasing Companies by Region

	2013		2014		2015		2016		2017	
	No. of leasing	share (%)	No. of leasing	share (%)	No. of leasing	share (%)	No. of leasing	share (%)	No. of leasing	share (%)
Americas	52	16.7	49	13.7	46	12.3	49	12.8	50	13.2
Asia and the Pacific	201	64.4	246	68.9	265	71.1	265	69.2	259	68.2
Europe	48	15.4	51	14.3	49	13.1	56	14.6	59	15.5
Far East	6	1.9	6	1.7	7	1.9	8	2.1	9	2.4
Middle East	5	1.6	5	1.4	6	1.6	5	1.3	3	0.8
Total	**312**	**100.0**	**357**	**100.0**	**373**	**100.0**	**383**	**100.0**	**380**	**100.0**

Note: Figures may not necessarily add up due to rounding

Chart 2: Leasing Companies by Region





LABUAN INTERNATIONAL COMMODITY TRADING

- During the year, Labuan FSA approved 12 new Labuan International Commodity Trading Companies (LITCs) to conduct Labuan international commodity trading business. This brings the total number of approved LITCs to 57 (2016: 50), an increase of 14% from the previous year.

- One of the LITCs is a state-owned enterprise from China established to trade petroleum and petroleum-related products. The enterprise is ranked one of the Top 100 Leading Enterprises in Shandong and one of the Top 500 Chinese Chemical Enterprises. Furthermore, this Labuan company has acquired majority shares in a Malaysian-based refining company. This is the Group's first oil and gas investment in Malaysia.

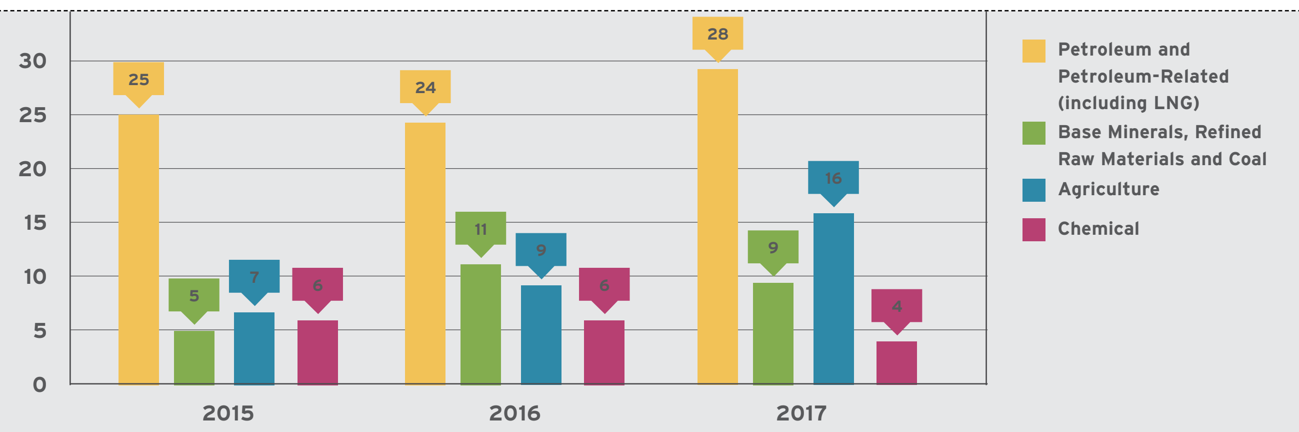
- Two LITCs surrendered their licences due to strategy and business decisions by the shareholders and three approvals were deemed as null and void due to the inability of the applicants to comply with the licensing requirements.

- Out of 57 companies, 28 (2016: 24) were involved in trading of petroleum and petroleum-related products, including LNG, followed by nine companies trading in base minerals, refined raw materials and coal (2016: 11), 16 companies trading in agriculture (2016: 9) and four companies trading in chemicals (2016: 6).

Table 1: Breakdown of Companies by Type of Commodities

	2015	2016	2017
Petroleum and Petroleum Related (including LNG)	25	24	28
Base Minerals, Refined Raw Materials and Coal	5	11	9
Agriculture	7	9	16
Chemical	6	6	4
Total	**43**	**50**	**57**

Chart 1: Breakdown of Companies by Type of Commodities



LABUAN INTERNATIONAL COMMODITY TRADING

- In terms of operations, there were 53 LITCs operating during the year 2017 (2016: 45). The total income for trading and non-trading activities increased by 39.2% to USD23.8 billion (2016: USD17.1 billion). This was mainly due to the increase in the number of companies trading in petroleum and petroleum-related as well as agriculture products. Notwithstanding, the majority of the income was generated from the trading of petroleum and petroleum-related products.

- The total expenditure incurred by the LITCs increased by 9.8% to USD333.9 million (2016: USD304.2 million). Of the total expenditure, 43.2% or USD144.1 million (2016: 36% or USD 109.4 million) was spent in Malaysia. This is in line with the requirement of the Global Incentive for Trading (GIFT) programme which requires that LITCs have a minimum annual business spend of RM3 million payable to Malaysian residents.

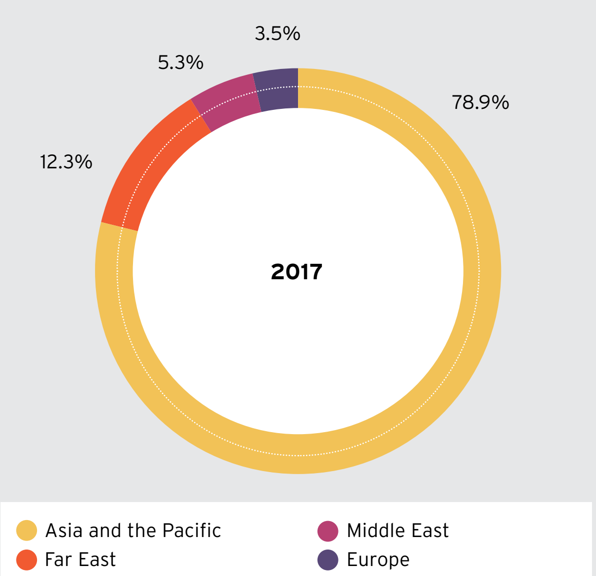
- Profit before tax increased significantly by 217% to USD755.4 million (2016: USD238.3 million).

Table 2: Number of Approved LITC Companies by Region

	2016		2017	
	No. of LITC	share (%)	No. of LITC	share (%)
Asia and the Pacific	40	80.0	45	78.9
Far East	5	10.0	7	12.3
Middle East	3	6.0	3	5.3
Europe	2	4.0	2	3.5
Total	**50**	**100.0**	**57**	**100.0**

Note: Figures may not necessarily add up due to rounding

Chart 2: LITC Companies by Region



- In terms of geographical distribution, 78.9% of the LITCs originated from Asia and the Pacific region, mainly from Malaysia and Singapore. The remaining 21.1% were from the Far East (12.3%), the Middle East (5.3%) and Europe (3.5%).

- With the objective of attracting global companies to use Malaysia as an international trading base, LITCs are allowed to establish an operational office(s) anywhere in Malaysia. This is to encourage global traders to ride on the GIFT Programme and at the same time to use Malaysia as their regional base to reach out to the growing markets in the Asia region. Of the 53 operating companies, 24 have established their operational offices in Malaysia namely in Kuala Lumpur, Selangor, Johor, Penang and Sarawak.

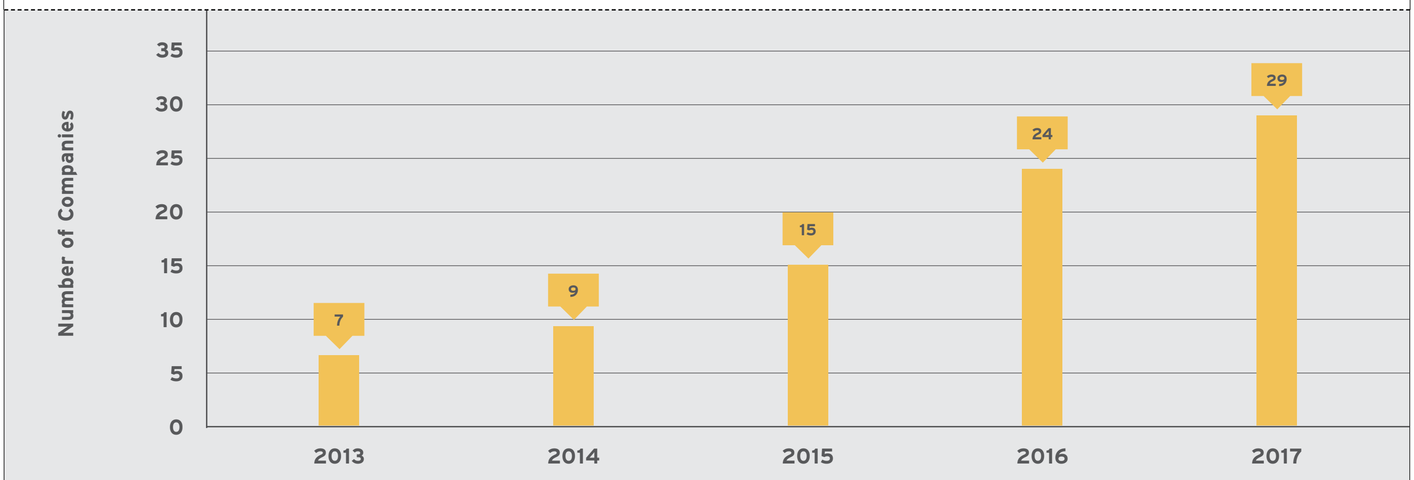
- In terms of employment, 608 Malaysian employees and 44 foreign employees have been hired by the LITCs. Out of the 652 total, 72 were Malaysian professional traders and 21 were foreign professional traders.

LABUAN MONEY BROKING

- There were increasing demand of Labuan money brokers for the past five years to act as intermediaries and majority were using electronic trading platform for their clients to trade in foreign exchange.

- In 2017, Labuan FSA approved seven money brokers, bringing the total number of approved Labuan money brokers to 29 (2016: 24), an increase of 20.8% from the previous year. Two approvals were deemed null and void due to the inability to satisfy the licensing conditions.

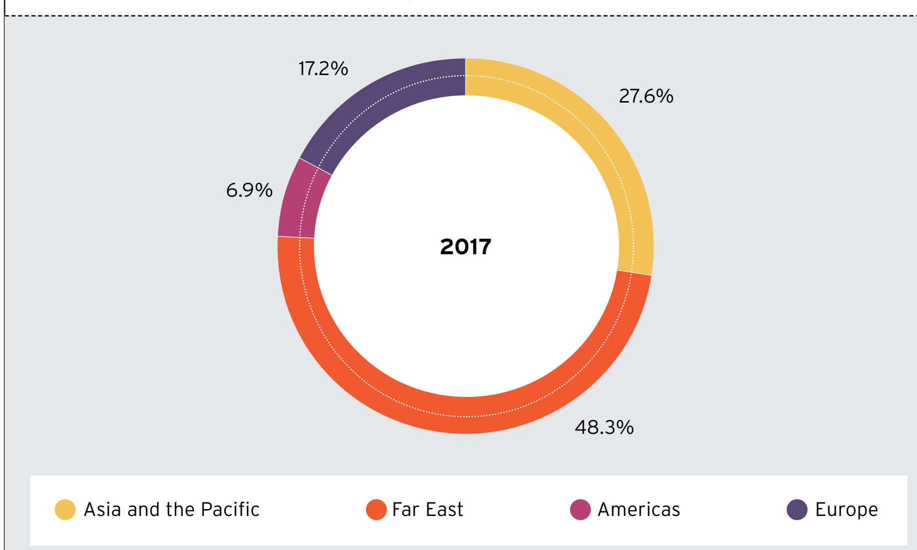
Chart 1: Number of Approved Money Broker



- 48.3% of the Labuan money brokers originated from the Far East region, mainly from Japan and Hong Kong, followed by other regions such as Asia and the Pacific (27.6%), European (17.2%) and the American region (6.9%).

- As at 31 December 2017, the total assets of Labuan money brokers stood at USD1.4 billion. Of the total assets, USD1.3 billion represents the total amount of client's fund placed at the principal dealers.

Chart 2: Money Brokers by Region



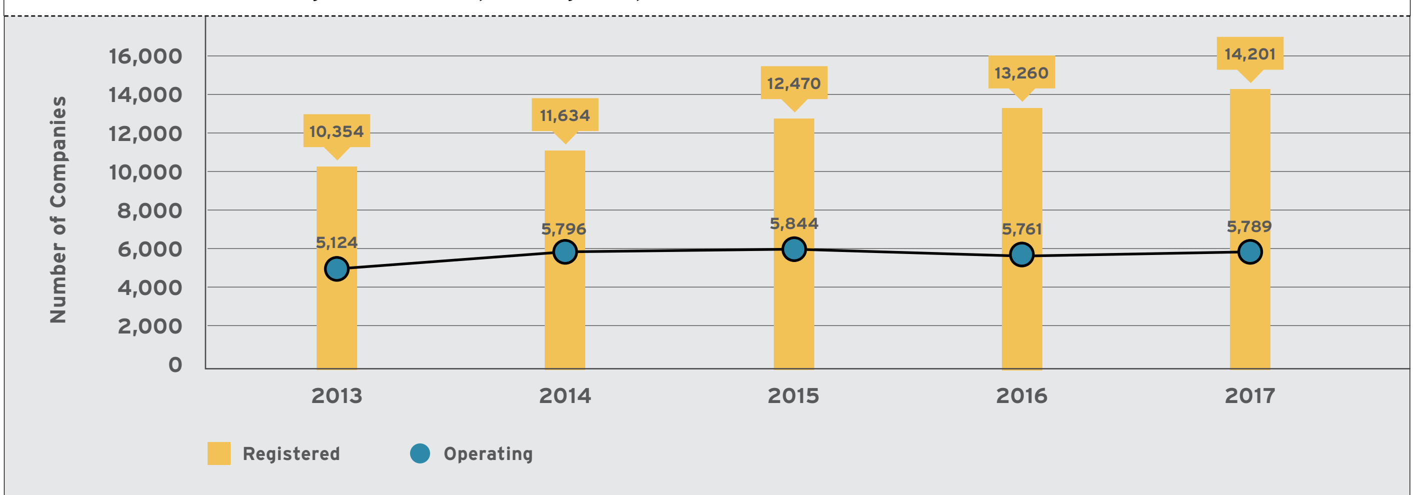
LABUAN MONEY BROKING

- The total amount due to the clients of Labuan money brokers was USD841.2 million which represented the total margin deposit / initial investment of Labuan money brokers' clients.
- Most of the client monies were maintained in the Labuan banks and majority of the principal dealers were located in one of the ASEAN countries.
- In 2017, Labuan money brokers registered total revenue of USD24.4 million, of which 97.1% was derived from commission. The total industry profit before tax stood at USD21.2 million.
- In terms of the clients' trading profiles, the majority of Labuan money brokers' clients were individuals (99%) with most originating from the Asia Pacific region.
- The top five pair of currencies traded were USD/JPY (46.6%), EUR/USD (34%), GBP/USD (4%), GBP/JPY (3.1%) and EUR/JPY (2%) and a total of 47.1 billion units of currency pairs were traded in December 2017.

LABUAN COMPANIES

- The number of Labuan company incorporations grew by 7.1%, bringing the cumulative total to 14,201 (2016: 13,260).
- New company formations totalled 941 in 2017 (2016: 790), of which 936 companies were limited by shares and five were foreign branches.
- A total sum of USD211.6 million (2016: USD395.7 million) was admitted as cumulative paid-up capital of newly incorporated/ registered Labuan companies in 2017.
- As at 31 December 2017, based on the numbers of operating Labuan companies 53.6% (2016: 52.5%) or 3,102 (2016:3,027) were established for various trading purposes including licenced activities, consultancy, manufacturing and engineering.
- The remaining 35.6% (2016: 36.4%) or 2,063 (2016: 2,094) were incorporated as non-trading companies or investment holding vehicle. The remainder 10.8% (2016: 11.1%) or 624 (2016: 639) were engaged in a combination of trading and non-trading activities.

Chart 1: Number of Registered and Operating Companies

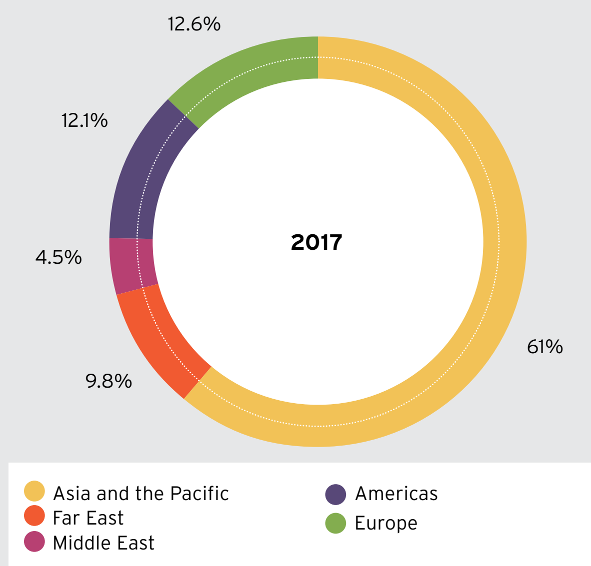


LABUAN IBFC INDUSTRY PERFORMANCE

LABUAN COMPANIES

- Notably 61% (2016: 61.4%) of the total Labuan companies originated from Asia and the Pacific region. Representation from Europe and the Americas stood at 12.6% and 12.1% (2016: 12% and 12.4%), while the Far East and the Middle East accounted for 9.8% and 4.5%, respectively (2016: 8.5%, 5.6%).
- For Asia and the Pacific region, Malaysia accounted for the majority share of 73.9% (2016: 73%), Singapore 9.8% (2016: 9.4%), Australia 3.9% (2016: 3.6%) and the remaining was contributed by various countries including Indonesia, India, Bangladesh, Thailand and Pakistan.
- The total revenue collected by the Registrar of Companies during 2017 was RM15.7 million (2016: RM15.8 million). The majority of the income was derived from annual and incorporation/registration fees of Labuan companies which represented 83.5% or RM13.1 million (2016: RM13 million). The remaining income consists of various income from the registration of foundations, annual fees for approved auditors and liquidators, application fees for operational purposes, penalties payments and fast track processing fees.

Chart 2: Operating Labuan Companies by Region



LABUAN TRUST COMPANIES

- In year 2017, Labuan FSA approved six trust companies, consisting of four full-fledged trust companies, one managed trust company and one private trust company, bringing the total number of approved trust companies to 52 (2016: 47), an increase of 10.6% from the previous year. One full-fledged trust company has surrendered its licence because of strategic and business decisions of the shareholder.
- In terms of financial performance, the total operating income increased by 4.8% to USD24.6 million (2016: USD23.5 million). This was due to the increase in secretarial fees charged by the trust companies, and in line with the increased number of licensed trust companies in Labuan. The income was mainly derived from secretarial fees, trustees, accounting, administrative and other services fees. The industry profitability decreased by 12.1% to USD8 million (2016: USD9.1 million) due to the rise in bad and doubtful debts (write off debts owing to the shareholders) and training expenses.

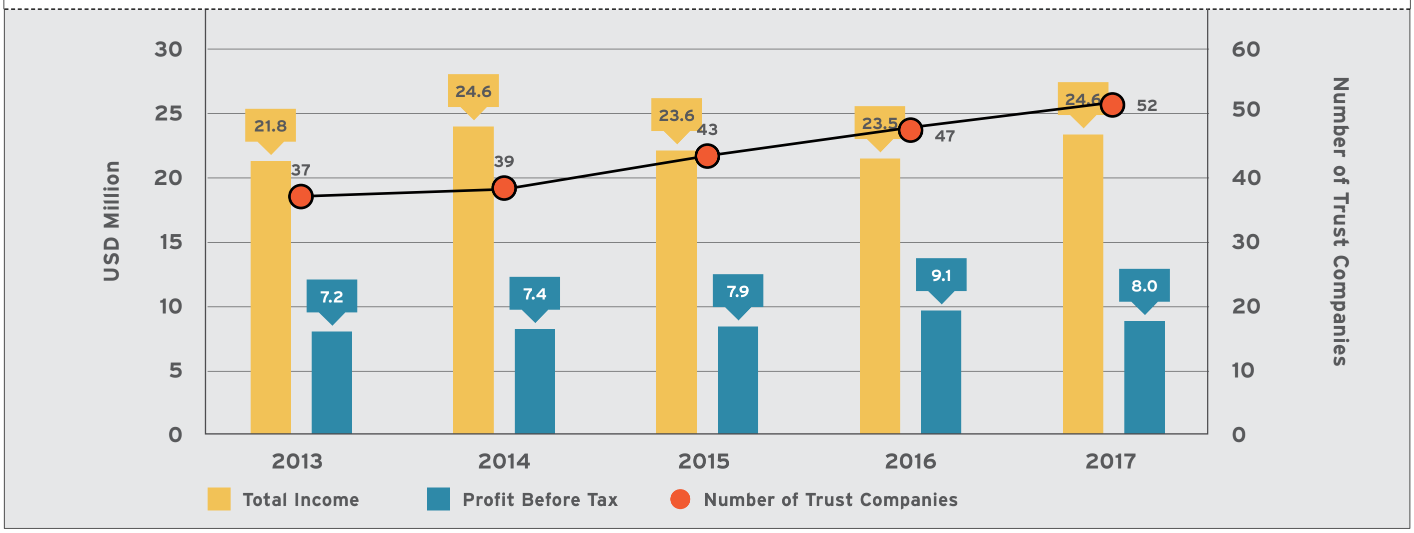
Table 1: Key Data

	2013	2014	2015	2016	2017	change (%)
Number of Trust Companies	37	39	43	47	52	
			USD'000			
Total Income	21,783	24,564	23,633	23,459	24,576	4.8
Profit Before Tax	7,204	7,432	7,854	9,132	8,031	(12.1)

LABUAN IBFC INDUSTRY PERFORMANCE

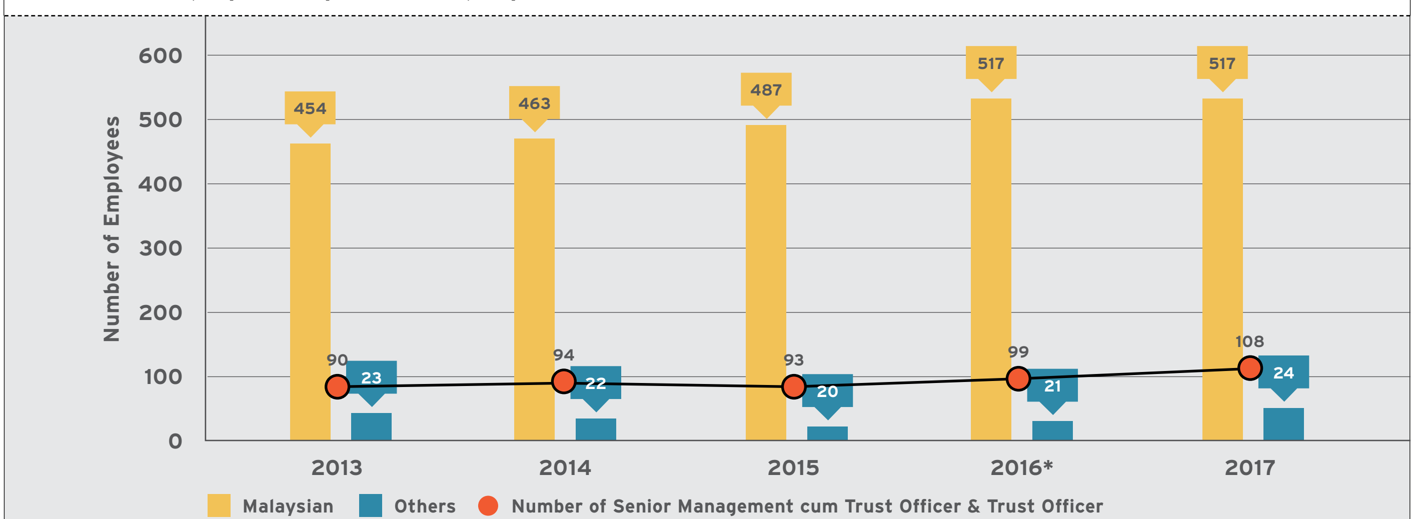
LABUAN TRUST COMPANIES

Chart 1: Key Data



- The Labuan trust companies increased their total manpower from 538 in 2016 to 541 employees in 2017. The number of approved trust officers grew to 108 (2016: 99). Most of the employees were Malaysian and based in Labuan. The spike in the number of trust officers reflects the sector's response to the increasing demand of the international market for Labuan IBFC's products and services and the higher number of Labuan companies incorporated. Labuan FSA continuously strengthens the approval process of trust officers by assessing the competency and capability level of the candidates.

Chart 2: Employment by Trust Company



** Restated*

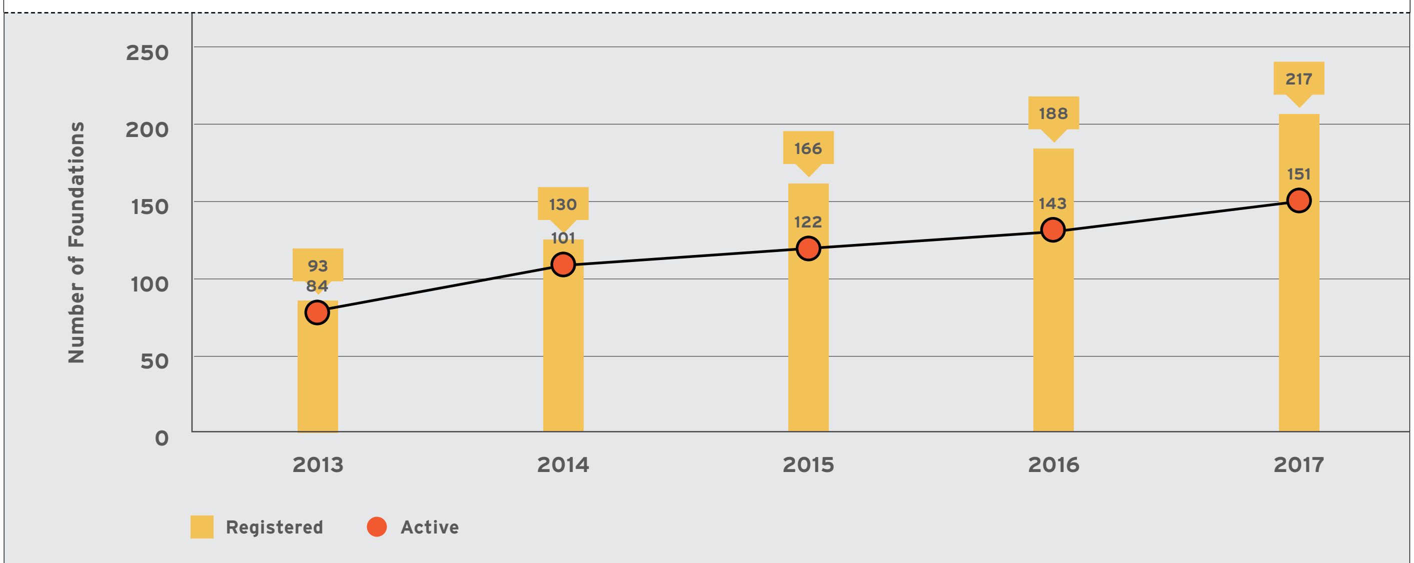
LABUAN FOUNDATIONS

- In 2017, 29 new foundations were registered (2016: 22), 24 foundations were either struck off or dissolved while 3 foundations reactivated. This bring the total number of active foundations to 151 (2016: 143).

- Of the total 151, 32 were charitable foundations and 119 were non-charitable foundations. Charitable foundations are established for various non-profit or philanthropic purposes which include the relief of poverty, the advancement of education and other socio-economic purposes for the benefit of the community. Non-charitable foundations are geared towards wealth management or estate planning to preserve wealth and develop a succession plan for the founder's assets for the benefit of beneficiaries.

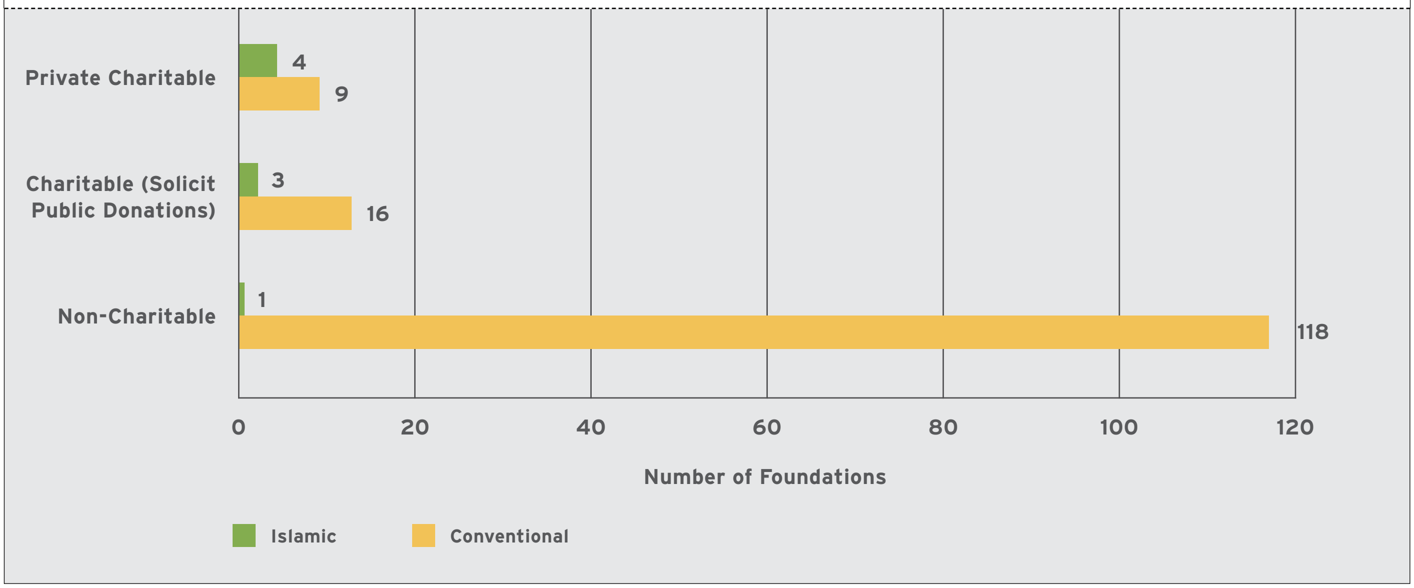
- Meanwhile of the 32 charitable foundations registered, four were private charitable foundations, of which two originated from Europe (Hungary and Sweden), and one each from Asia and the Pacific (Malaysia) and the Middle East (Jordan). The objective of establishing a private charitable foundation is to benefit a specific group of people or the public at large, and the funding for operations and activities comes solely from the founder(s).

Chart 1: Growth in Number of Labuan Foundations



LABUAN FOUNDATIONS

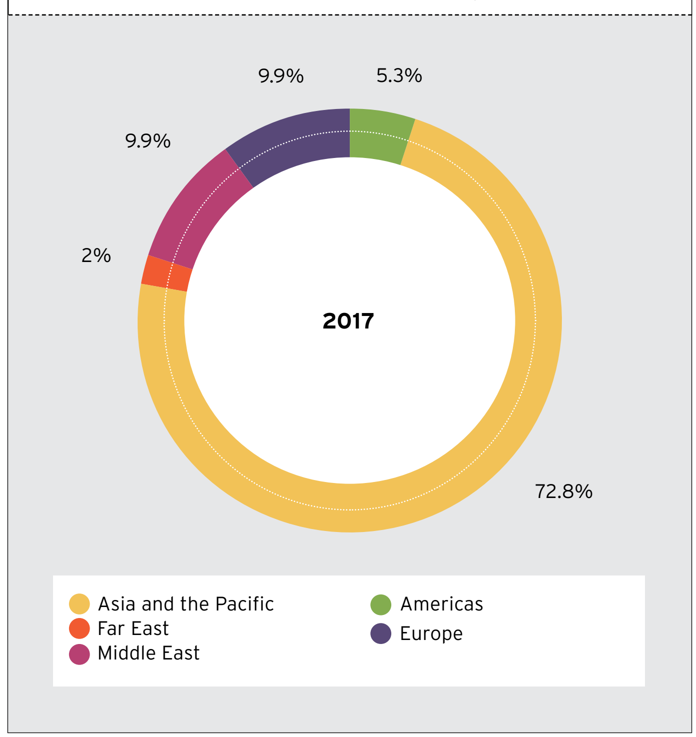
Chart 2: Composition of Labuan Foundations



- In terms of geographical distribution, the Labuan foundations originated mainly from Asia and the Pacific region, 72.8% (2016: 77.6%), the Middle Eastern, 9.9% (2016: 10.5%), European, 9.9% (2016: 7.7%), the American 5.3% (2016: 3.5%) and the Far East region 2% (2016: 0.7%).

- For Asia and the Pacific region, 88.2% or 97 originated from Malaysia and the remaining from various countries including Australia, New Zealand, Singapore, Indonesia and Brunei.

Chart 3: Labuan Foundations by Region



LABUAN TRUSTS

- As at end 2017, the total number of Labuan trust is 12, comprising nine private trusts, one corporate trust and two shariah compliant trusts.
- A Labuan trust may be created for a specific purpose which could be charitable or otherwise. Charitable purposes include the relief or eradication of poverty, educational advancement, the promotion of art, science and religion, protection of the environment, and the advancement of human rights and fundamental freedoms.
- There were 94 unregistered Labuan trusts with the Labuan Trust Companies acting as trustees. This number comprised 63 private trusts, 29 corporate trusts and two Shariah-compliant trusts.

LABUAN INTERNATIONAL FINANCIAL EXCHANGE

- A subsidiary of Bursa Malaysia Berhad, the Labuan International Financial Exchange (LFX) was established to complement the various financial services and activities available in Labuan IBFC, especially non-ringgit denominated securities.
- In 2017, LFX recorded three new listings with a combined market capitalisation of USD840 million. During the year, four existing instruments were delisted as they have reached maturity, bringing the total number of active listings to 31 (2016:32).
- As at 31 December 2017, the total market capitalisation from sukuk listing was USD8.1 billion (12 listings) and from conventional USD16.4 billion (19 listings). Overall, the total market capitalisation was USD24.5 billion, a decline of 4.3% (2016: USD25.6 billion).

Table 1: Market Capitalisation and Number of Active Listings

Market Capitalisation and Number of Active Listings	**2013**	**2014**	**2015**	**2016**	**2017**
Market Capitalisation (USD Billion)	23.5	23.9	27.3	25.6	24.5
Number of Active Listings	32	35	33	32	31
Islamic Market Capitalisation and Number of Listings (Cumulative)	**2013**	**2014**	**2015**	**2016**	**2017**
Islamic Market Capitalisation (USD Billion)	6.8	7.6	9.4	8.1	8.1
Number of Listings	9	11	11	12	12
Market share (%)	28.8	31.6	34.6	31.8	33.2

LABUAN INTERNATIONAL FINANCIAL EXCHANGE

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

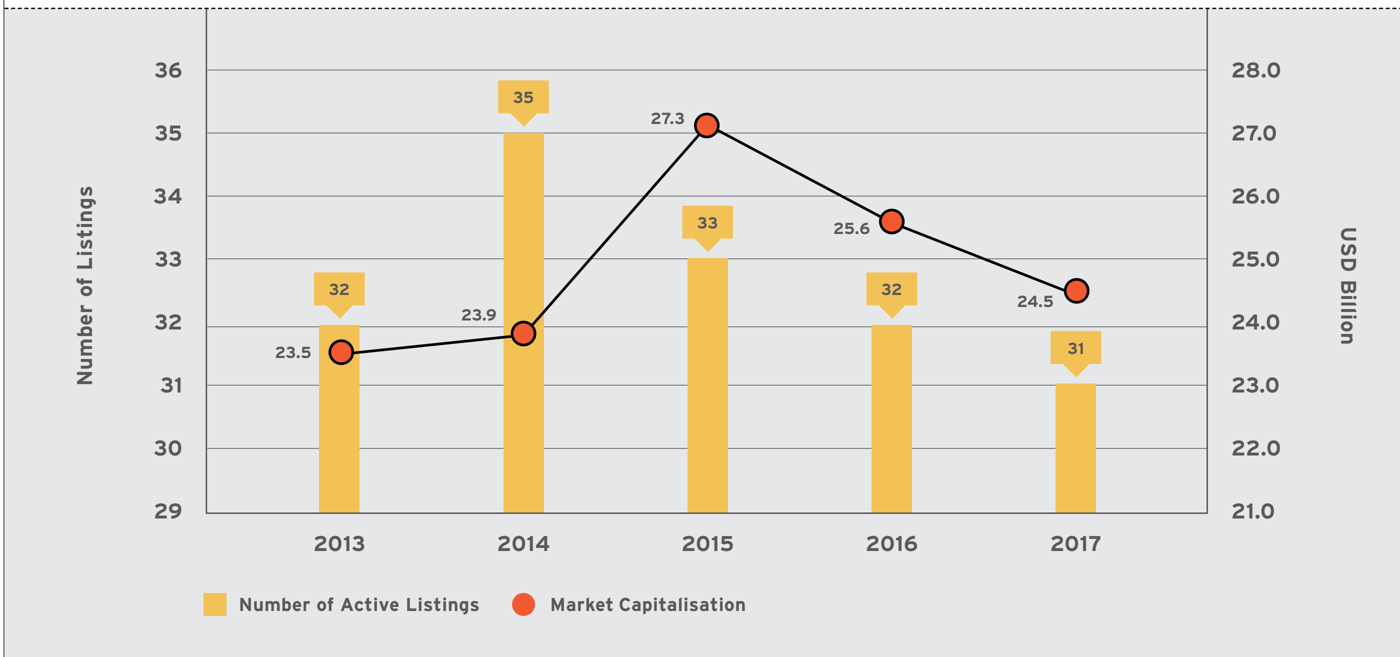
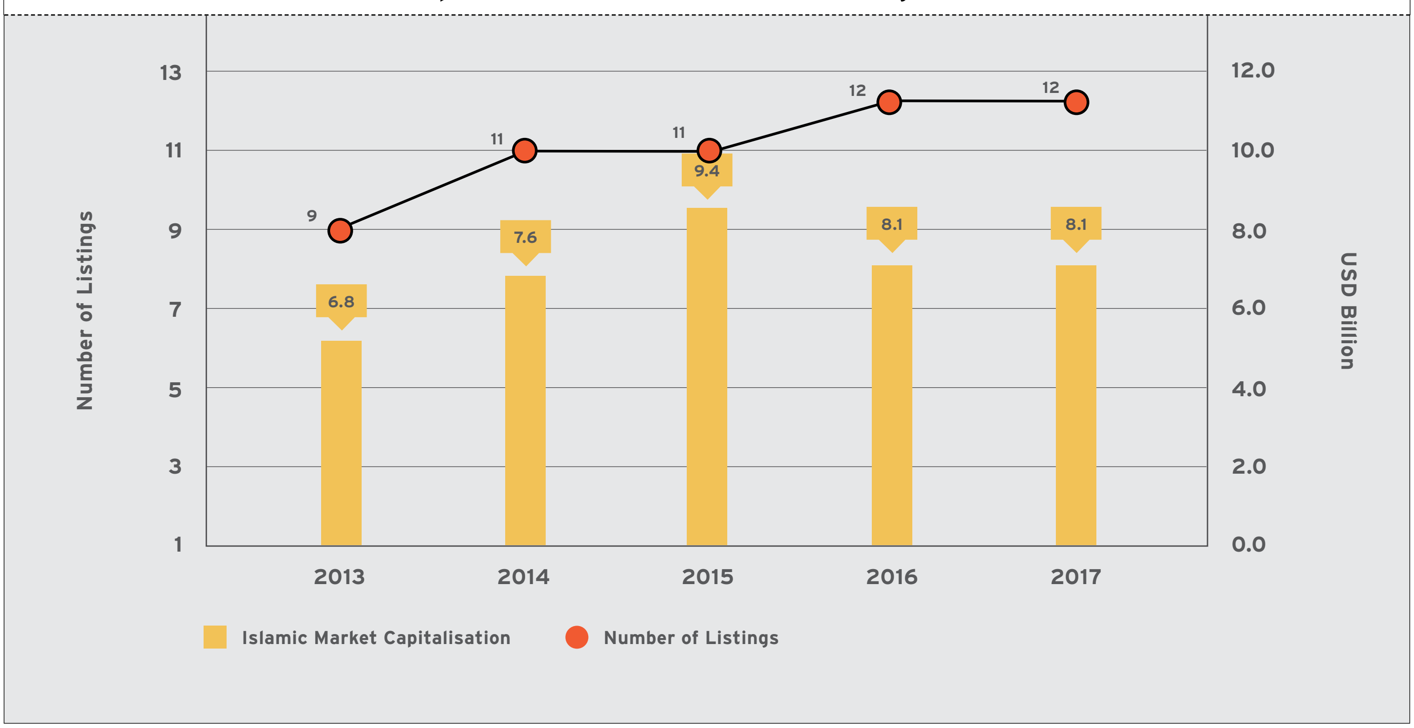


Chart 2: LFX - Islamic Market Capitalisation and Total Number of Listings (Cumulative)



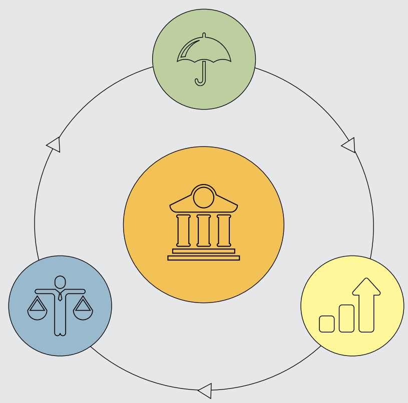
LABUAN FSA'S REGULATORY AND SUPERVISORY ACTIVITIES

Reinforcing Market Stability, Integrity & Dynamism

BUILDING HIGHER FINANCIAL CAPACITY AND RESILIENCE
- Clarification Note for Guidelines on Valuation Basis for Liabilities of Labuan General Insurance and Takaful Businesses
- Clarification Note for Guidelines on Takaful and Retakaful Businesses in Labuan IBFC

ENHANCING FINANCIAL DISCLOSURE AND TRANSPARENCY
- Guidelines on External Auditor of Labuan Financial Institutions

ENHANCING BUSINESS REGULATIONS
- Revised Guidelines on the Establishment and Operations of Labuan Leasing Business



PROMOTING PROFESSIONALISM AND SOUND MARKET PRACTICES
- Guidelines for Labuan Trust Officers
- Revised Guidelines on Money Broking Business in Labuan IBFC

COMPLIANCE TO INTERNATIONAL TAX STANDARDS
- Forum on Harmful Tax Practices by the Organisation for Economic Co-Operation and Development
- Automatic Exchange of Tax Information

EXPANDING BUSINESS OPPORTUNITIES FOR INSURANCE SECTOR
- Circular on Permitted Marine, Aviation and Transit (MAT) Insurance Business
- Guidelines on Permissible Life Insurance Business with High Net-Worth Malaysian Individuals

CREATING A VIBRANT ISLAMIC CAPITAL MARKET
- Explanatory Note on Issuance and Subscription of Sukuk in Labuan IBFC
- Notification Requirement for the Issuance of Debentures and Sukuk in Labuan IBFC

Policy Development

PRUDENTIAL POLICY DEVELOPMENT

Building Higher Financial Capacity and Resilience

1. **Reserving Requirements for Labuan Insurers and Takaful Operators**
   As part of the ongoing refinements to the implementation of the first phase of the Insurance Capital Adequacy Framework (ICAF), Labuan FSA issued a Clarification Note on 11 December 2017 to supplement the requirements of the Guidelines on Valuation Basis for Liabilities of Labuan General Insurance Business and the Guidelines on Valuation Basis for Liabilities of Labuan General Takaful Business. The clarification relates to liberalising the liability valuation requirements by also recognising reinsurance/retakaful placements to Malaysian licensed (re)insurers and (re)takaful operators as reserving credits. By allowing so, it is intended for there to be a mutual support of risk underwriting capacity between the Labuan and Malaysian insurance markets.

LABUAN FSA'S REGULATORY AND SUPERVISORY ACTIVITIES

2. Clarification Note for Guidelines on Takaful and Retakaful Businesses in Labuan IBFC

As part of the efforts to streamline Labuan regulations for the (re)takaful industry in Labuan IBFC, Labuan FSA issued a Clarification Note on 5 January 2017 for the Guidelines on Takaful and Retakaful Businesses in Labuan IBFC. The clarification specifies that the seed capital requirement for (re) takaful divisions of Labuan licensed (re)insurers and insurance-related licensees shall not be applicable for those that undertake captive takaful or takaful-related business. It was also clarified that, for Labuan Protected Cell Companies (PCCs), the cell of the Labuan PCC is not permitted to establish a (re)takaful division within its cell. In this regard, a separate cell would need to be established to undertake the captive takaful business.

Enhancing Financial Disclosure and Transparency

1. New Requirements for the Appointment of External Auditors Engaged by Labuan Financial Institutions

In its effort to promote greater financial transparency and impart expectations on disclosure amongst Labuan financial institutions (LFIs), the Guidelines on External Auditor of Labuan Financial Institutions was issued on 21 November 2017. This is in tandem with the increasingly complex financial reporting requirements with the needed assurance for a properly conducted audit, independent view and reliability of the LFIs' financial statements. The Guidelines specifies on:

- the appointment of external auditors with the skills, resources and experience to undertake audit functions;
- the minimum qualifications for external auditors to be considered for appointment by LFIs;
- the requirements pertaining to audit engagement, appointment procedures, regulatory and supervisory expectations and reporting obligations to be observed by LFIs; and
- the supervisory expectations on the role of external auditors to improve the quality of audits, including promoting better governance processes to facilitate compliance to Labuan regulatory requirements in the course of their auditing engagement.

Promoting Professionalism and Sound Market Practices

1. Roles and Responsibilities of Labuan Trust Officers

With the aim of further elevating the level of professionalism amongst the key functionaries within the trust and corporate services sector in Labuan IBFC, Labuan FSA issued the Guidelines for Labuan Trust Officers on 24 November 2017. The Guidelines set out the requirements to be observed by the Labuan Trust Officers (LTOs) as follows:

- the general expectation of the Authority on the key responsibilities of the LTOs in relation to Labuan entity establishment, trust administration and corporate services;
- the criteria for on-boarding and detailing of the approval and cessation process of LTOs; and
- the annual programme for training and professional development to be observed by LTOs on an ongoing basis.

2. Guidelines on Money Broking Business in Labuan IBFC

To promote sound operations and market conduct of the Labuan money brokers, the Authority issued the revised Guidelines on Money Broking Business in Labuan IBFC on 24 November 2017. The revisions made to the existing requirements are intended to clarify the Authority's expectations, in particular on the sufficiency of risk management of and the market conduct practices by the Labuan money brokers to address undue risk exposures.

BUSINESS POLICY DEVELOPMENT

Expanding Business Opportunities for the Insurance Sector

1. Permitted Marine, Aviation and Transit (MAT) Insurance Business

Following Malaysia's liberalisation on MAT insurance business under the ASEAN Framework Agreement on Services (AFAS), Labuan FSA issued the Circular on Permitted Marine, Aviation and Transit (MAT) Insurance Business on 13 October 2017. The Circular is intended to effect the AFAS liberalisation initiative which allows Labuan insurers and brokers to also participate in the Malaysian MAT insurance and broking business on a cross-border basis subject to the approval and requirements of Bank Negara Malaysia.

2. Guidelines on Permissible Life Insurance Business with High Net-Worth Malaysian Individuals

For ease of reference, the Guidelines on Permissible Life Insurance Business with High Net-Worth Malaysian Individuals was issued on 13 December 2017. The Guidelines consolidated all requirements relating to Malaysia's life insurance business that are permitted to be tapped by the Labuan insurers. This ensures that the industry, especially new licensees, are kept abreast of the relevant requirements in their prospecting for the Malaysian life insurance business.

LABUAN FSA'S REGULATORY AND SUPERVISORY ACTIVITIES

Creating a Vibrant Islamic Capital Market

1. **Explanatory Note on Issuance and Subscription of Sukuk in Labuan International Business and Financial Centre (IBFC)**
   As part of the initiatives to facilitate and promote the development of the Islamic capital market, the Explanatory Note on Issuance and Subscription of Sukuk in Labuan IBFC was introduced on 24 October 2017. The Explanatory Note provides the requirements for the issuance and subscription of sukuk in Labuan IBFC. This, along with relevant Frequently Asked Questions, serves as a comprehensive guide for the market participants on the value propositions of Labuan IBFC for sukuk issuance.

2. **Notification Requirement for the Issuance of Debentures and Sukuk in Labuan IBFC**
   Labuan FSA issued a Notification Requirement for the Issuance of Debentures and Sukuk in Labuan IBFC on 21 April 2017. This sets out the requirement for Labuan trust companies to notify Labuan FSA after the issuance of any debentures and/or sukuk to sophisticated investors in Labuan IBFC. This information is intended to facilitate Labuan FSA in further promoting the development of the Centre's capital market sector.

Enhancing Business Regulations

1. **Guidelines on the Establishment and Operations of Labuan Leasing Business**
   The revised Guidelines on the Establishment and Operations of Labuan Leasing Business was issued on 29 December 2017. The revised Guidelines aim to ensure that Labuan IBFC continues to be in compliance with international standards and best practices, including the requirements of the Organisation for Economic Co-operation and Development (OECD). The Guidelines provide greater clarity on:

   (a) The harmonised requirements between leasing transactions dealing with Malaysian and non-Malaysian residents;
   (b) Rationalisation of currency restriction; and
   (c) Enhanced business substance to invigorate Labuan Island's economic activities.

TAX POLICY DEVELOPMENT

Compliance with International Tax Standards

1. **Forum on Harmful Tax Practices by the Organisation for Economic Co-operation and Development**
   In its effort to comply with the international tax standards, Malaysia, including Labuan, joined the OECD Inclusive Framework effective 27 January 2017. The participation entailed undertaking several key initiatives under the organisation's Base Erosion and Profit Shifting (BEPS) project which comprises the following action plans:

   (a) Action 5 - Counter harmful tax practices
   (b) Action 6 - Prevent treaty abuse
   (c) Action 13 - Re-examine transfer pricing documentation
   (d) Action 14 - Dispute resolution

   The main thrust of the BEPS action plans is to reduce or eliminate tax planning strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no tax jurisdictions where there is no economic activity, resulting in minimal or no corporate tax being paid.

   As part of the BEPS initiatives, Malaysia, including Labuan, attended the OECD's Forum on Harmful Tax Practices (FHTP) meetings held in Paris, France from March to October 2017. In this regard, Malaysia, as well as Labuan, have committed to address the OECD's concerns on the Labuan leasing and financing regimes latest by the end of 2018 in respect of the following areas:

   (i) restrictions on the licensees under both regimes from dealing with residents and in ringgit which are regarded as "ring fencing" elements; and
   (ii) improvements needed for substantial activities in both regimes.

   Labuan FSA has taken, and would continue to take, the necessary actions to address the concerns raised by the OECD, which entailed revising the Guidelines on the Establishment and Operations of Labuan Leasing Business on 29 December 2017 as well as planned revisions to the Guidelines on the Establishment of Labuan International Commodity Trading Company.

2. Automatic Exchange of Tax Information

To promote tax transparency and compliance with the Common Reporting Standards (CRS) for Automatic Exchange of Tax Information, revisions to the Labuan Business Activity Tax Act 1990 (LBATA) were made to permit the required disclosure and sharing of information with tax authorities in other jurisdictions.

To ensure effective enforcement, all sharing and exchange of information applicable to Labuan entities shall override any secrecy provisions in the Labuan legislations.

The regulation for the implementation was gazetted on 5 February 2018 and a guidance note was issued in meeting the due diligence and reporting obligations under the CRS.

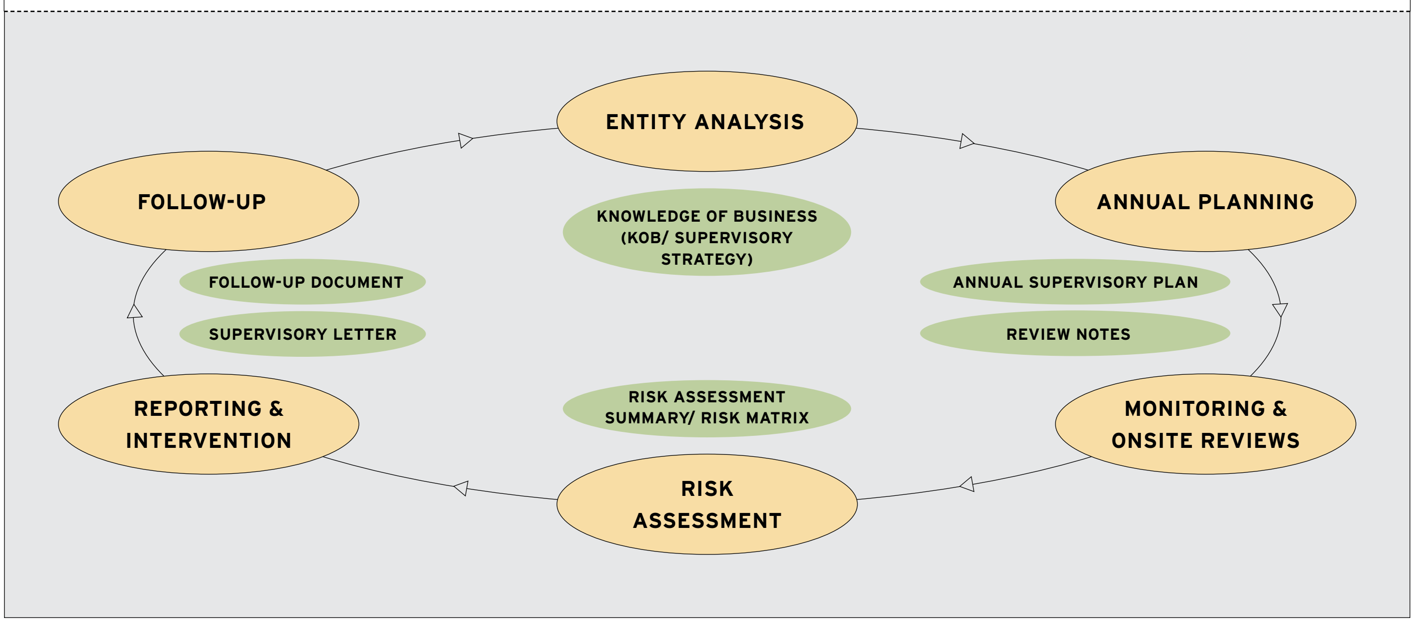
Supervision and Monitoring

Supervisory activities in 2017 focused on addressing issues on governance and market conduct of the Labuan institutions. Overall, Labuan FSA conducted 49 onsite examinations and 114 engagements with senior management and external auditors.

In supervising the institutions, Labuan FSA uses a risk-based supervisory framework to determine whether they are financially sound and in compliance with rules, regulations, directives and supervisory standards. Besides assessing the effectiveness of the board and senior management oversight, Labuan FSA also assess the adequacy of internal controls and risk management practices to ensure it commensurates with the institution's risk taking, its size and the complexity of its business activities.

The supervisory activities conducted are governed by a six step supervisory process. The process is dynamic, continuous and forward-looking to allow changes and updates to be made as and when warranted. The six steps of the supervisory process are Entity Analysis, Annual Planning, Monitoring and Onsite Reviews, Risk Assessment, Reporting and Intervention, and Follow-up, which are represented by the yellow ovals in the chart below. The green ovals represent the documentation and output that follow the processes.

SUPERVISORY PROCESS



LABUAN FSA'S REGULATORY AND SUPERVISORY ACTIVITIES

BANKING

In 2017, Labuan banking sector remained strong and well capitalised with good quality assets. The risk-weighted capital ratio and core capital ratio of the industry stood at 37.9% and 39%, respectively. The level of non-performing loans (NPL) remained low, but was at its highest for the past five years, mainly due to a more stringent classification policy by the banks. The industry's gross and net NPL ratios were 2.2% and 1.2%, respectively. Based on the supervisory activities undertaken during the year, Labuan banks continued to implement sound risk management practices and good corporate governance, with the exception of a few investment banks.

The Composite Risk Rating (CRR) of operating banks was updated during the year. The main source of information came from onsite examinations, supervisory engagements and reviews of audited financial statements and financial returns, internal and external auditors' reports and compliance reports. There were marginal changes to the ratings as compared to last year. Most full-fledged banks were rated Moderate and Low, as these banks are supported by their parent banks with strong policies, oversight and controls. Only one bank's rating was downgraded due to issues of compliance with prudential and anti-money laundering and counter financing of terrorism requirements.

As for investment banks, out of ten operating investment banks, five were rated above average and high due to concerns on their earnings performance and capital. These banks did not, however, pose a significant threat to the stability of the financial system in Labuan IBFC.

In 2017, six onsite examinations were conducted, of which one was a joint examination with a home supervisor; 31 engagements were conducted with senior management; and offsite reviews were carried out on all banks on a continuous basis. Based on the supervisory activities, the main concerns were breaches of record keeping requirements, capital deficiency, outsourcing activities without proper approvals, inadequate policies and procedures, and breaches of anti-money laundering and counter terrorist financing requirements.

Out of the six banks, five were investment banks and they were categorised as concerned institutions due to capital issues and non-compliances with regulatory requirements. These banks were closely monitored and their status was frequently reported to Labuan FSA's management and the Financial Stability Committee.

During the year, a number of supervisory and enforcement actions were taken. One investment bank had its licence revoked due to capital inadequacy and non-compliances issues and two investment banks were given directives to undertake rectification actions, failing which, enforcement actions will be taken, including revocation of licence.

As a host regulator, Labuan FSA leverages on home supervisors' works in supervising Labuan banks. During the year, a joint examination with a home supervisor was conducted on a foreign bank licensed as a branch in Labuan. Labuan FSA also shared the results of supervisory assessments on Malaysian-based banks with the Malaysian supervisor. Moving forward, more supervisory cooperation will be established and cooperation with five main supervisors is planned to be formalised next year. This will provide the platform for the exchange of information on supervisory concerns, sharing of practices as well as the opportunity for future collaboration.

INSURANCE

The Labuan insurance sector remained resilient and stable despite the challenging operating environment. The sector's solvency position remained healthy with total industry shareholders' funds of USD1.5 billion as at 31 December 2017 (2016: USD1.8 billion) and the industry's Margin of Solvency (MOS) stood at more than five times above the regulatory requirement.

The risk exposures were higher compared to the previous year, as reflected by significant increase in the net incurred claims ratio to 63.5% (2016: 35.2%), which was attributable to motor and fire insurance claims and claims arising from Hurricanes Harvey, Irma and Maria. Nevertheless, adequate reserving and prudent risk management measures through reinsurance and conservative investment strategies resulted in the industry remaining profitable despite the challenges.

During the year, continuous monitoring was carried out on (re) insurance licensees through offsite reviews and targeted onsite examinations based on the Risk Based Supervisory Framework. The results of the supervisory activities, together with the reviews on statistical returns, internal and external audit and compliance reports as well as supervisory engagements, were used to determine the institution's CRR. In 2017, majority of the (re)insurers were rated Low and Moderate, while a few were rated Above Average and High due to weak capital and earnings.

The supervisory team conducted 24 onsite examinations on (re) insurance and insurance-related companies throughout the year. The onsite examinations identified a number of areas that required improvements, particularly on accounts and record keeping as well as the accuracy of data submission. These institutions were committed to remedy the shortcomings, including enhancing their management information system and providing additional controls to ensure the records kept in Labuan are comprehensive and the submission of information to Labuan FSA is accurate.

In 2018, supervisory activities will continue to focus on general market conduct with additional emphasis on anti-money laundering measures.

There were also 37 supervisory engagements conducted during the year with the board and senior management of identified insurance and insurance-related companies. Seven engagements were held with captives to ensure that their operational strategy, business plans and cash flow management were in line with the owners' strategies. These engagements offered additional supervisory reach to institutions that could not be covered by full-fledged onsite examinations and provided the platforms for updates on the institutions' significant activities, strategies and operations. This information is important to chart follow-up supervisory plans moving forward. Engagements were also held with the internal and external auditors as well as actuaries, who provided independent assessments, especially for institutions that are of concern.

For insurance intermediaries, the supervisory activities were focused on compliance with regulatory requirements and market conduct. Restrictions on business were imposed on four intermediaries during the year due to capital inadequacy and two intermediaries subsequently had their restrictions lifted following a satisfactory injection of capital. Onsite examinations were conducted on insurance intermediaries exhibiting several areas of concern which included their premium handling turnaround time, record keeping and accuracy of data submission. In 2018, supervisory activities will continue to focus on general market conduct with additional emphasis on anti-money laundering measures.

LABUAN FSA'S REGULATORY AND SUPERVISORY ACTIVITIES

MONEY BROKERS

The supervisory focus on money brokers during the year was on operational controls, risk management and requirements on regulatory compliance. Based on risk profiles, two onsite examinations were conducted focusing on conduct of business, clients' money and data integrity. This was complemented by four supervisory engagements. The supervisory activities revealed that clients' money is protected to a certain extent, through clients' fund segregation and the fact that the liquidity providers that money brokers deal with are regulated entities supervised by foreign regulators. Nevertheless, the examinations discovered inadequacies with regard to policies and procedures and client management also required improvements.

Systematic data submission was initiated for the sector during the year and showed improvements in the comprehensiveness and availability of data. This facilitated supervisory oversight of the sector in terms of analysis and monitoring of the key risk indicators for the early identification of issues.

The revision of money broking guidelines during the year was designed to improve the risk management, professionalism and market conduct of money brokers in order to boost customers' confidence and business growth. The business activities from the sector is expected to increase further moving forward in line with the growth in number of licensees during the year.

CAPITAL MARKET

Based on the sector's risk profiles, offsite reviews and supervisory engagements with the board and senior management were the main supervisory activities for monitoring the capital market business in Labuan IBFC. The engagements provided updates and information to identify risk areas, supervisory focus and planning. This was further supported by the review of annual audited financial statements submitted to Labuan FSA. The respective institution's risk profiles were updated based on the supervisory engagements and financial analysis. Work is underway to enhance the returns submitted from this sector to facilitate continuous monitoring and a more detailed analysis.

TRUST COMPANIES

In 2017, the increase in the number of trust companies has put strains on the supervisor's abilities to supervise every trust company and reinforces the need for improved offsite monitoring and risk-based supervision that focus on higher risk institutions.

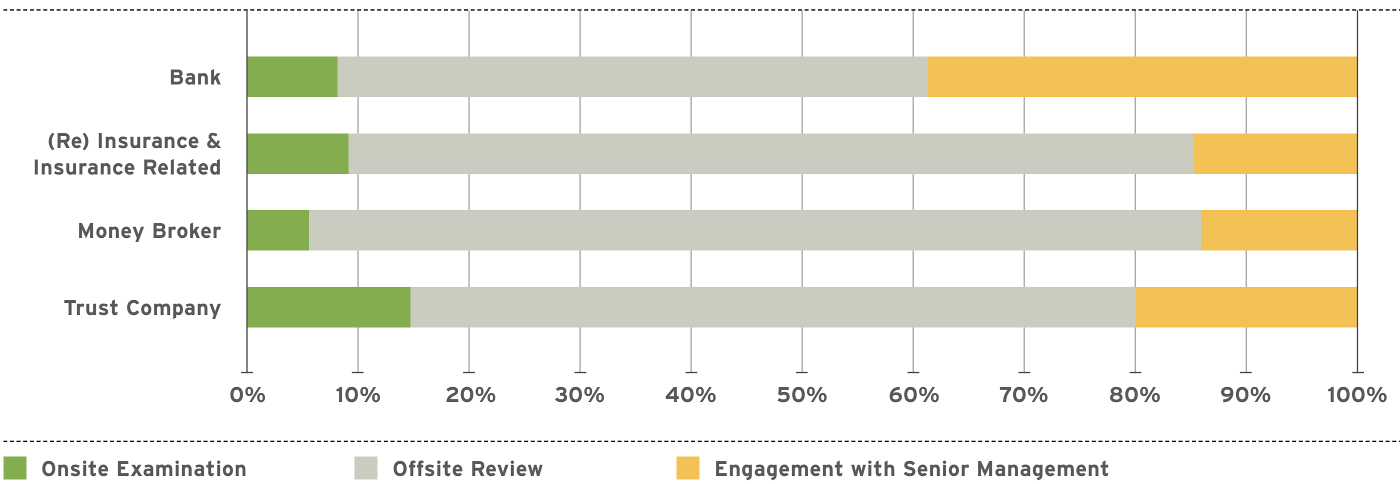
Based on the result of risk profiling conducted through supervisory engagements in 2016, ten onsite examinations, six supervisory engagements with senior management and four engagements with external auditors were conducted during the year on identified trust companies.

Common issues identified from the supervisory activities were non-compliance with regulatory requirements by trust officers on compliance function, inadequate due-diligence conducted on clients, inadequate beneficial owner information and inadequate policies and procedures. Follow-ups on the progress of the rectification measures will be carried out in 2018.

The issuance of Guidelines of Labuan Trust Officers which require trust officers to have a certain level of skills and competencies and to continuously develop knowledge, is expected to improve the professionalism and conduct of trust officers which will also improve the quality of service provided by trust companies. This is important as the function of trust companies as the gatekeepers and front liners is crucial to maintain the strong reputation of Labuan IBFC as a well-regulated jurisdiction.

LABUAN FSA'S REGULATORY AND SUPERVISORY ACTIVITIES

Supervisory Activities 2017



SUPERVISORY ACTIVITIES ON ANTI-MONEY LAUNDERING AND COUNTER TERRORISM FINANCING (AML/CFT)

In our continuous effort to ensure the mitigation of money-laundering and terrorism financing (ML&TF) risks to Labuan IBFC, seven onsite examinations were conducted using a risk-sensitive basis approach on Labuan banks, insurance brokers, trust companies and Labuan charitable foundations focusing on their implementation of AML/CFT measures. A total of 17 supervisory engagements were conducted with trust companies and banks. The exercise is to ensure adequate and effective oversight is being undertaken by the reporting institutions in managing their ML&TF risks.

To further enhance the understanding and obligation of the Labuan reporting institutions on Suspicious Transaction Reporting (STR), Labuan FSA conducted an industry briefing on the subject during the year. The briefing aimed to enrich the understanding of compliance officers on STR and the briefing also served as a platform for interactive communication and the exchange of information between the supervisors and industry players on AML/CFT obligations and the ML&TF threat.

Investigation and Prosecution

Active surveillance and strong enforcement actions continued to be priorities for Labuan FSA in 2017. Based on the mandate derived from the Labuan Financial Services Authority Act 1996 (LFSAA 1996), Labuan FSA undertook investigation, enforcement and prosecution actions on non-compliance cases, including those involved in the Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001 (AMLATFAPUAA) cases to ensure the soundness and stability of Labuan IBFC. This resulted in an increasing level of good compliance and discipline amongst the Labuan financial institutions.

Throughout 2017, Labuan FSA's continued monitoring and surveillance activities gave particular focus to compliance with the AML/CFT requirements. The focus on the effectiveness of enforcement measures for Labuan financial institutions was further strengthened through active collaboration and engagement with other financial regulators and law enforcement agencies such as the Attorney General's Chambers, Bank Negara Malaysia, Securities Commission Malaysia, Inland Revenue Board of Malaysia and the Royal Malaysian Police. This ongoing alliance ensures a strong surveillance monitoring mechanism and maintains public confidence in Labuan IBFC.

The strong enforcement measures taken has reflected in the 50% increase in the total number of non-compliance cases detected in 2017. A total of 244 non-compliance and enforcement cases were recorded, comprising entities from various sectors such as banking, insurance, trust companies, leasing business, and normal Labuan companies.

The success number of cases prosecuted and the robust enforcement measures undertaken by Labuan FSA in 2017 further strengthened Labuan FSA's commitment to improve the compliance rate within Labuan IBFC.

Box Articles

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For further information, please go to https://www.labuanibfc.com

Did you know?

2017 - Labuan IBFC is home to:

57 Labuan International Commodity Trading Companies

THE EVOLVING NATURAL ROLE OF LABUAN IN A CONNECTED AND INTEGRATED ASIA

Early Years

Labuan Island is located off the coast of the state of Sabah in East Malaysia. The name of the island actually stems from the word "Labuhan", which in Malay means port or harbour. True to its name, since the early years, due to its ideal location, Labuan has always been utilised as a connecting point for trading activities throughout the surrounding region of Asia Pacific.

Coal deposits were discovered on the island in the 1840s which created significant interest from the British to acquire Labuan and establish the island as a coaling station for passing steamboats. Complementing this discovery was the fact that Labuan is adjacent to the major commercial ports in Southeast Asia: 650 miles from Manila, 707 from Singapore, 984 from Thailand and 1,009 from Hong Kong. Recognising this potential, the British declared the island as a free port to incentivise these activities and exploit the island's potential. In 1907, the British confirmed Labuan as one of the four Straits Settlements, along with Singapore, Penang and Malacca. Since then, Labuan transformed into a growing and expanding entreport that served the nation and the region at large, thriving from the substantial volume of East-West and Intra-Asian trade activities between European and Chinese merchants.

World War I and II disrupted regional trade activities and impacted the island's growth. After a series of different administrations, including the Japanese, the British Military and North Borneo Crown Colony, Labuan's entreport status was reconstituted in September 1956. The political landscape after World War II had, however, significantly changed and in 1963, Sarawak and Sabah, which Labuan was part of, had joined the Federation of Malaysia. During this era, Labuan continued to serve as a port for trading activities within the surrounding region.

THE EVOLVING FACES OF LABUAN - THEN AND NOW

LABUAN, 1840s

LABUAN TODAY

The Evolving Natural Role of Labuan In A Connected and Integrated Asia

BOX ARTICLE 1

Latter Years

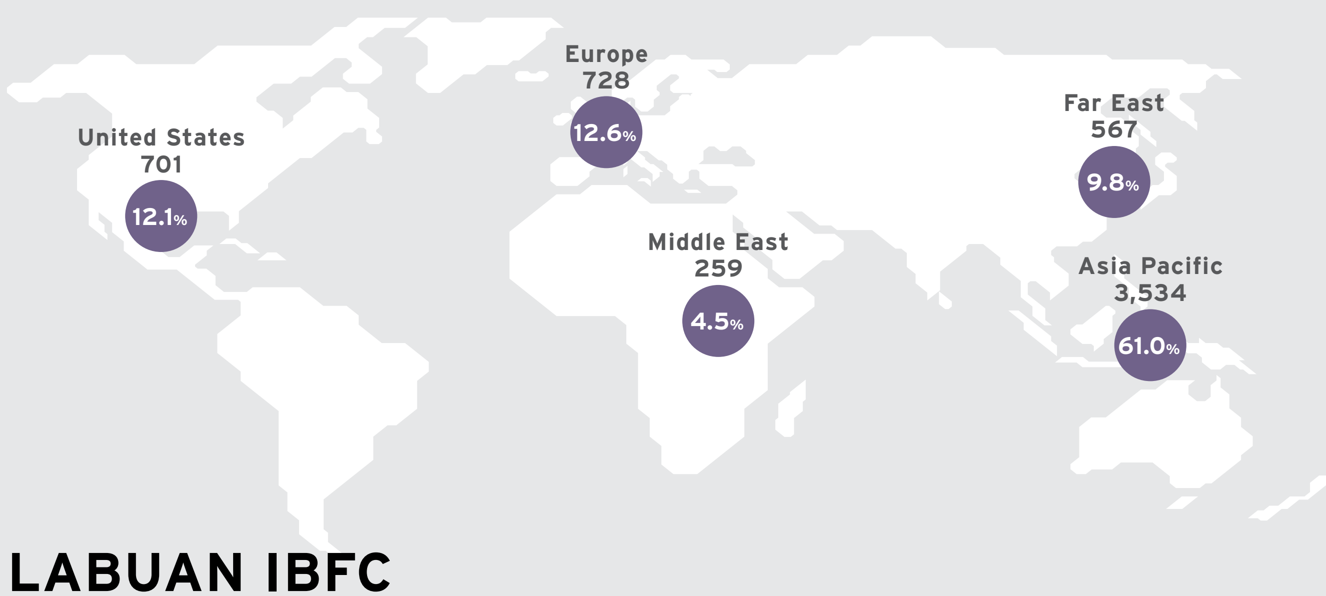
In the ensuing years, Labuan witnessed a significant milestone when it was proclaimed a Federal Territory under the Federal Government of Malaysia on 16 April 1984. The Federal Government stepped up its efforts to boost Labuan's economic growth through various developmental initiatives and declared Labuan an International Offshore Financial Centre on 1 October 1990, later rebranded as Labuan International Business and Financial Centre (Labuan IBFC).

Labuan IBFC was established to complement Kuala Lumpur as a financial centre and to develop the island and its surrounding vicinity. Since its establishment, international financial activities have contributed to the island's economic growth and its employment opportunities. Today, Labuan has a population of about 100,000 with key economic activities in international financial business and the oil and gas sectors. These two sectors are interlinked with the oil and gas upstream and downstream businesses using Labuan for leasing activities for specialised equipment, vessels and oil rigs. The existence of an integrated port on the island has facilitated the growth of oil and gas exploration and shipping activities. With further upscaling being planned for the Labuan port, it is envisaged that its function and role will gain further prominence, especially in facilitating regional trade and investments.

After a 27-year journey, Labuan IBFC is now one of Asia Pacific's more vibrant financial centres. It is home to institutions and companies from China, Japan, Hong Kong, Singapore, Australia, Indonesia, Taiwan and other Asian countries and is a centre of choice for regional trade and investment activities. With transformative initiatives planned for Labuan for the next decade, Labuan is destined to become an even more influential player on the international stage.

Labuan IBFC will continue to transform itself and enhance its business offerings while complying with international standards and practices as it pegs its role firmly for the Asia Pacific region.

THE REGIONAL REPRESENTATION OF LABUAN COMPANIES



LABUAN IBFC: A GROWTH DRIVER FOR LABUAN

BOX ARTICLE 2

Labuan International Business and Financial Centre (Labuan IBFC or Centre) strives to become more prominent in attracting Asian businesses in tandem with the region's huge potential as the nexus for international trade and investment for the global economy. While the region has had to address challenging uncertainties, the Centre has remained strong and resilient, maintaining a steady growth trend.

Since its inception in 1990, Labuan IBFC has evolved to become a midshore financial centre to serve the growing demand for international financial services and an investment outlay within the region. The Centre has served as an international financial and investment gateway to and from the wider regional and global economies, primarily for Asian jurisdictions. To enhance its market growth, in 2010 the Centre was repositioned as Labuan IBFC and made significant changes to its business legislations to further elevate its attractiveness as a conducive business destination. Diagram 1 depicts the notable milestones over Labuan IBFC's nearly three-decade journey.

FIGURE 1: KEY MILESTONES OF LABUAN IBFC

1990-2000 THE RECEPTION YEARS

- Labuan was declared as an International Offshore Financial Centre (IOFC) in 1990 to complement the activities of the domestic financial market and enhance the contribution of financial services to nation's Gross National Products as well as to develop the island and areas within its vicinity.
- Labuan FSA formerly known as LOFSA, was established in 1996 as the statutory body responsible for the development and administration of the Labuan IBFC, formerly known as Labuan IOFC.
- Labuan FSA was admitted as members of the international financial centre groupings and international standard-setting bodies ie. APG, GIFCS, GIICS and IAIS.
- Labuan IBFC recognised as centre with international repute by being member of multi-lateral organisations comprising fraternity of financial supervisors and regulators.

2001-2009 THE GROWING STATE

- Founding member of International Islamic Financial Market (IIFM).
- In 2008, Labuan IOFC redefined its value proposition and rebranded itself as Labuan International Business and Financial Centre (Labuan IBFC). Establishment of Labuan IBFC Inc. Sdn. Bhd., the marketing arm of Labuan IBFC.
- Recognition of Labuan IBFC as a low risk money laundering jurisdiction by APG.
- International memberships expanded to IIFM, Islamic Financial Services Board (IFSB) and the International Organisation of Securities Commissions (IOSCO).

Labuan IBFC: A Growth Driver for Labuan

BOX ARTICLE 2

2010-2016 **THE TRANSFORMING PHASE**

In 2010, Labuan was "white-listed" by the OECD as a jurisdiction deemed to have substantially implemented OECD standards of transparency and exchange of information between countries and certainly enhanced its competitive edge in the international financial services sector.

Introduced new Labuan legislations, including those unique to the region such as foundations and protected cell companies in 2010.

In 2012, the ASEAN Infrastructure Fund (AIF) was incorporated by the Asian Development Bank in Malaysia under the Labuan Companies Act 1990. AIF is the largest fund established by ASEAN in its history.

Labuan IBFC was recognised as acceptable jurisdiction for listing in the Stock Exchange of Hong Kong, Singapore Stock Excharge and National Exchange of Australia.

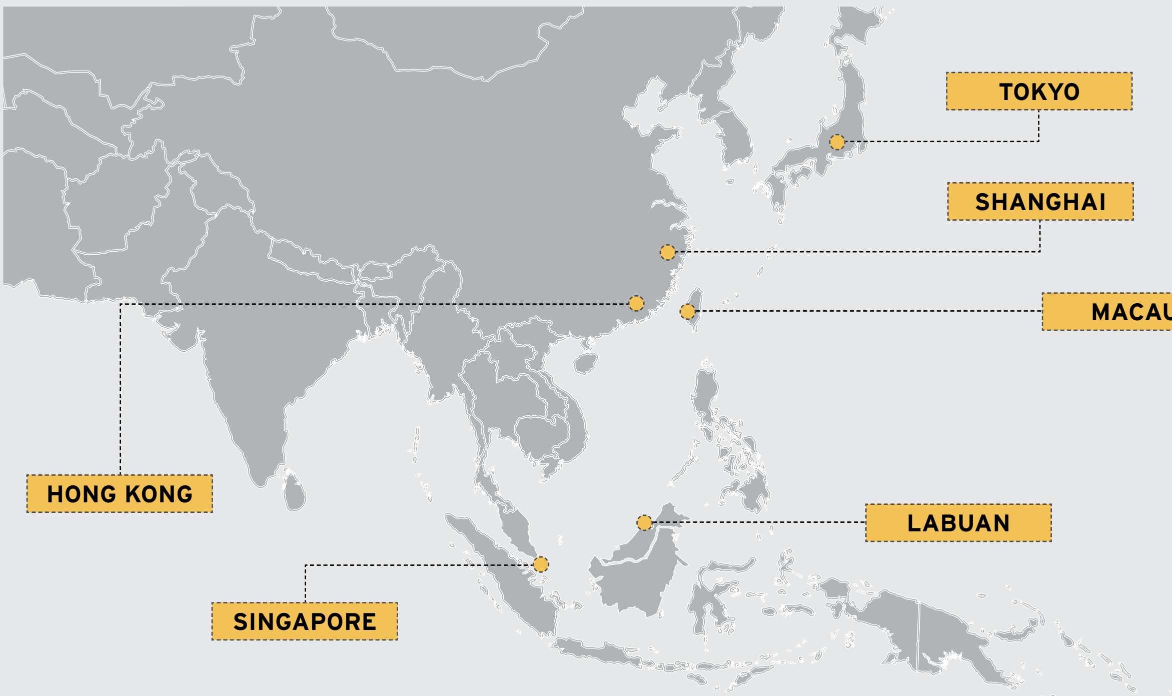
In 2016, Labuan FSA was accepted as a member in the FATF for combating money laundering and terrorism financing and other activities that threatened the integrity of the financial system.

Labuan FSA
Financial Services Authority

BOX ARTICLE 2

Labuan IBFC: A Growth Driver for Labuan

LABUAN IBFC AS AN INTERNATIONAL FINANCIAL CENTRE FOR ASIA



BANKING

- Primarily involved in granting credit facilities and investment banking services mainly in support of the regional market.
- Predominantly host market jurisdiction, Labuan offers commercial and investment banking, in both conventional and Islamic.

INSURANCE

- Dominated by international reinsurance institutions which provide the needed risk underwriting capacity for the non-life sector in the region including Malaysia.
- Consisting of reinsurers and direct insurers and also provides unique underwriting vehicles in the form of captives.
- Offers (re)takaful or Islamic (re)insurance to cater for those seeking Shariah-compliant protection.
- Insurance brokers, underwriting managers as well as insurance managers complete the supply chain by offering the needed services within the sector.

WEALTH MANAGEMENT

- The offerings of trust and foundation structures in Labuan IBFC have became the main selling point for High Net Worth Individuals and affluent population.
- This is a prospective sector with increasing demand especially in Asia region for dynamic wealth transfer, dynastic planning and inheritance management.

LEASING

- Labuan IBFC's structure offers attractive leasing solutions for large corporations for the oil and gas sector, aviation industry, shipping-related and other specialised and big ticket items businesses.

GIFT

- The Global Incentives for Trading (GIFT) programme provides a bouquet of incentives designed to attract traders of specified commodities to use Malaysia as their international or regional trading base.
- A Labuan International Commodity Trading Company (LITC) under the GIFT programme is to facilitate the trading of physical commodities and related derivative instruments in any currency.

Labuan IBFC: A Growth Driver for Labuan

BOX ARTICLE 2

Labuan IBFC Transformation Plan

In the pursuit of achieving a competitive edge in the regional or global markets, international financial centres around the world have undergone much change over the years. Labuan IBFC is no exception to this. After nearly three decades of operations, Labuan IBFC needs to transform in order to play broader and more significant roles in both the domestic and regional economies.

The challenges faced by the Centre include increasing competition from other financial centres; the changing business landscape due to demands on tax harmonisation, transparency and information sharing; as well as changing demographics and increasing wealth that necessitate the diversification of products and services.

RATIONALE OF LABUAN IBFC TRANSFORMATION

PULL FACTORS

- **Competition in international business** as well as the intermediation of these businesses has intensified over the years especially amongst leading international business and financial centres.
- **Changing business landscape** due to global demands on tax harmonisation, transparency and information sharing mooted by OECD and other multilateral bodies.
- **Changing demographics and increasing wealth** necessitates diversification of products, solutions and services.

PUSH FACTORS

- Labuan's economy is **highly dependent on financial and oil & gas related activities:**
  - Labuan IBFC's core financial businesses i.e. banking and insurance have been moderating over time as the markets saturate with the entry of different institutions offering similar products and services.
  - Need to further integrate the financial sector with the island's real economic development since the downturn in the oil and gas industry in 2015.
- Due to the **Centre's dated fiscal framework**, it is not fiscally sustainable for the long run.

GOING FORWARD

- **Develop a diversified and refined financial business model prioritising on niche markets and solutions**
- **Greater support for expansion of Labuan's real economy**
- **Continue to meet international standards and best practices**
- **Enhance legal framework for business expansion and regulatory oversight**

The Transformation Plan is founded on a new business model for Labuan IBFC which aims to make Labuan a well-integrated regional economic hub to better serve the business, investment and intermediation needs of the region, including East Malaysia and the ASEAN markets. As Labuan strives to become a regional financial and economic hub, it is imperative that Labuan transforms in key areas.

Labuan IBFC: A Growth Driver for Labuan

In particular, Labuan IBFC needs to integrate into the island's real economy via greater business substance and modernisation of its tax regime to support and drive Labuan Island's economic development. The Malaysian Federal Government, the Labuan Corporation and other domestic authorities fully support the Transformation Plan. The main tenets for the Labuan IBFC Transformation Plan are summarised in the diagram below.

TENETS OF TRANSFORMATION PLAN

LABUAN FINANCIAL AND ECONOMIC REGIONAL HUB

Support Labuan's Economic Development and Connectivity

- **Integrate the island's economic growth** by requiring the financial sectors to have greater commercial substance.
- **Expand the fiscal incentives** beyond the financial services to cater for real economic activities.
- **Enhance connectivity and infrastructures** to link and serve Labuan's target markets in the vicinity and beyond. e.g. Labuan-Sabah bridge.

Serving Regional Business

- **Serve the business, investment and intermediation needs** of the region.
- Continue to **serve as a window** for the nation's investment outflows into the region.
- **Maintain its competitiveness** vis-a-vis other centres in Asia.

Fiscal Strengthening

- **Refine the fiscal incentives** to ensure the viability, sustainability and competitiveness.
- **Reinforce business requirements** with a focus on higher business substance to generate economic spillover to the island.
- **Conform to international standards and requirements** of the OECD as well as international tax initiatives as means of striving for greater tax transparency, compliance and enforcement.

Developing Financial Niches

- Focus on **expanding and accelerating the development** of the emerging financial markets.
- **Understanding the future demands** of the international market is key for the Centre to be more market-oriented.
- **Expanding the niche sectors** so as to offer a varying range of solutions and services suited for differing client demands.

Labuan IBFC: A Growth Driver for Labuan

BOX ARTICLE 2

Strategic Thrusts

The transformation is timely given the vast business and financial opportunities being generated by the expanding regional economies, the growing convergence between Malaysia and ASEAN member countries and the economic spinoffs of projects such as the One Belt One Road initiative (OBOR). Strategically located, Labuan will continue to intensify its efforts to fulfil the needs of prospective investors tapping into Asia's economic development.

To implement this plan, strategic thrusts have been identified to define the new Labuan economic model, which can be clustered under two pronged strategies as follows:

Thrust 1: Breadth Expansion of Labuan Economic Activities

There will be greater focus on developing emerging niche financial sectors that can be expanded to become key areas of growth for Labuan IBFC. This will also reduce Labuan IBFC's current high reliance on some of its matured markets. The expansion in niche business sectors will involve developing strategic sectoral road-mapping and key specific initiatives in order to kick-start growth. It is envisaged that with an improved and diversified range of products, solutions and services, these niche financial segments will evolve to be the engines of future growth for the Centre.

BREADTH EXPANSION OF LABUAN ECONOMIC ACTIVITIES

FINANCIAL SERVICES

- Diversify matured sectors' focus
- Further develop niche markets
- Create a regional economic hub
- Enhance commercial substance
- Innovative and diversify market

EDUCATION

- Leverage on nation's aspiration to become regional education hub via establishment of Edu City & Campus City.
- Expand existing or establish new skills training institutions and higher learning institutions.
- Collaborate with local university to introduce new syllabus for promoted/niche sectors of Labuan IBFC.

AVIATION

- Intensify air connectivity i.e. domestic and international flights frequencies.
- Increase the flows of goods and services to and from the island to serve both local and regional business needs.

METHANOL

- Expand downstream activities related to methanol production.
- Enhance logistic servicing via shipping and maintenance, repair & overhaul (MRO) services.

TOURISM

- Entice more tourists to the island via improved connectivity and better infrastructures.
- Spur tourism-related activities by having more travel agents and establishment of hotels/ resorts.

HEALTHCARE

- Expand medical-related services offerings through establishments of private and specialists healthcare.

Labuan FSA Financial Services Authority

Labuan IBFC: A Growth Driver for Labuan

Thrust 2: Modernising Tax Framework of Labuan IBFC

The reform of Labuan IBFC's tax framework is intended to modernise the tax incentives and requirements in line with prevailing international standards and fiscal best practices.

The enhanced tax framework will be in compliance with the requirements of the OECD's tax standards as well as other similar multilateral bodies, in particular in dealing with base erosion and profit shifting issues, implementation of the common reporting standards and the need for substance creation.

Specifically, the tax incentives in Labuan IBFC will be rationalised to ensure business sustainability and to maintain or increase the fiscal contribution to Malaysia. The tax incentives will also be refocused on growing the targeted sectors such as the niche markets and the real economic potentials in order to support the island's economic expansion plan. In cognisant of the current rigours of the international business arena, the Labuan tax structure will evolve to be more economically sustainable and viable, but retain key features that will maintain its attractiveness and competitiveness vis-à-vis its peer business centres.

Critical Enablers Needed

The Transformation Plan to bring about the new economic model for Labuan IBFC requires critical success factors that can facilitate and accelerate the implementation of each of the strategic thrusts. The following critical enablers are therefore key to pave the way for the Centre to become the financial and economic regional hub it aspires to be.

CRITICAL ENABLERS

Enhancing the connectivity of the island to facilitate movements via construction of a bridge connecting Labuan to Sabah and increase in frequency of flights into and out of the island. The enhancement would:
- physically **connect Labuan to the mainland Sabah and Borneo**;
- **reduce travelling time** significantly;
- **drive the socio-economic development activities** in the island;
- positive **economic spillovers** to the connected Sabah towns and the state overall; and
- create **more job opportunities** in Labuan IBFC to better serve East Malaysia's critical mass.

Improving infrastructures and other amenities required to conduct business and to provide better living standards for Labuan community as well as to become an eminent IFC with high liveability feature by:
- providing for stable and faster telecommunication; and
- upgrading of essential amenities such as roads, electricity supplies, healthcare and schools.

Upscaling the talent pool to meet the needs of Labuan IBFC and the REPs in order to support the Transformation Plan. A highly-skilled talent supply is of paramount importance to drive the expansion of Labuan IBFC. The current talent and skillset gaps would need to be addressed holistically and effectively in order to meet the longer term market needs. Towards this end, **a dedicated institute will be established** to offer structured trainings for Labuan's financial services workforce.

Dated fiscal incentives and/or tax policy regime impedes competitiveness or productivity of a jurisdiction. Going forward, the **incentives under the Labuan tax framework will be refined** and more focused so as to be in line with the sectors that are to be the engine of growth for Labuan IBFC and the island as intended under the Transformation Plan.

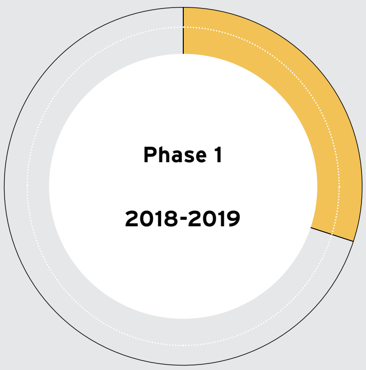
These would entail:
- **harmonising with the domestic tax requirements** for sectors which have been deemed as sufficiently developed and matured;
- promoting Labuan entities to **focus more on out-out business**;
- **incentivising** beyond the financial businesses with the island-developmental agenda for the **REPs to drive growth for the local economy**; and
- **greater tax regulation and enforcement** to maintain or **enhance the economic integrity of Labuan IBFC**.

Labuan IBFC: A Growth Driver for Labuan

Phasing in The Transformation Plan

Transformation Plan is to be embarked on in stages, to allow for market transitions but impactful in terms of its outcome.

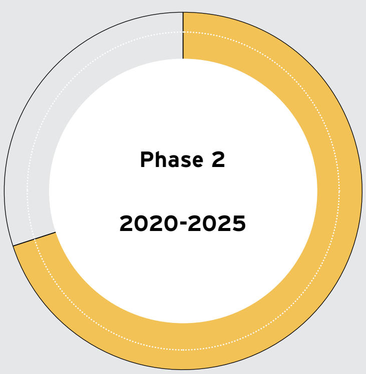
PHASING IN THE TRANSFORMATION PLAN



THRUST : **FORWARD CHARTING**

MEASURES :

- Modernise Labuan IBFC's tax framework
- Chart the way-forward for niche markets including captives, trust company services, private banking and wealth management
- Diversify and reorient the matured markets towards regional business focus
- Enhance Labuan IBFC's ecosystem and develop business-facilitative initiatives
- Promote financial technology businesses via Biz-Tech Incubator
- Expand Shariah-compliant vehicles to reinvigorate growth of Islamic finance
- Enhance substance requirements
- Maintain international standards conformity



THRUST : **EFFECTING THE MEASURES**

MEASURES :

- Implement refined tax measures and incentives
- Roll-out expansion measures to expand the niche and matured markets
- Effect ecosystem enhancements to facilitate, particularly niche market businesses

THRUST : **MONITORING & REINFORCING**

MEASURES :

- Evaluate performance of Labuan IBFC markets
- Reinforce measures to spur market's growth trajectory
- Design future mapping of Labuan IBFC's business evolution

Labuan IBFC: A Growth Driver for Labuan

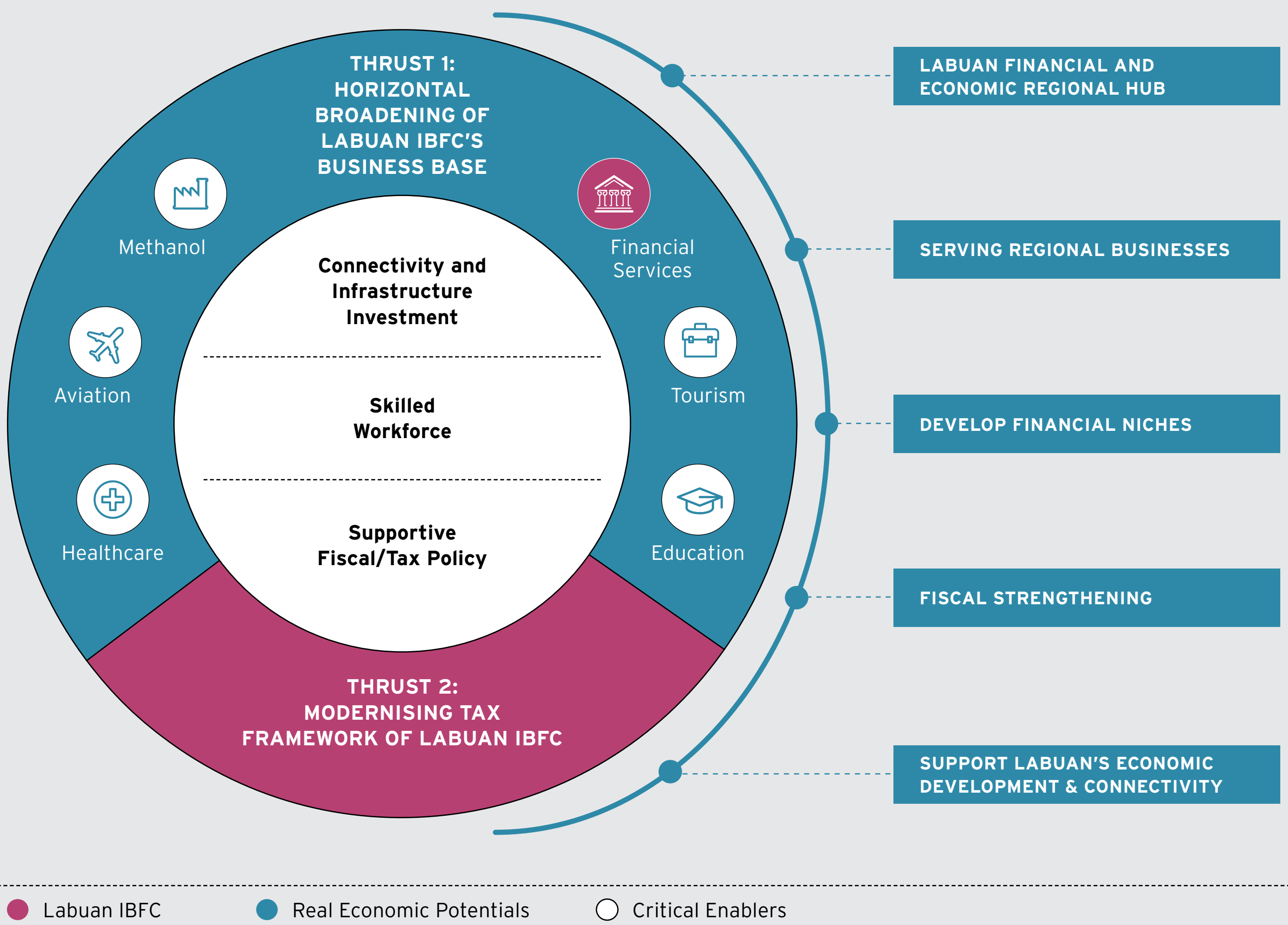
The End-Game Envisaged

Through the Transformation Plan, Labuan IBFC is expected to be well-integrated with Labuan Island's growth agenda, thereby creating a more sustainable and symbiotic relationship with the local economy. It is expected that the comprehensive approach towards the development of Labuan would attract investors and external talents to live on the island, which in turn will generate greater business substance as well as economic visibility for Labuan. With the transformation, Labuan IBFC and the island can attain greater prominence to serve East Malaysia, ASEAN as well as Asia at large - making a mark in the regional business landscape.

The horizontal broadening of Labuan economic base and the modernisation of the tax regime, together with upscaled prudential regulations and supervisory oversight, will further enhance the competitiveness and attractiveness of Labuan IBFC as the preferred midshore financial centre for the Asia-Pacific region.

Labuan IBFC's transformation plan reflects the national commitment of the Government to elevate the economic stature of Labuan to become an integral growth component of the nation's economy.

EXECUTIVE SUMMARY OF LABUAN TRANSFORMATION PLAN



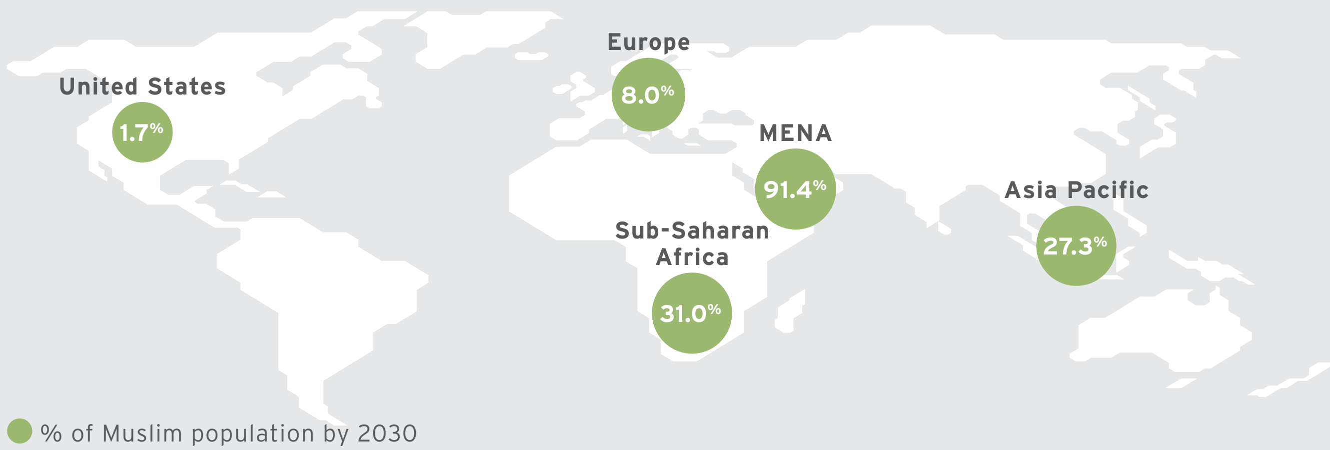
LABUAN IBFC: EXPANDING THE HORIZON FOR ISLAMIC WEALTH MANAGEMENT

BOX ARTICLE 3

Increasing Muslim Financial Wealth and Islamic Finance Assets

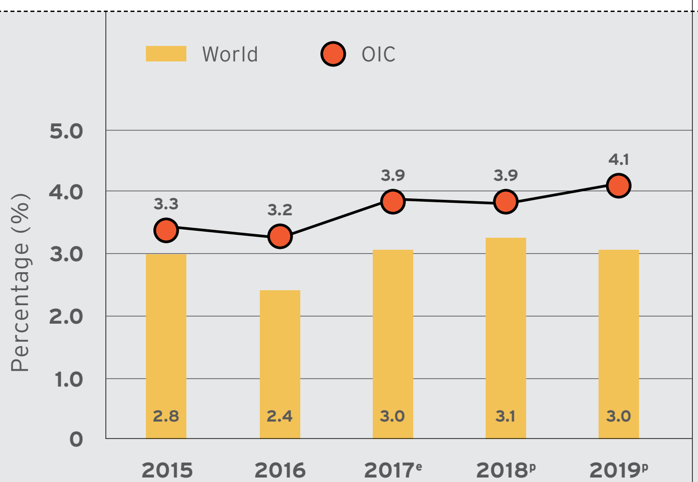
Rising global affluence has resulted in a significant increase in global private financial wealth over the past decade, reaching USD280 trillion[1] in mid-2017. The current trends in some developing economies indicate good prospects for the Muslim population to emerge as a significant driver of growth in global private financial wealth. This is supported by the projection of above average economic growth in countries with high Muslim populations as well as the growth of Muslim population globally.

POPULATION AND GDP GROWTH: PERCENTAGE OF MUSLIM POPULATION



Source: *Pew Research Center, 2011, The Future of the Global Muslim Population, Projections for 2010-2030*

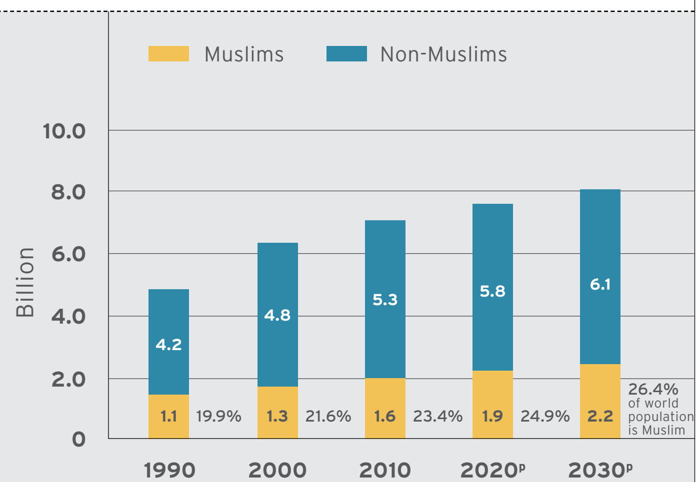
OIC AND WORLD GDP GROWTH



e: Estimation *p: Projection*

Source: *COMCEC, 2017, Financial Outlook of the OIC Member Countries 2017*

WORLD POPULATION 1990-2030



p: Projection *Percentage are calculated from unrounded numbers.*

Source: *Pew Research Center, 2011, The Future of the Global Muslim Population, Projections for 2010-2030*

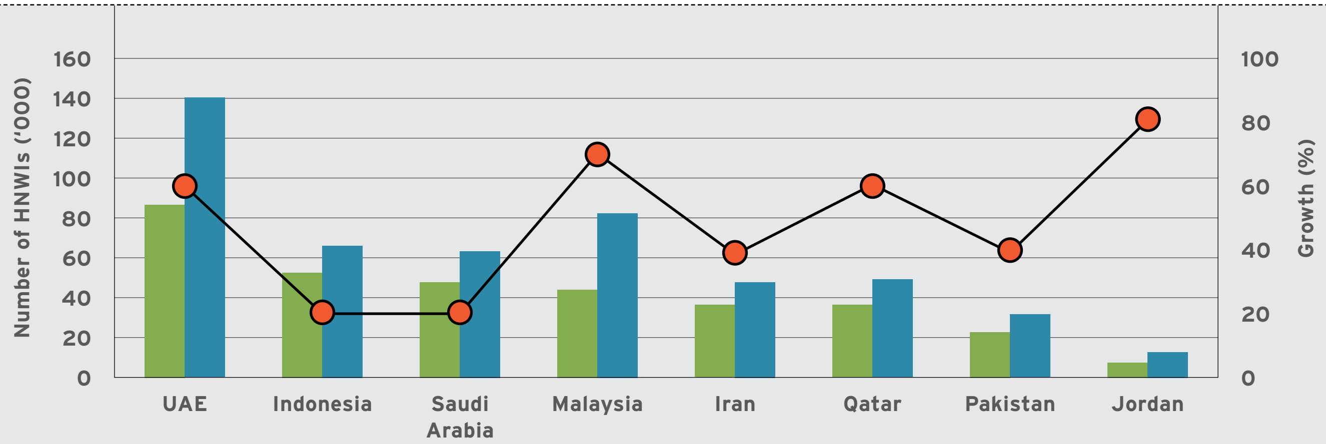
[1] ***Credit Suisse Global Wealth Report 2017.***

Labuan IBFC: Expanding The Horizon For Islamic Wealth Management

BOX ARTICLE 3

The gross domestic product (GDP) of the member countries of the Organisation of Islamic Cooperation (OIC) is forecast to grow by 4.1% in 2019, outpacing the world growth of 3%, and Muslims are projected to represent 26% of the global population in 2030 from 23% in 2010[2]. It is also projected that Muslims will account for 27.3% or 1.3 billion[3] of the population in the Asia Pacific region, where by 2030, the majority of the world's middle class will live.[4] In addition, the number of high net-worth individuals (HNWIs) in selected Muslim countries is expected to increase by 20% to 80% by 2026.

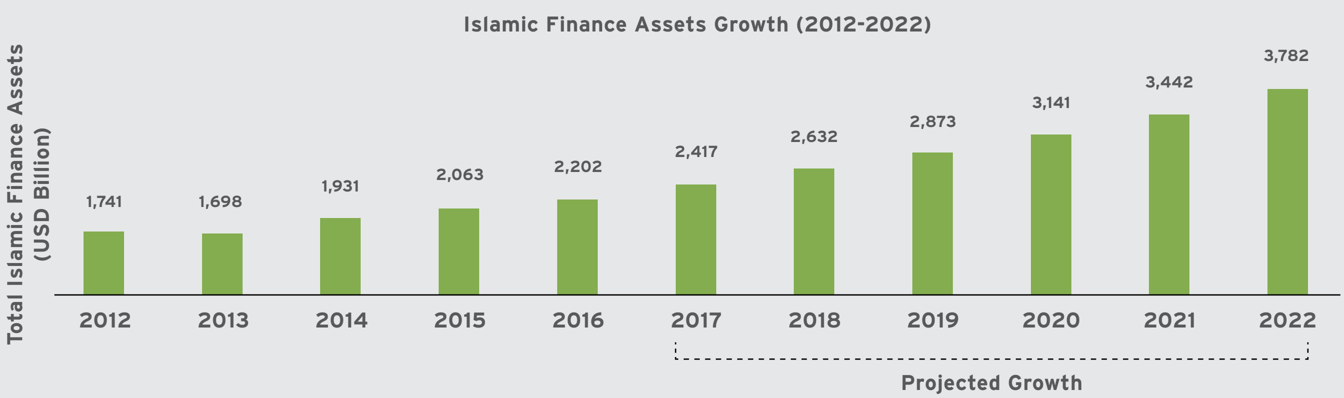
NUMBER OF HNWIS 2016 AND 2026 (SELECTED OIC COUNTRIES)



Source: *Knight Frank, The Wealth Report 2017*

The growth of global Islamic finance assets is forecast to be 9.5% on average per annum and the total amount of Islamic finance assets is expected to reach USD3.8 trillion by 2022[5]. Total Islamic funds assets under management (AuM) outstanding recorded 37% growth in 2016, amounting to USD91 billion with 1,394 Islamic funds in 28 countries. Islamic funds AuM outstanding volume is estimated to increase to USD403 billion by 2022[6].

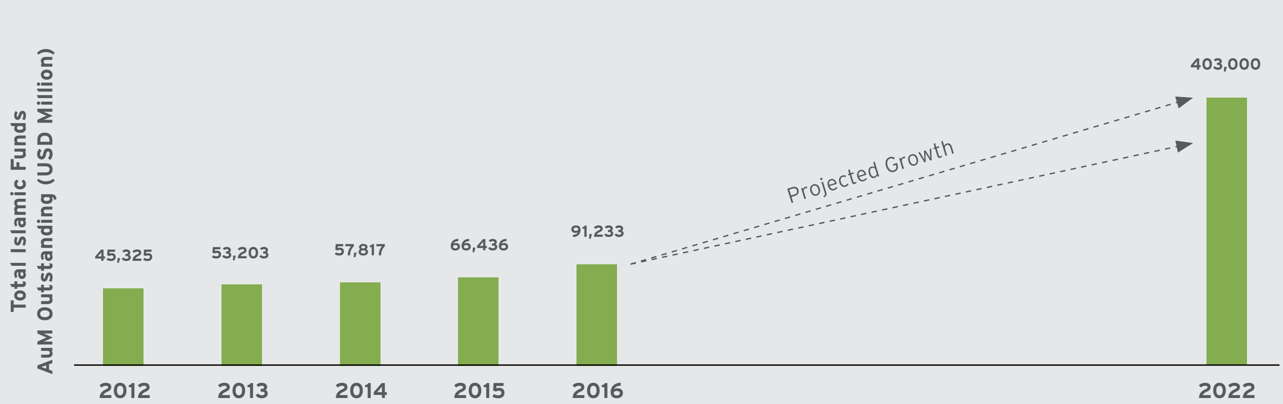
ISLAMIC FINANCE ASSETS GROWTH (2012-2022)



[2] Pew Research Center, 2011, The Future of the Global Muslim Population, Projections for 2010-2030, www.pewforum.org/
[3] Ibid.
[4] EY, Hitting the sweet spot, the growth of the middle class in emerging market.
[5] ICD-Thomson Reuters Islamic Finance Development Report 2017.
[6] Ibid.

Labuan IBFC: Expanding The Horizon For Islamic Wealth Management

ISLAMIC FUNDS AuM OUTSTANDING GROWTH

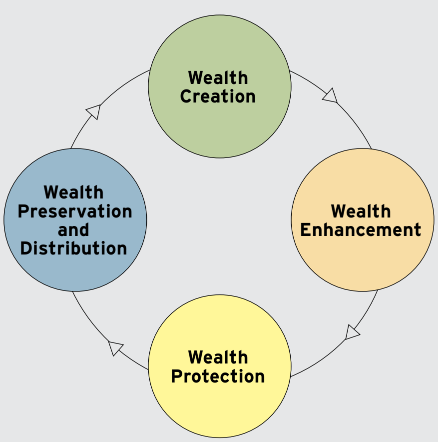


p: Projection

Source: *ICD-Thomson Reuters Islamic Finance Development Report 2017*

The growing global Muslim private financial wealth and Islamic finance assets has escalated the demand for a comprehensive set of Shariah-based wealth management solutions throughout the entire Islamic wealth management cycle.

Islamic Wealth Management Cycle



The Islamic wealth management cycle involves the creation of wealth in compliance with Shariah principles through inter alia business, trade, profession and/or savings with Islamic financial institutions, the enhancement of wealth through investment to generate returns, the protection of wealth through risk management and takaful as well as the preservation and distribution of wealth through trusts, wills, foundations, gifts (hibah) and endowment (waqf). The Islamic wealth management cycle is an end-to-end cycle which comprises financial analysis, asset and securities selection, investment planning and ongoing monitoring of investments, as well as estate, tax and retirement planning, all in adherence to Shariah principles.

Labuan IBFC: Expanding The Horizon For Islamic Wealth Management

Labuan IBFC's complete suite of international Islamic wealth management offerings

In Labuan IBFC, innovative structures are available to cater for the growing demand for Islamic wealth management, comprising Labuan companies for facilitating wealth creation through business and trading, Islamic banking, takaful and asset management for wealth enhancement and protection, as well as wealth preservation and distribution structures such as Islamic trusts, foundations and waqf foundations. Labuan IBFC has a comprehensive infrastructure with dedicated legislations, Shariah governance and fiscal incentives for Shariah-based financial transactions which provides a facilitative and flexible framework for industry players to be innovative and creative in structuring new solutions to meet their customised demands and preferences. Shariah compliance is endorsed by Labuan FSA Shariah Supervisory Council (SSC), which comprises leading Shariah scholars and practitioners. The rulings of the SSC can be used as reference in the court of law.

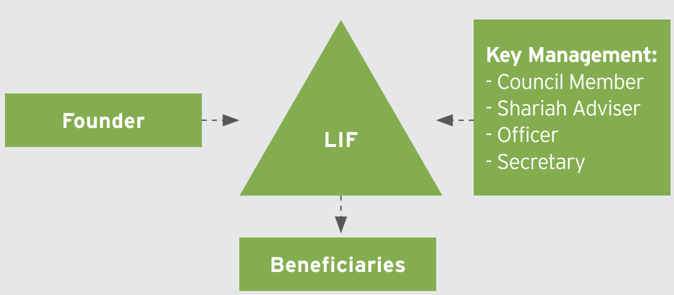
In promoting the growth of Islamic wealth management, Labuan IBFC offers a conducive environment for global Islamic banking and (re)takaful players to operate under the ambit of the Labuan Islamic Financial Services and Securities Act 2010. In addition, Labuan IBFC is home to eight Islamic private funds with net asset value of USD870 million. These funds comprise, among others, private equity funds, global sukuk funds, infrastructure funds and money market funds originating from various countries including Malaysia, Kuwait and South Korea.

In recent years, Labuan IBFC has further expanded the horizon for Islamic wealth management through the introduction of Islamic wealth preservation and distribution vehicles such as Islamic trusts and foundations as well as waqf foundations which have attracted interest from international clientele from the Asia Pacific and Middle East regions such as Singapore, Jordan and Saudi Arabia. These structures are utilised for private wealth management and also for business succession planning as well as philanthropic objectives to improve the standard of living and waqf management for the benefit of the Muslim ummah globally.

Labuan IBFC is one of the few common law jurisdictions offering clients a choice of common law trusts and civil law foundations embedded with Shariah-based solutions. Labuan Islamic trust and Labuan Islamic foundation have attractive features which can be utilised by wealthy families, individuals and non-profit organisations for a variety of purposes including:

- Wealth creation and accumulation
- Succession planning
- Asset protection
- Enhanced confidentiality
- Asset consolidation and management
- Family investment planning
- Heirship planning

LABUAN ISLAMIC FOUNDATION (LIF)



Assets: Endowment of assets by a founder to LIF may be facilitated by way of *hibah/hadiah* (gift). Upon endowment, assets are legally owned by the foundation (separate legal entity).

Founder: Establish the LIF. May be either natural person or corporate and subscriber to the Charter.

Charter: Constituent document of LIF with detailed rules governing its administration matters.

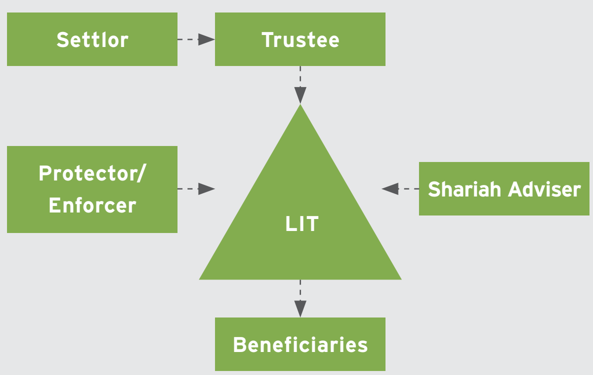
Key Management: Manage, supervise and administer the LIF to achieve its purpose.

Shariah Adviser: Advise matters on the operations of LIF to ensure compliance with Shariah principles.

Beneficiaries: Persons who have vested interest in assets of the LIF.

Labuan IBFC: Expanding The Horizon For Islamic Wealth Management

LABUAN ISLAMIC TRUST (LIT)



Assets: Vesting of asset into the LIT may be facilitated by way of *hibah/hadiah* (gift). Upon vesting, the asset is legally owned by the trustee (not a legal entity with separate legal existence).

Settlor: Creates the trust by transferring assets into a LIT. Settlor may be an individual person or a corporate entity.

Trustee: Holds the LIT funds and is responsible for its administration for benefit of the beneficiaries.

Trust Deed: Central governing document which sets out trustee's powers (among other things). Settlor is able to tailor the terms of the LIT to satisfy his requirements.

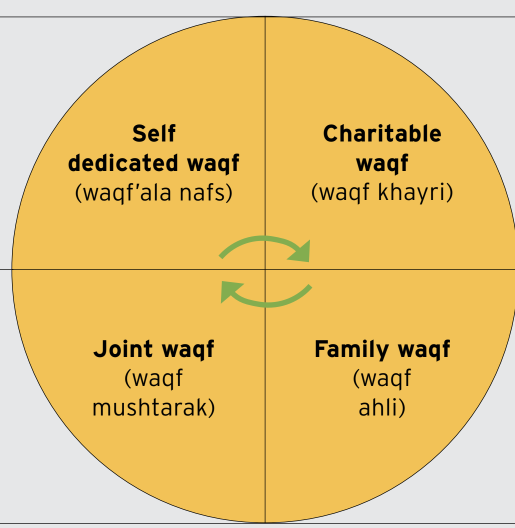
Protector/Enforcer: May be appointed by settlor, who acts like a "watchdog" over the trustee for the benefit of the beneficiaries.

Shariah Adviser: Advise matters on the operations of LIT to ensure compliance with Shariah principles.

Beneficiaries: Person legally entitled to enforce and benefit from the trust.

Labuan IBFC is also the first jurisdiction to revive the concept of waqf in wealth preservation and management using contemporary and internationally recognised foundation laws. Labuan International Waqf Foundation (LIWF) is an Islamic private foundation which holds and manages properties for identified beneficiaries based on the Shariah principles on waqf. The distinct advantage of establishing a waqf using a foundation as the legal structure, is that it offers the founder (Waqif) legal certainty, thus allowing for proper control and management of the waqf in accordance with his wishes based on the Shariah principles on waqf. The founder may establish different kinds of waqf in accordance with his customised preferences and needs as illustrated below:

- Waqf income retained by founder and goes to charitable purpose after his death
- Waqf income for charitable purpose



- Waqf income shared between family members and charitable purpose
- Waqf income reserved for family and goes to charitable purpose when none of family members exist

Labuan IBFC: Expanding The Horizon For Islamic Wealth Management

LIWF established as a family waqf serves as an attractive vehicle for family wealth preservation and succession planning enabling a person to provide for the long-term prosperity of his family members and their future generations. In adhering to the Shariah principles on waqf, LIWF has an in-built dimension for preserving waqf property by protecting it from being sold, given away as a gift or inherited. This safeguards the waqf property from fragmentation arising from gift, sale or inheritance after the death of the founder. This ensures that the waqf, for as long as it remains, depending on its life span, will continuously benefit the subsequent generations of the beneficiaries.

One of the unique features of LIT, LIF or LIWF is that, upon the demise of the settlor/founder, Faraidh (Islamic inheritance law) is not applicable and relevant on the vested/endowed assets provided that the vesting/endowment of the assets satisfies the following conditions:

- The vesting/endowment is done during the settlor/founder's lifetime;
- The vesting/endowment is made immediately and irrevocably;
- The vesting/endowment is made without any reserve power of the settlor/founder;
- The transfer of the ownership of the asset is absolute; and
- The transfer has been accepted by the LIT, LIF or LIWF.

Faraidh is not applicable in cases where the settlor/founder manages the assets of the LIT, LIF or LIWF. However, if the settlor/founder is one of the beneficiaries, Faraidh is applicable and relevant on the portion of the assets that the settlor/founder is entitled to.

Summary

The growing prominence of Islamic financial assets and Muslim wealth globally has invigorated the demand for Islamic wealth management solutions. Labuan IBFC, with its complete suite of Islamic wealth management offerings, effective regulatory standards and facilitative business environment, is well positioned to cater for the expanding frontier of the international Islamic wealth management industry.

GLOBAL TAX STANDARD: LABUAN IBFC'S RESOLUTE COMMITMENT TO CONFORM TO GLOBAL STANDARDS

The evolution of tax policies at the global and regional front is taking place at a very fast pace. Malaysia and Labuan IBFC as well as many other countries are in the midst of reviewing fiscal policies and tax statutes to comply with the agreed tax standards and best practices. These changes have posed challenges, namely in designing tax instruments and laws for the future as the world economy becomes more digitalised with greater cross-border transactions and the need for increased tax certainty. In essence, the global tax reforms will affect global business models.

For more than four decades, the Organisation for Economic Co-operation and Development (OECD) has led the way and has been at the helm in promoting tax transparency and co-operation in tax matters. This has been undertaken through various initiatives at G20 forums, the Forum on Tax Administrations and the Global Forum on Transparency and Exchange of Information for Tax Purposes comprising OECD and non-OECD members. The review of the implementation of the Base Erosion and Profit Shifting (BEPS) is based on the minimum standards, reinforced international standards, common approaches and best practices as well as analytical reports and measuring BEPS.

BASE EROSION AND PROFIT SHIFTING ACTION PLAN

Minimum Standards	Reinforced International Standards	Common Approaches & Best Practices	Analytical Reports & Measuring BEPS
ACTION 5 Counter harmful tax practices	**ACTION 7** Prevent the artificial avoidance of Permanent Establishment (PE) status	**ACTION 2** Neutralise the effects of hybrid mismatch arrangements	**ACTION 1** Digital economy
ACTION 6 Prevent treaty abuse	**ACTIONS 8-10** Aligning transfer pricing outcomes with value creation: intangibles; risk and capital; and other high-risk transactions	**ACTION 3** Strengthen Controlled Foreign Company (CFC) rules	**ACTION 11** Data analysis
ACTION 13 Re-examine transfer pricing documentation Country by Country Reporting (CBCR)		**ACTION 4** Limit interest deductibility	**ACTION 15** Develop a multilateral instrument
ACTION 14 Dispute resolution Mutual Agreement Procedure (MAP)		**ACTION 12** Mandatory disclosure rules	

The implementation of Automatic Exchange of Information (AEOI) is more recent and so the results of evaluations and recommendations for improvement are at an earlier stage. The Inclusive Framework on BEPS is currently at the forefront, and premised on the four minimum standards, peer reviews have been put in place, a process through which all members are assessing each other's implementation of the agreed standards. OECD's BEPS Action Plan, which was published in July 2013 is intended to bring about discussion of and to re-align perceived problems with BEPS, the tax planning strategies of multinational entities and other international taxpayers who exploit gaps in domestic tax law systems and shift profits to low tax rate jurisdictions where little economic activity has been created. The Action Plan called for OECD and non-OECD member nations to review their domestic tax rules where interaction between domestic tax systems has resulted in gaps in corporate taxation

Global Tax Standard: Labuan IBFC's Resolute Commitment to Conform to Global Standards

(double non-taxation or less than single taxation). The BEPS Action Plan identifies 15 actions needed to address BEPS, set a timeline of deadlines to implement the actions and identify the resources needed, the methodology, and certain output deliverables required to implement the actions.

The BEPS 15 action plans are intended to equip governments with domestic and international instruments to address tax avoidance, ensuring profits are taxed where economic activities and income-generating activities are performed. Malaysia and Labuan IBFC became an Associate of the Inclusive Framework of the Forum on Harmful Tax Practices (FHTP) in January 2017, and commenced its participation with effect from the 44th FHTP meeting held on 15th to 17th March 2017. The Inclusive Framework on BEPS, where currently more than 100 countries have committed and signed, has also released additional guidance for tax administrators, among others the implementation of Country-by-Country (CbC) reporting. The Inclusive Framework also approved updates to the results for preferential regime reviews conducted by the FHTP under BEPS Action 5 focusing on Intellectual Property and non-Intellectual Property regimes.

The corporate landscape in Labuan IBFC will witness a fundamental change upon implementation of BEPS, namely in managing its business strategy and adherence to tax and legal obligations under the new tax rules and regulations. In addition to enhancing the reputation of Labuan IBFC in the global front, there would be greater clarity in financial reporting and enhanced substantive economic activities in Labuan IBFC as well as legitimate tax planning.

As the regulatory authority for Labuan IBFC, Labuan FSA has been periodically reviewing and changing its directives and guidelines to ensure Labuan entities are in full compliance with prudential policies in meeting requirements of global tax standards. Additionally, Labuan FSA also signed memorandum of understanding (MoU) with its counterparts worldwide to further strengthen its supervisory cooperation and has also put in place mechanism to comply with Double Tax Agreement and Tax Information Exchange Agreements for an effective exchange of information.

The membership of the Peer Review under the OECD's Global Forum on Tax Transparency and Exchange of Information for Tax Purposes has expanded to more than 140 OECD and non-OECD member countries. The peer review process originated with Phase 1 to ensure that the legal provisions on standards of tax transparency and exchange of tax information were in place. The Phase 2 Peer Review, Global Forum assessed on the implementation of internationally agreed standards and best practice on taxation. Malaysia (including Labuan IBFC) was accorded an overall rating of "Largely Compliant" under Phase 2, particularly on the effective exchange of information. Malaysia (including Labuan IBFC) is one of the 25 jurisdictions that has been rated "Largely Compliant" among the 54 jurisdictions assessed by the Global Forum. This positive assessment by the Global Forum reaffirmed that Labuan IBFC is a regulated financial centre. To further strengthen the implementation of internationally agreed standards of transparency and exchange of information, Labuan FSA also put in place responsive internal processes as well as effective resources to ensure the exchange of information requests with partner jurisdictions are handled efficiently and in timely manner. Labuan FSA also implemented the "Management Information Systems" in relation to records of beneficial ownerships are maintained at the Labuan trust companies who are the resident secretaries of Labuan entities.

Phase 3 of the Global Forum will be undertaken in 2018 where peer review assessment will be embarked to ensure that business records, accounting information and beneficial ownerships are kept and maintained at the registered and operational office of the entities. Malaysia and Labuan will also be assessed in 2018.

Labuan FSA is committed to continuously enhancing its regulatory and supervisory standards to maintain its competitive advantage and to comply with international standards of tax transparency and regulation. In pursuing greater transparency in tax compliance, Labuan FSA is strengthening its international cooperation in tax matters to ensure integrity of the IBFC's tax regime and compliance with greater economic substance.

ANTI-MONEY LAUNDERING – NATIONAL RISK ASSESSMENT: IMPACT AND IMPLICATION

BOX ARTICLE 5

"There is no doubt that money laundering and terrorist financing can threaten a country's economic stability, which is why the IMF has become increasingly active in supporting and promoting the AML/CFT efforts to our member countries, based on the [Financial Action Task Force] standard. What started as a small endeavour some 20 years ago has become part of our core work – from analysis and policy advice to assessing the health and integrity of financial sectors, to providing financial assistance when needed, to helping countries build institutions and increase operational effectiveness."

– Christine Lagarde, Managing Director of the IMF

Perception on International Financial Centres (IFCs) and Money Laundering and Terrorism Financing (ML&TF) Risks

It is important to note that money laundering could happen in any establishment and in any jurisdiction and not something which is confined to IFC's alone. Misconceptions on IFCs that they were not regulated were a thing of the past as the IFC s nowadays are all very well regulated, with the international multilateral and standard setting bodies having watchful eye on them. With growing cases of ML&TF reported and prosecuted globally including the Panama Paper leaks and Paradise Papers investigations, IFCs have seen increasing public and media scrutiny on them. The imminent negative impact of ML&TF activities led to governments of many IFCs jurisdictions increasing their level of compliance and promote better transparency in combating the threats by implementing stringent anti-money laundering and counter financing of terrorism (AML/CFT) regulations.

Labuan FSA as one of the regulatory authorities in Malaysia, has a key role to play in not only promoting the development of Labuan IFC but also in adopting strong regulations in line with the international standards on AML/CFT requirements as part of its commitment to ensure a stable and high integrity financial centre.

Malaysia's National Risk Assessment (NRA)

In 2014, Malaysia had undergone its fourth Mutual Evaluation Exercise (MEE) with the key aim to ensure that the adoption, implementation, and enforcement of internationally accepted ML&TF standards are sufficient and effective. With Largely Compliance to The Financial Action Task Force (FATF) Recommendations, Malaysia made a commendable progress to address key findings and gaps highlighted through its National Strategic Action Plans (NSAP), monitored by six sub-committees under the National Coordination Committee to Counter Money Laundering (NCC) umbrella.

One of the priority actions for Malaysia under the NSAP is to conduct a more granular risk assessment which includes more considerations for foreign sourced threats, TF and the interconnectivity between specific crimes and financial sectors and this led to a comprehensive NRA exercise.

The NRA objective is for a country to identify, assess and understand key ML&TF threats and vulnerabilities and consequent impact to its financial stability and economy. Further, the country is able to apply appropriate control measures to mitigate the ML&TF risks, through adjustments and amendments to the legal and regulatory frameworks.

The methodology adopted in forming a holistic NRA entails a quantitative assessment of the net inherent ML&TF risks mitigated by the effectiveness of control measures implemented across sectors and crimes. This is complemented with qualitative considerations observed from independent experts' views, and commendable references. The assessment encompassed various strategic risks assessments and agencies as shown in the diagram:

BOX ARTICLE 5

Anti-Money Laundering-National Risk Assessment: Impact and Implication

MALAYSIA'S NATIONAL RISK ASSESSMENT

NATIONAL THREAT RISK ASSESSMENT (NTRA)	SECTORAL RISK ASSESSMENT (SRA)	NON-PROFIT ORGANISATION (NPO) RISK ASSESSMENT	LABUAN RISK ASSESSMENT (LRA)
• To indentify, assess and understand ML&TF threats & crime risk	• To identify, assess and understand ML&TF risks on financial and non-financial sectors	• To idenify and understand NPO landscape, risks and vulnerabilities to TF	• To identify, assess and understand ML&TF threats and crimes on Labuan Island
Bank Negara Malaysia, Labuan FSA, Securities Commission Malaysia, Royal Malaysian Customs Department Inland Revenue Board, Malaysia Marine Enforcement Agency, Companies Commission Malaysia, Department of Wildlife & National Park, Ministry of Domestic Trade, Cooperative Consumerism	Bank Negara Malaysia, Labuan FSA, Securities Commission Malaysia	Labuan FSA, Legal Department of Prime Minister Office, Registry of Societies Malaysia, Company Commission Malaysia	Labuan FSA, Royal Malaysian Police, Malaysia Anti-Corruption Commission, Royal Malaysian Customs Department, Inland Revenue Board, Malaysian Maritime Enforcement Agency

Agencies Involved

Outcome of the Assessment

As the NRA is being finalised, concurrent communications between the reporting institutions and regulators on the understanding of the emerging risk are vital. This is to ensure that emerging risks are understood and recognised and in turn industry is kept abreast of the same. Only then will institutions be able to assess their own risks and make judgements to ensure they are not used as vehicles for ML&TF proceeds.

Nonetheless, the assessment outcomes will be able to assist the regulators and law enforcement agencies in prioritising the deployment of their resources to tackle high-impact risks in a more effective and targeted manner.

For Labuan FSA, the NRA's findings should be able to show all forms and crimes, levels of the risks and provide the Authority a thorough approach in calibrating its AML/CFT action plans commensurate with ML&TF crime threats identified under these assessments.

Our Leadership & Advisory Groups

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Shariah Supervisory Council	100
Financial Stability Committee	100

For further information, please go to https://www.labuanibfc.com

Did you know?

2017 - Labuan IBFC is home to:

14,201
Labuan Companies

MEMBERS OF THE AUTHORITY

Muhammad bin Ibrahim *(Chairman)*

Skills and Experiences

Muhammad bin Ibrahim is the 8th Governor of Bank Negara Malaysia. Appointed in May 2016, he is also the Chair of the Central Bank's Monetary Policy Committee and the Financial Stability Committee.

Beyond his role at the Central Bank, Governor Muhammad chairs the Board of the Asian Institute of Finance and the International Centre for Education in Islamic Finance. He is also a board member of PETRONAS, Malaysia's national oil and gas corporation.

At the international level, Governor Muhammad is presently the co-chair of the Financial Stability Board Regional Consultative Group for Asia with the Governor of the Reserve Bank of Australia and chairs the Global Standards and Policy Committee of the Alliance for Financial Inclusion. Governor Muhammad also served as the Chairman of the Irving Fisher Committee (IFC) on Central Bank Statistics of the Bank for International Settlements from 2012 to 2014.

Governor Muhammad holds postgraduate degrees from Harvard University and the International Islamic University Malaysia. He is a member of the Malaysian Institute of Accountants and a Fellow of the Asian Institute of Chartered Bankers.

MEMBERS OF THE AUTHORITY

Danial Mah bin Abdullah *(Director General)*

Skills and Experiences

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

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

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

Tan Sri Dato' Seri Ranjit Ajit Singh

Skills and Experiences

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

Tan Sri Ranjit was appointed the Vice-Chairman of the governing board of the International Organisation of Securities Commissions (IOSCO), the global body of capital market regulators and was elected as the Chairman of IOSCO's Growth and Emerging Markets Committee, the largest committee within IOSCO, representing 107 countries. Tan Sri Ranjit is also Chairman of the ASEAN Capital Markets Forum, a body tasked to spearhead market integration efforts within the region and comprises capital market authorities from ASEAN.

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

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

MEMBERS OF THE AUTHORITY

Datuk Oh Chong Peng

Skills and Experiences

Datuk Oh Chong Peng is Non-Executive Director of the various board of public listed companies such as British American Tobacco (Malaysia) Berhad, Malayan Flour Mills Berhad, Dialog Group Berhad, Kumpulan Europlus Berhad, PUC Berhad and a trustee of UTAR Education Foundation. Datuk Oh was Chairman of the Alliance Financial Group until his retirement from the Board on 26 September 2017. He was a partner of Coopers & Lybrand Malaysia and government-appointed member of the Kuala Lumpur Stock Exchange (now known as Bursa Malaysia) as well as the Malaysian Accounting Standards Board.

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

MEMBERS OF THE AUTHORITY

Dato' Mohammed Azlan bin Hashim

Skills and Experiences

Dato' Mohammed Azlan bin Hashim is Chairman of IHH Healthcare Berhad, D&O Green Technologies Berhad, Marine & General Berhad, Scomi Group Berhad, Labuan IBFC Inc. Sdn. Bhd. and Universiti Malaysia Terengganu. He also serves as a board member of, amongst others, Khazanah Nasional Berhad and Chairman of the Government Retirement Fund Inc. Investment Panel.

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

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

MEMBERS OF THE AUTHORITY

Datuk Ali bin Abdul Kadir

Skills and Experiences

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

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

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

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

He was bestowed the Panglima Jasa Negara (P.J.N) in 2000 by the YDP Agong, and was also awarded the Lifetime Achievement Award by ICAEW and President Award by MICPA.

MEMBERS OF THE AUTHORITY

Dato' Zahrah binti Abd Wahab Fenner

Skills and Experiences

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

Dato' Zahrah was appointed as a board member for the Certification of Certified Integrity Officers and is also a member of the Financial Reporting Foundation. She was also the chairperson of the SSM Cooperative between 2011 and 2014. In 2016, Dato' Zahrah was elected as an Executive Committee member of the Corporate Registers Forum which is an association of international corporate registries. Dato' Zahrah was appointed as Adjunct Professor, Department of Marketing and Entrepreneur Development, College of Business Management & Accounting, Universiti Tenaga Nasional from 5 November 2017 until 4 November 2018.

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

Dato' Zahrah who graduated with a Bachelor of Accounting (Hons.) Degree from Universiti Kebangsaan Malaysia, is a member of the Malaysian Institute of Accountants and a Chartered Accountant. She is also a member of the Approval and Implementation Committee of the Iskandar Regional Development Authority.

MEMBERS OF THE AUTHORITY

Dato' Khodijah binti Abdullah

Skills and Experiences

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

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

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

MEMBERS OF THE AUTHORITY

Datuk Azhar bin Ahmad

Skills and Experiences

Datuk Azhar bin Ahmad was appointed as Chief Executive Officer of Labuan Corporation on 9 September 2016. Prior to his appointment in Labuan Corporation, he was Deputy Secretary of Strategic Unit in Planning Office, Ministry of Science, Technology and Innovation. He started his career in the Public Services Department and held various positions, amongst others, as Senior Assistant Director in Research and Policy Division, Senior Assistant Director in Organisational Development Division and Deputy Director of Economic Sector and Administration Sector, Organisational Development Division.

Datuk Azhar holds a Masters Degree in Human Resource Development from Universiti Putra Malaysia; a Bachelor Degree in Computer Science (Honours) from Universiti Sains Malaysia; and a Diploma in Public Administration from Malaysia's National Institute of Public Administration.

AUDIT & RISK MANAGEMENT COMMITTEE

COMMITTEE MEMBERS

1. **Datuk Oh Chong Peng**
   Chairman
2. **Dato' Mohammed Azlan bin Hashim**
3. **Datuk Ali bin Abdul Kadir**
4. **Dato' Zahrah binti Abd Wahab Fenner**
5. **Datuk Azhar bin Ahmad**

SENIOR MANAGEMENT OF LABUAN FSA

Danial Mah bin Abdullah (Director General)

Iskandar bin Mohd Nuli

Yon Zahimah binti Ibrahim

Syahrul Imran bin Mahadzir

Azuddin bin Jasin

Mohd Rizlan bin Mokhtar

Jimmy Chen Siew Hang

Wan Ahmad Sanusi bin Mahmood

LABUAN FSA ADVISORY GROUPS

INTERNATIONAL ADVISORY PANEL

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

IAP MEMBERS

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

The IAP functions as a platform where members provide recommendations on strategic opportunities that can create a competitive edge for Labuan IBFC in the areas of international business and financial sector. In addition, the IAP advises on ways to create opportunities out of Labuan's incentives and potential to better position the Centre regionally and globally.

The wide range of expertise and experience within the IAP enables Labuan FSA to keep abreast of the latest market development and policy initiatives in other leading IBFCs and identify business opportunities for the Centre.

In 2017, the IAP deliberated on the proposal to transform Labuan into a regional economic hub. An economic assessment of the Centre since its inception in 1990 was carried out and a proposal put forward for Labuan IBFC to become more integrated into the economic development of Labuan.

The IAP also assessed the proposal to develop Labuan IBFC as Asia's captive centre, particularly for ASEAN countries. The Centre would benefit from the participation of international insurance groups and large corporations with Asian presence in the captive business.

The IAP deliberated on the holistic fee review initiative which is undertaken every three years to ensure that the fee framework is competitive vis-à-vis other centres in the region. The fee review is also in line with the increasing operational costs incurred by Labuan FSA in regulating and supervising the Labuan entities.

The IAP discussed Malaysia's and Labuan IBFC's status of assessment under the Harmful Tax Practices review that was carried out by the OECD. In 2018, Malaysia and Labuan IBFC will be required to undergo the Phase 3 Peer Review Assessment under the OECD's Global Forum on Transparency and Exchange of Information for Tax Purposes.

The IAP deliberated on the three-year Islamic Finance Development Plan which aims to expand Shariah-compliant vehicles in Labuan IBFC and reinvigorate the growth of Islamic finance in the Centre. In line with the plan for Islamic finance to become a niche market for Labuan IBFC, the IAP recognised that new markets for the sector must be identified.

Finally, the IAP discussed the sectoral development and performance of the Labuan industries and advised on the marketing activities which should be undertaken by the promotion arm, Labuan IBFC Inc. Sdn. Bhd.

LABUAN FSA ADVISORY GROUPS

SHARIAH SUPERVISORY COUNCIL

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

SSC MEMBERS

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

In 2017, the SSC deliberated on the draft Guidance Note on Issuance of Sukuk Wakalah Bi Al-Istithmar, or investment agency sukuk in Labuan IBFC. The Council also identified strategic business opportunities and provided valuable guidance on the Strategic Business Plan for Islamic finance in Labuan IBFC for the period 2018 to 2020.

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. **Danial Mah bin Abdullah, Chairman**
   (replacing Datuk Ahmad Hizzad bin Baharuddin effective from 3 October 2017)
2. **Syahrul Imran bin Mahadzir**
   (appointed as new member effective from 19 October 2017)
3. **Qaiser Iskandar bin Anwarudin**
   (replacing Madelena binti Mohamed effective from 23 March 2017)
4. **Mohamed Rezwan bin Abdullah Ismail**
   (replacing Che Zakiah binti Che Din effective from 7 June 2017)
5. **Salmah Bee binti Mohd Mydin**

In 2017, the FSC deliberated on key prudential areas, where Labuan FSA had maintained its prudential strategic thrusts in four main focus areas, namely strengthening capital and financial foundation requirements; enhancing corporate governance and market conduct practices; and fostering regulatory relationships to be in line with the upscaling of the prudential and regulatory framework in Labuan IBFC.

The FSC also deliberated on key regulatory policies involving external auditors of Labuan financial institutions and requirements for appointment of Labuan trust officers to enhance financial disclosure and elevate the level of professionalism for key service providers in Labuan IBFC.

The FSC also provided advice and input on macro surveillance analysis of Labuan IBFC in relation to the adverse impact on the Centre caused by global economic developments, the downturn in the oil and gas sector, as well as Bank Negara Malaysia's new measures on foreign exchange administration.

The FSC deliberated on the risk threat analysis of Labuan Risk Assessment as part of the National Risk Assessment. The assessment established that Labuan entities were not involved in any cases of money-laundering and tax predicate offences, facilitation of illegal proceeds to the domestic financial system or criminal offences.

How We Are Governed

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For further information, please go to https://www.labuanibfc.com

Did you know?

2017 - Labuan IBFC is home to:

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Money Brokers

HOW WE ARE GOVERNED

GOVERNANCE FRAMEWORK

Accountability

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

For further information, please go to page 102.

Integrity

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

For further information, please go to page 107.

Transparency

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

For further information, please go to page 108.

The principles of corporate governance are embedded in every aspect of Labuan FSA, from its decisions to operations and interactions with stakeholders. The governance framework is based on the spirit of the Malaysian Code on Corporate Governance as well as international standards and best practices. As the regulator of Labuan IBFC, Labuan FSA is committed to ensuring **accountability, integrity and transparency** in its governance and stakeholder management. The stand on corporate governance resonates throughout the organisation, and is reinforced by the strong business ethics and uncompromising integrity of our employees and industry players.

ACCOUNTABILITY

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

HOW WE ARE GOVERNED

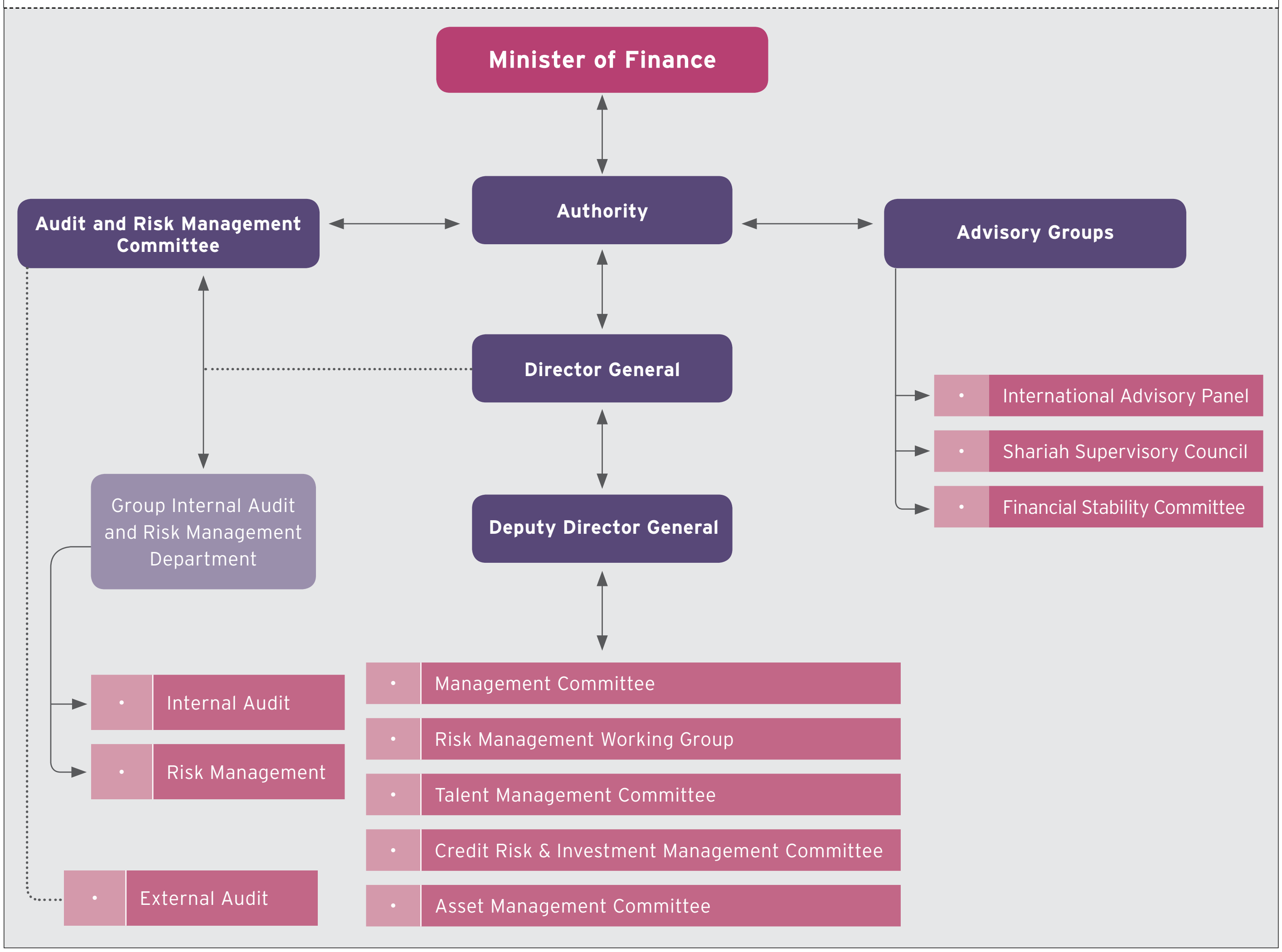
The Authority

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

Members of the Authority are appointed by the Minister of Finance under Section 5 of the Act for a term not exceeding three years. To reappoint any member, the Chairman has to obtain approval from the Minister of Finance.

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

Governance Framework



HOW WE ARE GOVERNED

The Authority convened six meetings in 2017, with members' attendance as follows:

Authority Members	Attendance
Muhammad bin Ibrahim (Chairman)	6/6
Ahmad Hizzad bin Baharuddin (Tenure until 3 October 2017)	4/4
Danial Mah bin Abdullah (Appointed w.e.f. 3 October 2017)	2/2
Tan Sri Dato' Seri Ranjit Ajit Singh	3/6
Datuk Oh Chong Peng	5/6
Dato' Mohammed Azlan bin Hashim	6/6
Datuk Ali bin Abdul Kadir	4/6
Dato' Khodijah binti Abdullah	4/6
Dato' Zahrah binti Abd Wahab Fenner	3/6
Datuk Azhar bin Ahmad	4/6

In 2017, the Authority continued to oversee Labuan FSA management through the review and approval of proposals discussed at meetings. These included business policies and guidelines, corporate action plan, budget and the appointment of advisory committee members. In addition, the Authority authorised the procurement of goods or services valued at more than RM250,000, reviewed appeal for the application of licence, and provided guidance to the management on Labuan IBFC repositioning study and tax regime. The Authority was also continuously updated on matters discussed at the Audit and Risk Management Committee meetings, and through active engagement with the management, on progress of Labuan IBFC industries, financial position of Labuan FSA and performance of its subsidiaries and advisory committees.

The Audit and Risk Management Committee

The Audit and Risk Management Committee (ARMC), comprising five independent members, provides advice and recommendations regarding the adequacy and functioning of Labuan FSA's governance, risk management and control practices. A total of six meetings were held in 2017, at which ARMC provided advisory services with respect to Labuan FSA key activities including enterprise risk management, internal audit functions and quarterly and annual financial statements.

The attendance of the members at the meetings is as follows:

Audit Members	Attendance
Datuk Oh Chong Peng (Chairman)	5/6
Dato' Mohammed Azlan bin Hashim	5/6
Datuk Ali bin Abdul Kadir	4/6
Dato' Zahrah binti Abd Wahab Fenner	2/6
Datuk Azhar bin Ahmad	3/6

Throughout 2017, the ARMC performed the following key activities:

- Reviewed the audit plan for 2017 and provided oversight on work performed by internal audit;
- Tracked the development and progress of Group Internal Audit (GIA) against the approved audit plan, while monitoring the Integrity Unit;
- Reviewed and assessed on the appointment or re-appointment of external auditor for statutory audit;
- Deliberated and advised on legal and supervisory actions on concerned institutions and proceedings involving Labuan FSA and its subsidiaries;
- Reviewed and advised on the status and management of strategic, financial, operational, legal and reputational risks;
- Reviewed the quarterly and annual financial statements, including key issues raised by the internal and external auditors and Auditor-General's office;
- Reviewed and advised the Authority on 2017 budget proposal; and
- Reviewed and advised the management on the Business Continuity Plan and its implementation.

INTERNAL AUDIT

During the year under review, GIA continued to improve organisational effectiveness in the areas of strategic alignment, risk assessment, operational efficiencies, financial reporting, responsiveness to stakeholders' needs, compliance and quality assurance.

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

AUDIT UNIVERSE

RISK BASED APPROACH	**Risk Based on outcome of Enterprise-wide Risk Management Assessment (ERM).** • **Risk rated as Very High, High, Moderate, Low are covered in accordance with the recommended audit cycle.**
LABUAN FSA'S STRATEGIC PLAN 2015-2017	**Based on Labuan FSA's strategic initiatives for 2015-2017 to support the following strategic thrusts:** • **Strong regulatory and supervisory regime** • **Vibrant centre with regional and international financial linkages** • **Internal strategies to enhance operational excellence in Labuan FSA**
SPECIAL PROJECT	• **Management's requests** • **Investigation, if any**

Audit Activities in 2017

Period	Audit area	Activities
Feb	Project Audit	Corporate Communication & External Relations and Financial Sector Blueprint (40 days); Shariah Supervisory Council, Financial Stability Committee & International Advisory Panel (35 days)
Apr – Jun	Audit on Labuan FSA's Risk Profiles	Integrity of data for analysis (50 days); Insufficient funding to support stakeholders operations (35 days)
Jul – Oct	Audit on Labuan FSA's Subsidiaries	Pristine Era Sdn Bhd (50 days); Labuan IBFC Inc. Sdn. Bhd. (50 days)
Nov	Project Audit	Office Optimisation (40 days)

Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec

Follow-up review on outstanding issues in audit reports conducted on quarterly basis (25 days)

Provide advisory comment on procedure manual of other units/departments

GIA conducted seven audit reviews in 2017 to evaluate control measures established and the effectiveness of risk management system. It also engaged proactively with audited parties to ensure the implementation of appropriate actions to resolve weaknesses identified.

Internal Controls

Recognising the need to instill clear lines of accountability in each functional unit within the organisation, GIA and Risk Management Unit (RMU) continuously review and provide advisory comments on procedure manuals. The ultimate objective is to enhance the efficiency and effectiveness of key controls, simplify procedures and strengthen internal systems that support Labuan FSA's overall governance.

GIA also acts as an observer in tender opening process related to the procurement of services or assets, ensuring all activities are conducted in a fair, transparent and consistent manner.

EXTERNAL AUDIT

As a federal statutory body, Labuan FSA submits its annual financial statements to the Auditor General's Office (AGO) for audit, pursuant to the Statutory Bodies (Accounts and Annual Reports) Act 1980 (Act 240). Key issues raised by the external auditors were addressed promptly by the management.

Management

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

Management Committee

The Management Committee (MC) comprises nine senior management members who assist the DG in discharging his responsibilities. It provides direction on Labuan FSA's overall business strategy, facilitates the management and supervision of its operations, and authorises the purchase of goods or services up to RM250,000. In 2017, MC conducted 42 meetings, chaired by the DG, to deliberate a variety of significant matters including business and prudential policies and cases of concerned institutions. It also discussed on budget and expenditure, functional units' policies and procedures, corporate social responsibility activities and human resources matters. The MC also monitored all projects under management.

Other Management Committees

i. **Risk Management Working Group**
The Risk Management Working Group (RMWG) oversees and reviews the implementation of risk management elements, which may affect the achievement of the objectives and strategic goals of Labuan FSA and its subsidiaries. The RMWG comprised of nine directors including the DG of Labuan FSA who is the Chairman of RMWG. The RMWG convened four meetings in 2017 to deliberate among others, the appropriate risk mitigation on key business risks, outputs from risk assessment and implementation of action plans, the degree of integration of risk management techniques and the continued applicability of the risk tolerances and escalation criteria.

ii. **Talent Management Committee**
The Talent Management Committee (TMC) manages the employee development programmes. It comprises seven members, with the Group Human Resource Performance Management serving as secretariat. In 2017, TMC deliberated 155 applications with regard to staff training matters.

iii. Credit Risk & Investment Management Committee

The Credit Risk & Investment Management Committee (CRIMCO) reviews and recommends to the DG for approval or rejection of any application referred to the committee. CRIMCO consists of seven members from various relevant units/departments within the organisation. The committee deliberated on recommendations made by the Business Management Department with regard to applications, exemptions, revocations and registrations pursuant to relevant laws related to Labuan IBFC. In 2017, CRIMCO had deliberated 153 licence applications.

iv. Asset Management Committee

The Asset Management Committee (AMC) chaired by the Senior Director, oversees all aspects of asset management including the procurement and disposal of assets in the best interest of Labuan FSA. It is empowered to authorise the purchase of goods or services up to RM100,000.

v. Occupational Safety and Health Committee and Staff Welfare Fund Committee

The Occupational Safety and Health Committee and Staff Welfare Fund Committee were formed to assist the management in executing its responsibilities within the scope defined in their respective terms of reference.

EMPLOYEES OF LABUAN FSA

Labuan FSA believes in developing a work culture that fully supports our regulatory and supervisory functions. Of utmost importance is to have employees who share our values and who, moreover, are aware of the importance of risk management in the financial industry and assume personal responsibility in helping the organisation as well as Labuan IBFC to operate within well-defined risk parameters. Towards this end, there is constant emphasis on Labuan FSA's corporate values, risk management as well as on working as teams.

In line with the objective towards achieving a performance-based organisation, a structured one-year performance improvement programme was introduced to assist employees who are "below the threshold performers", to improve their performance level. The programme was implemented since 2016.

Programmes to promote working together, build a sense of belonging and improve staff relationships were organised regularly by Kelab Rekreasi dan Kebajikan Labuan FSA (KRKL). These included staff retreats, sports activities, family day gatherings and annual dinners.

INTEGRITY

Labuan FSA believes that integrity is critical in order to create an environment of trust within Labuan IBFC which in turn helps to create a dynamic and regionally competitive Centre. In order to build an environment of integrity, Labuan FSA itself has to be a model of integrity and supported by good governance. The governance of Labuan FSA is built on individual values which are aligned with the following organisational shared values:

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

As part of ongoing efforts to maintain high standards of integrity in our business and activities, Labuan FSA has complied to the Government's requirement to appoint an integrity officer certified by the Malaysian Anti-Corruption Commission (MACC). The integrity officer is responsible for implementing integrity programmes within the organisation. The integrity officer also advises the management on integrity-related matters and acts as a liaison officer between Labuan FSA and the Jawatankuasa Integriti dan Tadbir Urus (JITU) secretariat.

During the year, Labuan FSA attended JITU meetings organised by the Integrity Unit of the Ministry of Finance Malaysia to discuss and update on matters pertaining to integrity. Labuan FSA also organised an integrity awareness programme to further create awareness amongst the staff of Labuan FSA and its subsidiary as well as Labuan government agencies.

Since the implementation of the Integrity Pact for Procurement in 2013, Labuan FSA continued to enforce the practice throughout 2017 as part of its efforts to combat corruption. The exercise requires bidders and Labuan FSA employees to sign a declaration that they will not get involved in corrupt practices throughout the procurement processes until the project is completed. The implementation is also in line with the Treasury Instruction Letter which requires all Government Agencies to insert corruption clauses in Government procurement documents. This requirement has been adopted by Labuan FSA in its service level agreement with vendors.

To further ensure transparency and integrity in daily business dealings and to prevent conflicts of interest, Labuan FSA adopts a "No Gift Policy" that requires employees to demonstrate the highest standard of ethics and conduct in their relationship with vendors, suppliers and customers.

During the year, the integrity officer conducted an investigation on complaints of criminal misconduct by a member of staff in Labuan FSA subsidiary company. The complaint was verified and appropriate action was taken to address the issue.

TRANSPARENCY AND ROLE OF DISCLOSURE

At the industry level, Labuan FSA continued to uphold transparency and maintain its consultative approach with industry players on issues and developments relating to Labuan IBFC businesses. Bilateral meetings were conducted with the Association of Labuan Banks, Labuan International Insurance Association, Association of Labuan Trust Companies and the Labuan Investment Banks Group. The bilateral meeting serves as an effective platform for greater collaboration between Labuan FSA and the industry players.

Besides these, regular engagements with the associations and group, both formal and informal were held to facilitate greater understanding of business requirements and to resolve operational issues.

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

Meeting with Industries	Date	Number of Meetings
Association of Labuan Banks	23 March 2017 18 September 2017	2
Association of Labuan Trust Companies	20 April 2017 28 November 2017	2
Labuan International Insurance Association	24 February 2017 25 May 2017 26 October 2017	3
Labuan Investment Banks Group	23 March 2017 10 October 2017	2

For the year under review, Labuan FSA also organised a cross industry meeting amongst all the industry associations to discuss issues such as opening bank accounts, improving the talent pool and recommendations to improve the existing ecosystem in Labuan IBFC.

As part of the Labuan repositioning exercise, a dialogue between Labuan FSA and the industry players was held to discuss the overall strategic intent for Labuan Island. The transformation aims to transform Labuan to become more economically vibrant in terms of enhanced fiscal contribution based on greater economic growth and markets and to enhance the island's connectivity and livability via upgrades to the infrastructure. Labuan will play a more prominent role by serving the region and Borneo, which offers both international finance and Real Economic Potentials as well as greater employment opportunities which will create an influx of skilled talent to Labuan IBFC.

In the area of regulatory and supervisory cooperation, Labuan FSA strives to uphold transparency principles in the exchange of information with international home-host authorities to strengthen the cross-border supervision of financial institutions. Throughout the year, Labuan FSA facilitated requests of information from other international authorities and domestic agencies. At the same time, Labuan FSA also put forward similar requests to its counterparts.

To ensure that the regulatory and supervisory regimes are in line with international standards and best practices, several guidelines were issued in Labuan IBFC. Prior to these guidelines, Labuan FSA had issued the relevant Consultation Paper to industry players to seek comments and feedbacks from the industry before implementing the guidelines.

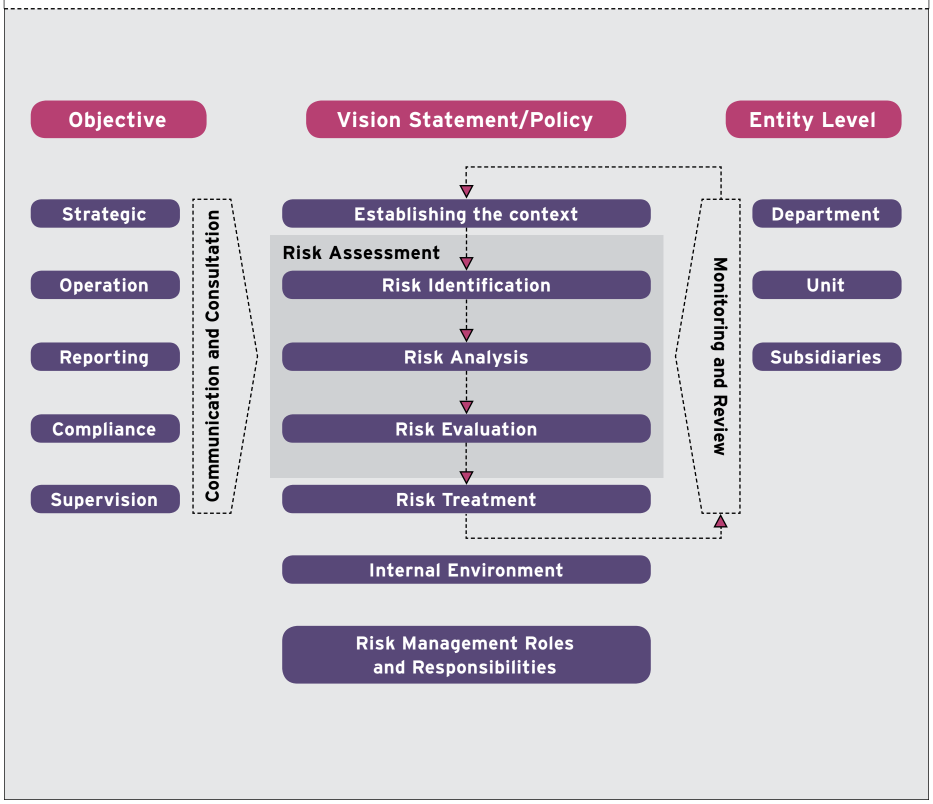
On the international front, Labuan FSA continued to actively participate in meetings with the international financial centres grouping and standard setting bodies of which Labuan FSA is a member, such as the Group of International Finance Centre Supervisors, the Group of International Insurance Centre Supervisors, and the Asia/Pacific Group on Money Laundering, to share information and policies relating to the development of international financial centres.

ENTERPRISE RISK MANAGEMENT

Labuan FSA recognises that sound risk management and internal controls are key to the Group's continued success and sustainable growth. Labuan FSA has embraced Enterprise Risk Management (ERM) as an integral component of its business, operations and decision-making process, to achieve optimum returns while operating within a sound business environment. The ERM provides senior management with a tool to manage existing and potential risks, taking into consideration changing risk profiles as a result of changes in business strategies, operating and regulatory environment and functional activities.

The ERM framework, based on the ISO 31000, Risk Management Principles and Guidelines, standardises Labuan FSA's risk management approach across the Group. The framework involves an ongoing process of identifying, assessing, controlling, monitoring and reporting material risks affecting the achievement of our strategic goals. Key components of the ERM Framework are represented in Diagram 1:

Diagram 1: Enterprise Risk Management Framework



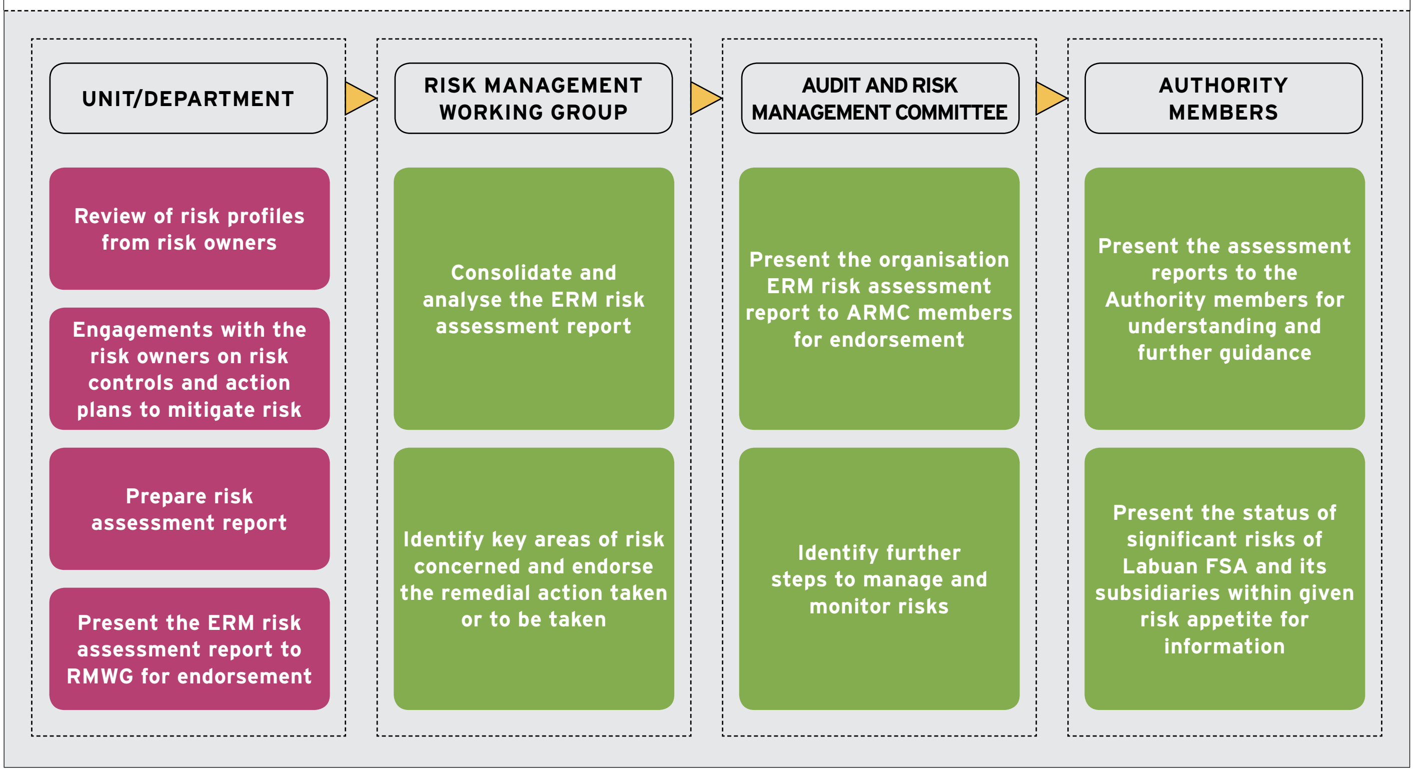
The risk assessment process is conducted throughout the year, its frequency determined by the inherent level of risk to enable management to maintain any escalating risks within the context of our risk appetite.

HOW WE ARE GOVERNED

In 2017, Labuan FSA completed a full cycle of the ERM process, involving participation of the Risk Management Unit (RMU), Heads of Units/Departments and the Risk Management Working Group (RMWG) that comprises all Directors. The RMWG's functions are to coordinate decision making, drive risk management process and report to the Authority on the measures taken to mitigate the critical risks of Labuan FSA. RMU provides independent assessment and advice on risk management initiatives, and provides assurance that the risk management adheres to the ERM framework. RMU also supports the RMWG's risk management activities, develops and maintains the Group's risk management policy and procedures.

Key actions under the ERM Process are illustrated in Diagram 2.

Diagram 2: ERM Processes



The RMWG convened four meetings in 2017 to deliberate and decide on various risk related matters, including the identification of new or emerging risks that may affect the achievement of the objectives and strategic goals of Labuan FSA and its subsidiaries.

To ensure the Group's diverse risks are rationalised and merged effectively, the risk management encompasses subsidiaries, Labuan IBFC Inc. Sdn. Bhd. (LIBFC Inc.) and Pristine Era Sdn. Bhd. (PESB). This enables us to:

- Align the risk appetite and strategy within the Group – by converging the strategic options and related objectives, and developing mechanisms to manage related risks.
- Prioritise risk management activities – by ensuring resources and capital are focused on higher priority risks within the Group.
- Identify and manage multiple and cross-enterprise risks – by integrating responses to the multiple risks affecting different entities of the Group.
- Deploy capital more effectively – by enhancing the assessment of Group capital needs and facilitating capital allocation.

A total of 14 engagement sessions were conducted involving RMU, LIBFC Inc. and PESB in 2017, and several measures were implemented to manage operational risks in both subsidiaries.

These included:

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

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

The ERM is incorporated in the organisation's strategic planning with the ultimate objective of increasing the likelihood that strategic initiatives are realised and the values of the organisation are preserved and enhanced. Using ERM as a framework, Labuan FSA is able to review risks to initiatives as outlined in the 10-year Strategic Direction and CAP. These fall under four main categories, namely strategic, operational, financial and system, followed by nine sub-risks, as shown in Diagram 3 below.

Diagram 3: Labuan FSA Risk Grouping

STRATEGIC	OPERATIONAL	SYSTEM	FINANCIAL
• Regulatory • Business • Stakeholder	• Human • Compliance • Information • Security	• ICT	• Funding

Emerging Risks and Mitigating Measures

The identification of top and emerging risks is vigorously undertaken, adopting a vertical and horizontal approach involving Heads of Units/Departments, Senior Management, the RMWG and ARMC. During 2017, Labuan FSA Group focused specifically on the following risk groups and various strategies were implemented to mitigate them.

1. Regulatory

Regulatory risk is defined as any activities, actions and events that may hinder Labuan FSA in carrying out its role as regulator and supervisor of Labuan IBFC such as:

- Ineffective laws, policies and regulations;
- Non-compliance with the requirements set forth by the international standard setting bodies; and
- Not regulating and supervising Labuan entities effectively.

The regulatory and supervisory functions are currently being enhanced as a result of the assessments undertaken by international bodies such as the International Monetary Fund and the Asia/Pacific Group on Money Laundering as well as the OECD's Peer Tax Review.

Risk	Risk Response
Regulatory	Review the existing guidelines, directives and circulars and enhance the existing framework to be on par with international requirements.
	Collaborate with the relevant authorities and agencies to ensure compliance with the required international standards, laws and regulations.
	Conduct regular benchmarking and periodic monitoring of the latest international standards, laws and regulations.

2. Business

Business risk refers to the risk of actions, activities and events that may hinder Labuan FSA in delivering its strategic goals, among others:

- New and expanded activities of Labuan entities;
- Focused niche market for Labuan IBFC; and
- Enhanced capacity of Labuan IBFC's service providers.

Competition comes from many different directions, making it more important to stay ahead of fast-moving trends to ensure Labuan IBFC business remains relevant for the future. In this regard, it is projected that the launch of Labuan IBFC's Transformational Plan will stimulate economic activities, promote economic growth and development as well as lure investments to Labuan Island, specifically to Labuan IBFC. In line with the Transformation Plan, Labuan FSA will embark on major initiatives, from strengthening research and development, enhancing stakeholders' management to organisational transformation to drive continuous improvement in doing business and strengthen its portfolio and capabilities.

Risk	Risk Response
Business	Enhance business friendly environment within Labuan FSA.
	Diversify Labuan IBFC's products and services.
	Solidify stakeholder relationships through regular engagement.
	Effective talent management and development.

3. System

System risk is defined as the risk that the IT infrastructure cannot support the system used in Labuan FSA such as:

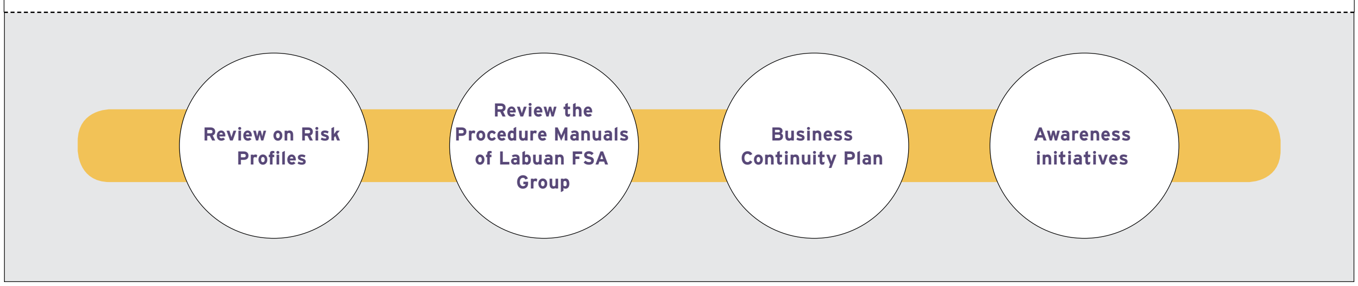
- Disruption to network infrastructure; and
- System security.

Labuan FSA has always leveraged on information technology to drive greater customer convenience and service delivery. Increasing digital interactions with the key stakeholders place greater emphasis on the need for secure and reliable IT systems and infrastructure as well as careful management of the information. Several measures have been implemented to mitigate the risk.

Risk	Risk Response
System	Upgraded the necessary network equipment such as firewall and security patches.
	Implemented double layer security filtering.
	Introduced centralised e-repository internally.
	Conducted awareness programmes related to emerging cyber threats.

Key Activities Undertaken by the Risk Management Unit

Diagram 4: Key Activities in 2017



Review of Risk Profiles

Risk profile reviews form an essential component of the risk management. A comprehensive review was conducted to identify the risk implications of any changes in strategy. The review involved engagement with the Heads of Units/Departments of Labuan FSA and the subsidiaries. The results of the review were reported to the RMWG and ARMC accordingly.

Review the Procedure Manuals of Labuan FSA Group

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

Awareness Initiatives

Having a risk-aware culture is key to an effective ERM framework. Several awareness initiatives were carried out in 2017. These included:

- ERM awareness session to create a risk-aware culture and promote an understanding of the importance of risk management among the employees; and
- The issuance of three periodic bilingual risk bulletins with various topics on risk management for internal circulation.

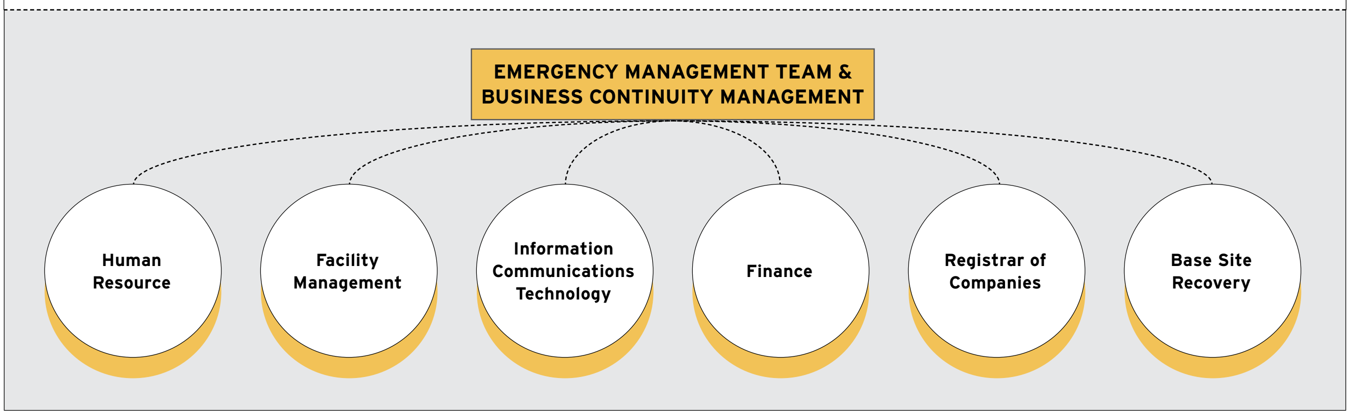
Business Continuity Plan

The Business Continuity Plan (BCP) provides the necessary framework for Labuan FSA to build resiliency and capability for effective responses when faced with adverse events such as natural disasters, technological failures, human errors or damage to office premises. The objectives of the BCP are:

i. To ensure the business operations of Labuan FSA continue in the event of disaster, be it internal or external;
ii. To ensure the survival of Labuan FSA by establishing a culture that identifies and manages risks that could be detrimental;
iii. To develop and test a well-structured and coherent plan which will enable Labuan FSA to recover quickly; and
iv. To minimise financial losses to Labuan FSA.

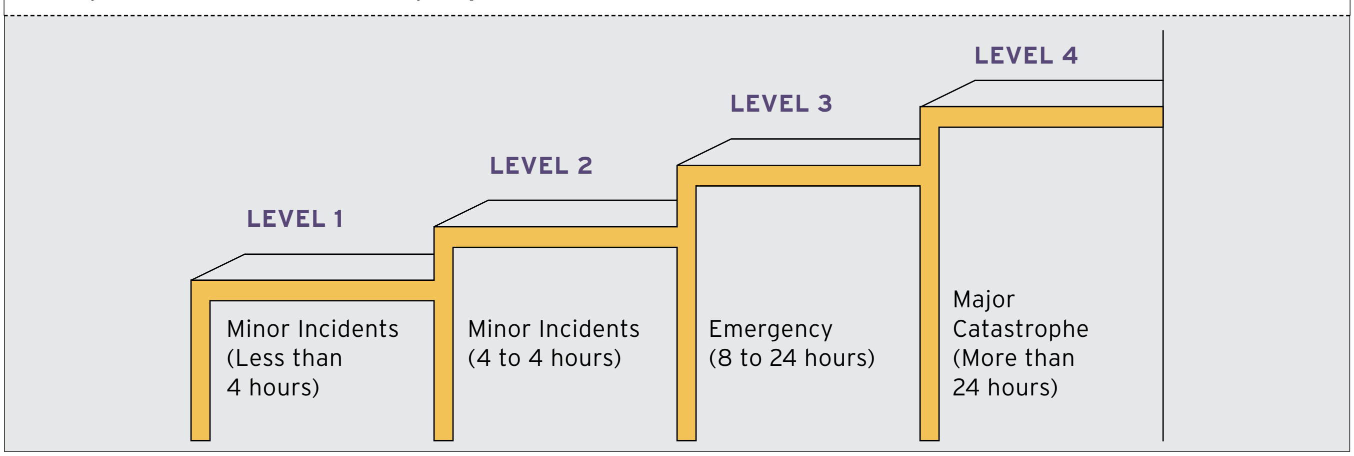
The Emergency Management Team (EMT) retains a tight and functional structure to enable a quick and efficient response in an emergency situation. Labuan FSA's readiness in managing business continuity has been enhanced with the inclusion of new EMT members as well as support from Occupational Health and Safety Committee to respond to physical injuries on site. The reporting structure is depicted in Diagram 5.

Diagram 5: Labuan FSA's EMT Reporting Structure



The Business Continuity Plan will be activated depending on the impact of the disaster that has been identified under the organisation's level of emergency as shown in Diagram 6.

Diagram 6: Labuan FSA's Emergency Level



Providing Sustainable Value

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Labuan International School	119

For further information, please go to https://www.labuanibfc.com

Did you know?

2017 - Labuan IBFC is home to:

151 Foundations

PROVIDING SUSTAINABLE VALUE

The call for responsible business initiatives and sustainable practices has long been promulgated. Strategic approaches to corporate social responsibility (CSR) are increasingly important and regulators and corporations alike are aligning and integrating corporate social responsibility initiatives into their business operations.

Labuan FSA is committed to fulfil its responsibility and make a positive contribution to the island in the areas of economic, job creation, infrastructure development as well as in social and environmental aspects.

In 2017, Labuan FSA initiated and participated in numerous community and charity events; education and awareness programmes; health and environmental initiatives as well as programmes for the Labuan IBFC industry, which were in line with our three CSR pillars – **community wellness, education and environment**.

LABUAN FSA'S SUSTAINABLE BUSINESS VALUES AND CSR APPROACHES

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

CSR Focus Areas

COMMUNITY WELLNESS

EDUCATION

ENVIRONMENT

PROVIDING SUSTAINABLE VALUE

During the year, Labuan FSA gave corporate sponsorships to several charitable organisations to support community projects in Labuan. The recipients included Labuan Old Folks Activity Centre, the Reach Independence and Sustainable Entrepreneurship programme, the Malaysian Red Crescent and the Borneo Arts Festival. Our corporate sponsorships have measurable impacts on the Labuan community in providing aid to the poor and underprivileged groups, upgrading the skillsets of the unemployed and nurturing local talent by promoting local arts and culture.

Education has always been a key priority for Labuan FSA. In 2017, the Authority continued to be involved in educational and related programmes. We hosted three industrial visits and conducted briefings to university students and lecturers to impart knowledge on the products and services of the Labuan IBFC. The staff of Labuan FSA were also invited to give lecture at the local university to create a pathway for high-performing students and enhance the potential future employment prospects of the students. Continuing our tradition of the past decade, we remain committed to handing out awards to students who excelled in their examinations.

For the community at large, Labuan FSA organised quarterly talks on topics related to prevention of cyber crime, employability skills and integrity in the workplace. These talks aim to create awareness amongst the community on common issues faced in the society.

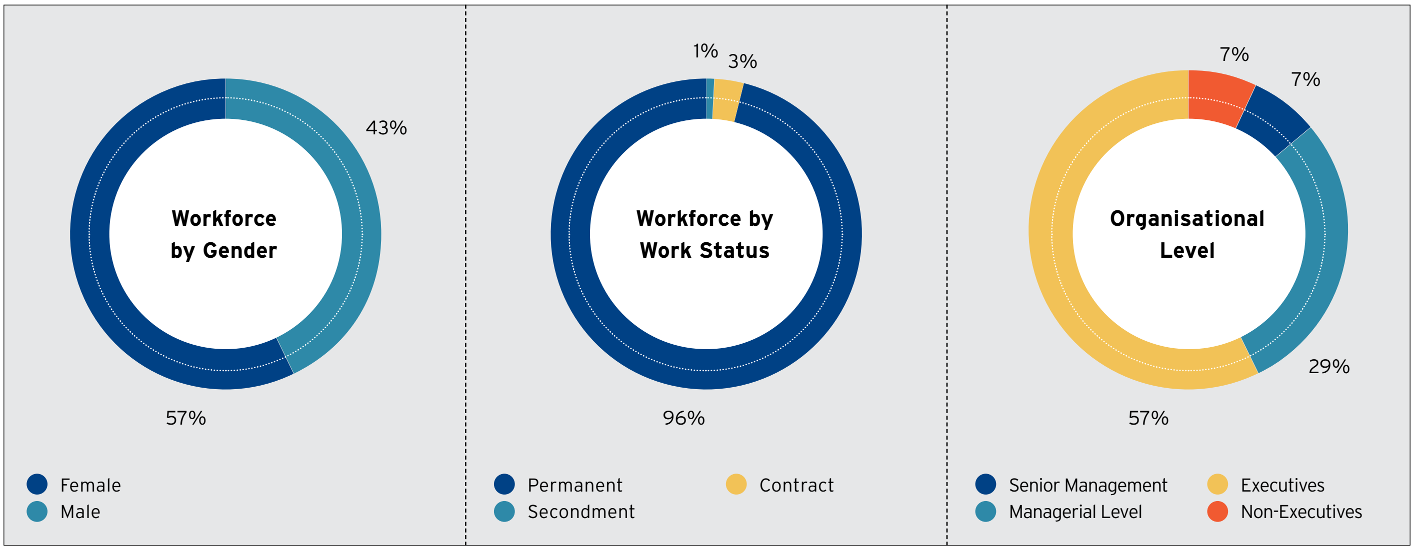
As a financial centre, Labuan IBFC is one of the biggest employers on Labuan Island with a total workforce of more than 5,000. Labuan FSA also supports future capacity and capability building through regular engagements to keep the Labuan IBFC industry abreast of the latest industry and market development. In addition, we also invest in training programmes to cultivate home-grown talents to serve the financial centre.

In the areas of health and environmental preservation, Labuan FSA is committed to contribute to a clean and liveable community. Our efforts are reflected in the various activities and events we organised and involved in throughout the year. The main event was the Labuan FSA Day where the Fellowship Ride 2017 was held, a cycling event to promote a carbon free and green environment. Labuan FSA also strived to foster closer ties with the local community through participating in other community-oriented activities, which included Fun Walk, Rats and Mosquito Extermination Campaign and Go Green Campaign. Labuan FSA also provided donations and aid to the victims of fires.

Moving forward, Labuan FSA will continue to work together with the Labuan community and contribute more to the economic and social development of the island.

HUMAN RESOURCE DEVELOPMENT

In 2017, Labuan FSA had a total workforce of 114, comprising permanent, secondment and contract staff. The strength of the workforce is integral in enabling the Authority to perform its role of developing, regulating and supervising the Labuan IBFC.



Throughout 2017, Labuan FSA continued to develop its employees through knowledge and competencies enhancements as well as by cultivating a culture of continuous learning throughout the organisation. We focused on collaborating with learning providers and experts to provide knowledge-sharing sessions to staff and industry players. This is a continuation of the talent enhancement plans of previous years to upgrade the skillsets within Labuan FSA and Labuan IBFC to keep pace with changes in the fast-paced global business evolution as well as changes in regulatory and supervisory requirements.

The training and learning programmes are also a way to instil loyalty and commitment from employees seeking the next challenge to learn and grow with the organisation. In 2017, staff have participated in various programmes, including the following:

i. Domestic and international training programmes to develop technical skills relevant to their field of work. It also provided them with opportunities to network with other authorities, international associations and agencies;

ii. Structured customised in-house training to enhance technical and soft skills capabilities and competencies. The topics covered insurance/reinsurance, trust/foundations, fintech, presentation skills, report writing skills, people management and ICT awareness;

iii. Leadership programmes to educate and train managerial level staff to coach and guide team members and promote positive attitude towards a healthy working environment;

iv. In-house cross training to ensure knowledge transfer. Knowledge sharing sessions were staged by employees returning from courses on regulation and supervision as well as products and services developments;

v. Webinars and tele-conferencing on relevant topics and e-learning on regulatory and supervisory trainings organised by international banking and insurance associations;

vi. Education assistance programmes whereby staff were reimbursed upon the completion of certification or qualification programmes relevant to their field of work; and

vii. Management retreats to re-energise and formulate key strategic initiatives for Labuan IBFC transformation under the Labuan FSA Business Strategic Plan.

For industry players, Labuan FSA also conducted several programmes including on initiatives by the Government and relevant agencies and their impact on the Labuan IBFC, as well as technical training programmes to enhance the industry players' skills and knowledge in order to stay relevant in the industry.

Labuan FSA spent 23% and 77% of its total training budget on technical and soft skills for in-house and external training, respectively, to meet the needs of Labuan FSA staff and the industry players.

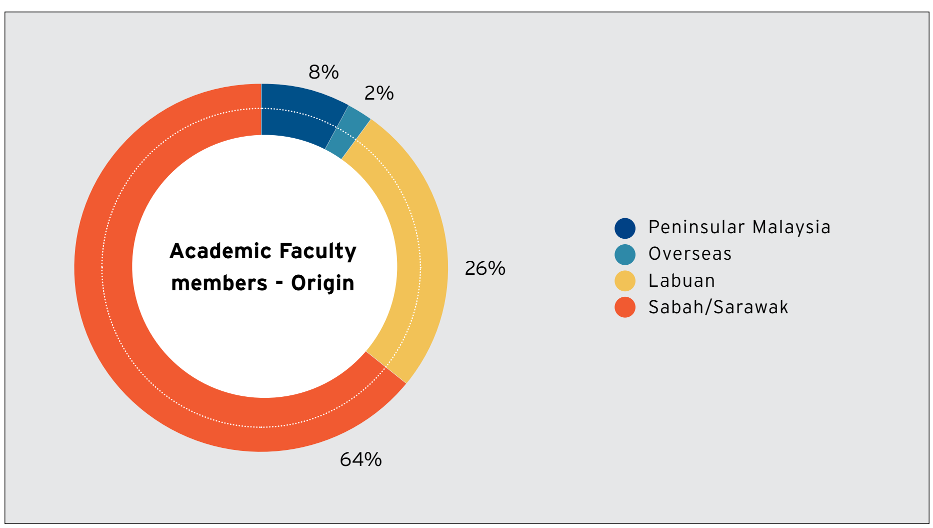
LABUAN INTERNATIONAL SCHOOL

As the only private international school in Labuan, Labuan International School (LIS) serves an important role in completing the full scope of support services within the Labuan IBFC ecosystem by providing an excellent learning environment for the dependants of professionals and the business community in Labuan. LIS, with strong support from Labuan FSA, is fully committed to nurture its students into well-balanced individuals. The children are taught to strive for excellence and to believe that nothing is impossible when the mind is willing.

LIS offers reception, primary and secondary level education based on either national or international curriculums. Teaching emphasises on global communication and continuously embraces new ideas. Facilities are state-of-the-art and the school has embarked on a virtual learning environment platform, a student-centred, one-on-one learning programme that is designed to engage students and develop enthusiasm for lifelong learning.

Teachers' Proficiency

The teachers at LIS are qualified and experienced and their educational qualifications match the level required by all international schools. They are also competent in 21st century learning techniques and methodologies.



PROVIDING SUSTAINABLE VALUE

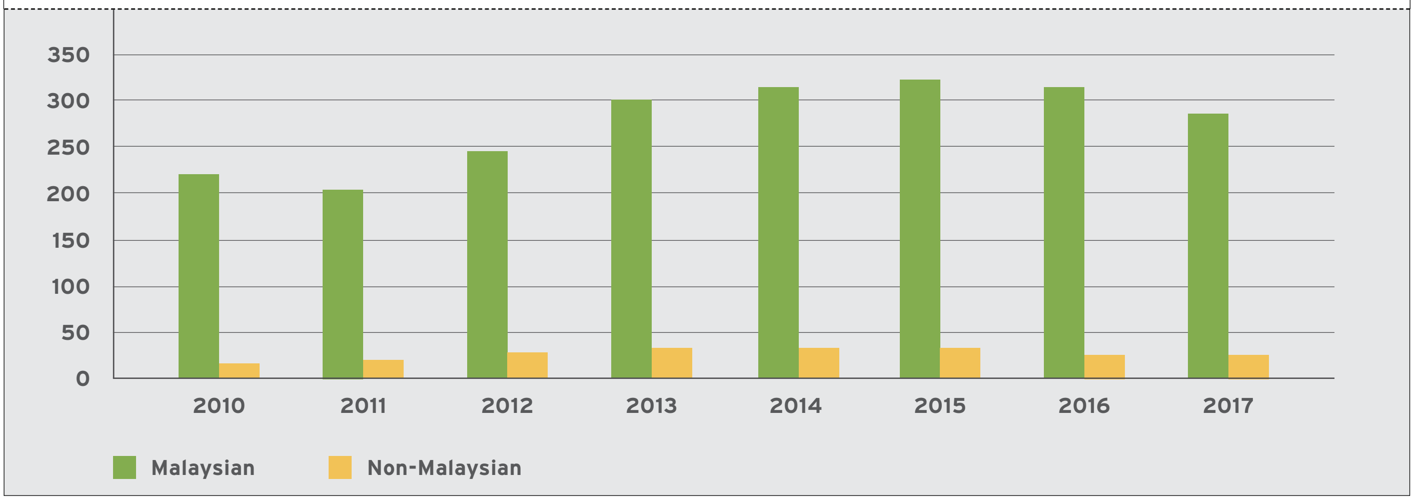
Employment Opportunities

LIS supports the local community by prioritising employment for the people of Labuan, Sabah and Sarawak. As at 31 December 2017, some 90% of the teachers are either from Labuan (26%) or from Sabah and Sarawak (64%). Similarly, for non-teaching staff, 90% originate from Labuan (20%), Sabah (65%) and Sarawak (5%). While LIS strives to produce excellent students, it is also committed to making a contribution to the local community and providing employment opportunities.

Student Enrolment

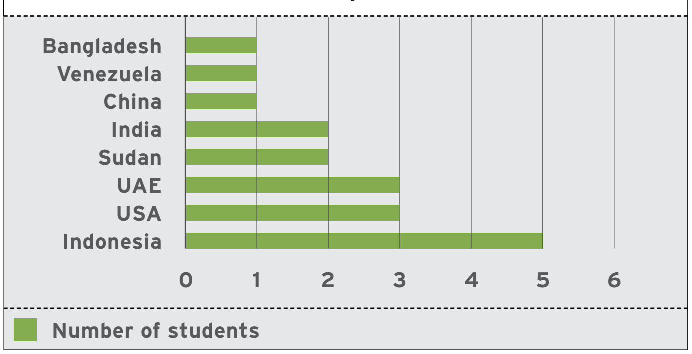
Student enrolment in LIS for the past eight years averaged 300 students per year. Almost 90% of the students are from Malaysia, with 10% from overseas.

Student Enrolment



For foreign students, the majority of their parents are employed in the oil and gas, financial, logistic (shipping) and education sectors.

Nationalities of Non-Malaysian Students in LIS



The number of foreign students has decreased since 2016 due to economic factors, especially the slowdown in Labuan's oil and gas sector. This factor continued to affect LIS in 2017 and foreign student enrolment decreased by a further 5%.

In 2017, LIS sponsored five students from underprivileged families from Borneo, providing them with an opportunity to enhance their future prospects.

Moving forward, LIS will continue to offer scholarships to underprivileged students to enable them to study at LIS. It will also enhance its offerings to the Labuan IBFC players and the local Labuan community by introducing a foreign language as a study option. It will also further improve the academic teaching to prepare students for the global challenges of the 21st century.

Financial Statements

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2017 - Labuan IBFC is home to:

54 Private Funds

REPORT OF THE AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF
LABUAN FINANCIAL SERVICES AUTHORITY
FOR THE YEAR ENDED 31 DECEMBER 2017

Report on the Financial Statements

Opinion

The Financial Statements of Labuan Financial Services Authority and of the Group have been audited by my representative which comprise the Statements of Financial Position as at 31 December 2017 and the Statements of Comprehensive Income, Statement of Changes in Reserves and Statements of Cash Flows for the year then ended, summary of significant accounting policies and notes to the Financial Statements as set out on pages 128 to 172.

In my opinion, the accompanying Financial Statements give a true and fair view of the financial position of the Labuan Financial Services Authority and of the Group as at 31 December 2017 and of their financial performance and cash flows for the year then ended in accordance with the approved financial reporting standards in Malaysia and Labuan Financial Services Authority Act, 1996 (Act 545).

Basis for Opinion

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

Independence and Other Ethical Responsibilities

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

Information Other than the Financial Statements and Auditors' Report Thereon

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

Responsibilities of the Directors for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

a. Identify and assess the risks of material misstatement of the Financial Statements of the Labuan Financial Services Authority and of the Group, whether due to fraud or error, design and perform audit procedures to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

b. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of Labuan Financial Services Authority and of the Group's internal control.

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

d. Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Labuan Financial Services Authority or the Group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I have to draw attention in my Auditors' Report to the related disclosures in the Financial Statements of Labuan Financial Services Authority and of the Group or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of Auditors' Report.

e. Evaluate the overall presentation of the Financial Statements of Labuan Financial Services Authority and of the Group, including the disclosures that achieves fair presentation.

f. Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the Financial Statements of the Group. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

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

Report on Other Legal and Regulatory Requirements

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

a. In my opinion, the accounting and other records required by the Act to be kept by Labuan Financial Services Authority and its subsidiaries of which we have acted as auditors have been properly kept in accordance with Labuan Financial Services Authority Act, 1996 (Act 545).

b. I have considered the accounts and the Auditors' Reports of all the subsidiaries of which I have not acted as auditor which are indicated in Note 2 to the Financial Statements being accounts that have been included in the consolidated accounts.

c. I am satisfied that the accounts of the subsidiaries that have been consolidated with the Labuan Financial Services Authority Financial Statements are appropriate and proper in form and content for the purposes of the preparation of the Financial Statements of the Group and I have received satisfactory information and explanations required by me for those purposes.

d. The Auditors' Reports on the accounts of the subsidiaries did not contain any qualification or any adverse comment.

Other Matters

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

(DATO' HAJI CHE ISA BIN CHE KOB)
b.p. AUDITOR GENERAL
MALAYSIA

PUTRAJAYA
11 APRIL 2018

STATEMENT BY THE MEMBERS OF THE LABUAN FINANCIAL SERVICES AUTHORITY

We, **MUHAMMAD BIN IBRAHIM** and **DANIAL MAH ABDULLAH**, being two of the Members of **LABUAN FINANCIAL SERVICES AUTHORITY**, state that, in the opinion of the Members of the Authority, the accompanying financial statements are drawn up in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards so as to give a true and fair view of the financial position of **LABUAN FINANCIAL SERVICES AUTHORITY** as at 31 December 2017 and their financial performance and cash flows for the year then ended on that date.

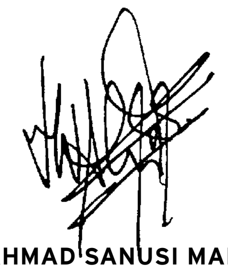
On behalf of the Members of the Authority.

MUHAMMAD BIN IBRAHIM
Chairman

DANIAL MAH ABDULLAH
Director–General
3 March 2018

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

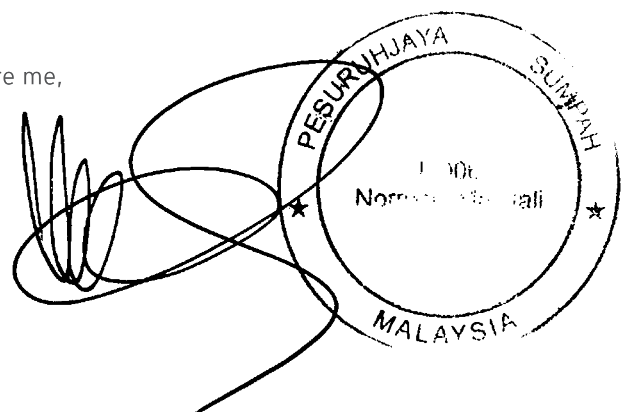
I, **WAN AHMAD SANUSI MAHMOOD** (681203–03–5307), being the officer primarily responsible for the financial management of **LABUAN FINANCIAL SERVICES AUTHORITY**, do solemnly and sincerely declare that the accompanying financial statements are, in my opinion, correct and I make this solemn declaration 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
3 March 2018

Before me,



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P O. BOX 81862, 87028 W. P. LABUAN, MALAYSIA
TEL: (087) 416057, 416057,416057, 418057
FAX NO: 087-413057

STATEMENTS OF FINANCIAL POSITION

AS OF 31 DECEMBER 2017

		The Group		The Authority	
	Note	2017 RM	2016 RM	2017 RM	2016 RM
ASSETS					
Non–current assets					
Property, plant and equipment	9	**86,051,318**	87,076,291	**85,173,535**	86,338,276
Investment in subsidiary	10	**–**	–	**900,000**	900,000
Deferred tax asset	11	**6,405**	9,181	**–**	–
Other receivables	12	**1,393,615**	2,098,419	**1,393,615**	2,098,419
		87,451,338	89,183,891	**87,467,150**	89,336,695
Current assets					
Fees and receivables	12	**15,094,795**	15,622,082	**18,732,826**	19,713,108
Inventories	13	**245,255**	104,295	**–**	–
Cash and bank balances	14	**67,967,574**	66,417,599	**63,082,152**	62,500,406
		83,307,624	82,143,976	**81,814,978**	82,213,514
Total assets		**170,758,962**	171,327,867	**169,282,128**	171,550,209
RESERVES AND LIABILITIES					
Reserves					
Accumulated surplus		**70,449,007**	67,477,611	**64,748,184**	62,768,070
Non–current liabilities					
Deferred income	15	**73,688,654**	75,365,014	**73,688,654**	75,365,014
Government loans	16	**4,000,000**	5,500,000	**4,000,000**	5,500,000
		77,688,654	80,865,014	**77,688,654**	80,865,014
Current liabilities					
Deferred income	15	**3,643,419**	4,032,939	**2,579,937**	2,867,057
Other payables	17	**17,477,882**	17,452,303	**22,765,353**	23,550,068
Government loans	16	**1,500,000**	1,500,000	**1,500,000**	1,500,000
		22,621,301	22,985,242	**26,845,290**	27,917,125
Total liabilities		**100,309,955**	103,850,256	**104,533,944**	108,782,139
Total reserves and liabilities		**170,758,962**	171,327,867	**169,282,128**	171,550,209

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

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

		The Group		The Authority	
	Note	2017 RM	2016 RM	2017 RM	2016 RM
REVENUE	4	**58,684,491**	59,880,645	**55,880,475**	57,116,248
Other operating income					
Government grant	15	**2,065,880**	2,021,489	**1,963,480**	2,226,084
Income from investments	5	**2,554,079**	2,784,796	**2,554,079**	4,784,796
Other income	6	**432,982**	462,567	**214,295**	294,265
Other operating expense					
Staff costs	7	**(34,553,062)**	(33,705,132)	**(26,407,201)**	(25,487,099)
Depreciation of property, plant and equipment	9	**(4,684,842)**	(4,200,898)	**(4,395,042)**	(3,950,957)
Other expenses	6	**(21,525,356)**	(24,103,952)	**(27,829,972)**	(31,782,023)
Surplus before tax		**2,974,172**	3,139,515	**1,980,114**	3,201,314
Income tax (expenses)/credit	8	**(2,776)**	9,181	**–**	–
Net surplus for the year		**2,971,396**	3,148,696	**1,980,114**	3,201,314
Other comprehensive income, net of income tax		**–**	–	**–**	–
Total comprehensive surplus for the year		**2,971,396**	3,148,696	**1,980,114**	3,201,314
Total comprehensive surplus attributable to the Authority		**2,971,396**	3,148,696	**1,980,114**	3,201,314

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 2017

	Accumulated surplus RM
The Group	
Opening balance at 1 January 2016	64,328,915
Net surplus for the year	3,148,696
Closing balance at 31 December 2016	67,477,611
Opening balance at 1 January 2017	**67,477,611**
Net surplus for the year	**2,971,396**
Closing balance at 31 December 2017	**70,449,007**
The Authority	
Opening balance at 1 January 2016	59,566,756
Net surplus for the year	3,201,314
Closing balance at 31 December 2016	62,768,070
Opening balance at 1 January 2017	**62,768,070**
Net surplus for the year	**1,980,114**
Closing balance at 31 December 2017	**64,748,184**

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 2017

	The Group		The Authority	
	2017 RM	**2016 RM**	**2017 RM**	**2016 RM**
OPERATING ACTIVITIES				
Net surplus for the year	**2,971,396**	3,148,696	**1,980,114**	3,201,314
Adjustments for:				
Income tax expenses/(credit)	**2,776**	(9,181)	**–**	–
Unrealised loss on foreign exchange	**84,409**	11,425	**76,094**	11,425
Depreciation of property, plant and equipment	**4,684,842**	4,200,898	**4,395,042**	3,950,957
Dividend income	**–**	–	**–**	(2,000,000)
Utilisation of government grant	**(2,065,880)**	(2,021,489)	**(1,963,480)**	(2,226,084)
Loss/(Gain) on disposal of property, plant and equipment	**(8,867)**	1,581	**(5,760)**	(10,081)
Property, plant and equipment written off	**231**	–	**–**	–
Interest income from investments and staff loans	**(2,601,130)**	(2,855,080)	**(2,601,130)**	(2,855,080)
Net fair value (gain)/loss on other receivables	**(142,317)**	(260,896)	**(142,317)**	(260,896)
Allowance for impairment losses on fees and trade receivables recognised	**3,729,607**	3,534,050	**3,715,566**	3,485,589
Allowance for impairment losses on fees and trade receivables reversed	**(3,447,185)**	(3,542,184)	**(3,445,350)**	(3,531,650)
Amount owing by subsidiaries written off	**–**	–	**11,054**	10,457
Fees and trade receivables written off	**2,788,515**	2,509,626	**2,784,300**	2,501,050
Operating Surplus Before Working Capital Changes	**5,996,397**	4,717,446	**4,804,133**	2,277,001
Changes in working capital:				
Increase/(Decrease) in:				
Fees and trade receivables	**(3,259,337)**	(2,238,502)	**(3,222,205)**	(2,190,199)
Other receivables	**1,312,383**	1,839,838	**1,733,613**	1,742,644
Inventories	**(140,960)**	37,814	**–**	–
Amounts due from subsidiaries	**–**	–	**–**	(515,996)
Increase/(Decrease) in:				
Fees received in advance	**1,614,051**	784,639	**1,614,051**	784,639
Refundable deposits	**(218,574)**	(138,159)	**(200,000)**	(97,800)
Other payables and accruals	**(1,369,898)**	(580,676)	**(3,073,766)**	(373,891)
Amount due to subsidiary	**–**	–	**875,000**	1,832,521
Cash Generated From Operating Activities	**3,934,062**	4,422,400	**2,530,826**	3,458,919
Interest received	**435,560**	91,899	**435,560**	91,899
Net Cash From Operating Activities	**4,369,622**	4,514,299	**2,966,386**	3,550,818

STATEMENTS OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	The Group		The Authority	
	2017 RM	2016 RM	2017 RM	2016 RM
INVESTING ACTIVITIES				
Net increase in fixed deposits with maturity period of more than 3 months	**–**	(1,500,000)	**–**	(1,500,000)
Proceeds from disposal of plant and equipment	**128,612**	21,425	**125,505**	17,630
Additions of property, plant and equipment	**(3,779,845)**	(4,325,547)	**(3,350,046)**	(3,902,125)
Dividend income	**–**	–	**–**	2,000,000
Interest received	**2,415,995**	1,957,818	**2,415,995**	1,957,818
Net Cash Used In Investing Activities	**(1,235,238)**	(3,846,304)	**(808,546)**	(1,426,677)
FINANCING ACTIVITIES				
Repayment of government loans	**(1,500,000)**	(1,500,000)	**(1,500,000)**	(1,500,000)
Net Cash Used In Financing Activities	**(1,500,000)**	(1,500,000)	**(1,500,000)**	(1,500,000)
Net increase/(decrease) in cash and cash equivalents	**1,634,384**	(832,005)	**657,840**	624,141
Cash and cash equivalents at 1 January	**11,417,599**	12,261,029	**7,500,406**	6,887,690
Effect of exchange difference	**(84,409)**	(11,425)	**(76,094)**	(11,425)
Cash and cash equivalents at 31 December (Note 22)	**12,967,574**	11,417,599	**8,082,152**	7,500,406

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

1. CORPORATE INFORMATION

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

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

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

2.2 Changes in accounting policies

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

On 1 January 2017, the Group and the Authority adopted the following new standards and amendments to MFRS for annual financial periods beginning on or after 1 January 2017.

Amendments to MFRS 12	Disclosure of Interests in Other Entities
Amendments to MFRS 107	Disclosure Initiative
Amendments to MFRS 112	Recognition of Deferred Tax Assets for Unrealised Losses

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Standards issued but not yet effective

The Group and the Authority have not applied the following new and revised MFRSs and Interpretation that have been issued but are not yet effective:

MFRS 17	Insurance Contracts[3]
MFRS 9	Financial Instruments[1]
MFRS 15	Revenue from Contracts with Customers (and the related Clarifications)[1]
MFRS 16	Leases[2]
Amendments to MFRS 2	Classification and Measurement of Share–based Payment Transactions[1]
Amendments to MFRS 10 and MFRS 128	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to MFRS 4	Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts[1]
Amendments to MFRS 140	Transfers of Investment Property[1]
IC Interpretation 22	Foreign Currency Transactions and Advance Consideration[1]
IC Interpretation 23	Uncertainty Over Income Tax Treatments[2]
Amendment to MFRS 1	First–time Adoption of Malaysian Financial Reporting Standards[1]
Amendment to MFRS 3	Business Combinations[2]
Amendment to MFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to MFRS 11	Joint Arrangement[2]
Amendments to MFRS 112	Income Taxes[2]
Amendments to MFRS 123	Borrowing Costs[2]
Amendments to MFRS 128	Long–term Interest in Associates and Joint Ventures[2]

[1] Effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.
[2] Effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.
[3] Effective for annual periods beginning on or after January 1, 2021 with earlier application permitted.
[4] Effective for annual periods beginning on or after a date to be determined.

The management anticipates that the abovementioned Standards and amendments to Standards will be adopted in the financial statements of the Group and of the Authority when they become mandatorily effective for adoption. The management is currently assessing the impact of the abovementioned Standards, amendments to Standards and Interpretation. As of the date of authorisation of issue of the financial statements, this assessment process is still on–going. Thus, the impact of adopting the abovementioned Standards, amendments to Standards and Interpretation cannot be determined and estimated reliably now until the process is complete.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Authority and its subsidiaries as at the reporting date. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Authority. Consistent accounting policies are applied for like transactions and events in similar circumstances.

The Authority controls an investee if and only if the Authority has all the following:

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

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

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

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

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

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

iii) Rights arising from other contractual arrangements; and

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Basis of consolidation (Continued)

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

Business combinations

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Subsidiaries

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

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

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

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

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

2.6 Foreign currencies

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Revenue recognition

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

a) Fee income from business

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

b) Other fees

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

c) Interest income

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

d) Dividend income

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

e) Rental income

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Government grants

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

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

2.9 Taxes

a) Current income tax

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

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

b) Deferred tax

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Taxes (Continued)

b) Deferred tax (Continued)

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

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

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Property, plant and equipment

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

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

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

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

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

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

2.11 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Operating lease payments are recognised as an operating expense in the profit or loss on a straight-line basis over the lease term.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Financial instruments

a) Effective interest method

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

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

b) Financial assets

i) Initial recognition and measurement

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

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

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

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

ii) Subsequent measurement

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

<u>Loans and receivables</u>

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Financial instruments (Continued)

b) Financial assets (Continued)

iii) Derecognition

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

- The rights to receive cash flows from the asset have expired; and

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

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

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

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

c) Impairment of financial assets

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Financial instruments (Continued)

c) Impairment of financial assets (Continued)

Financial assets carried at amortised cost

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

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

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

d) Financial liabilities

i) Initial recognition and measurement

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Financial instruments (Continued)

d) Financial liabilities (Continued)

ii) Subsequent measurement

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

Loans and borrowings

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

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

iii) Derecognition

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

e) Offsetting of financial instruments

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

2.13 Fair value measurement

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Fair value measurement (Continued)

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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

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 JUDGMENTS AND ESTIMATES

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

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

3.1 Key sources of estimation uncertainty

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

a) Impairment of fees and receivables

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

b) Impairment of fees and receivables

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

c) Deferred tax assets

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

d) Estimated useful lives of property, plant and equipment

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

4. REVENUE

	The Group		The Authority	
	2017	**2016**	**2017**	**2016**
	RM	**RM**	**RM**	**RM**
Fee income	**55,880,475**	57,116,248	**55,880,475**	57,116,248
Other fees	**2,804,016**	2,764,397	**–**	–
	58,684,491	59,880,645	**55,880,475**	57,116,248

5. INCOME FROM INVESTMENTS

	The Group		The Authority	
	2017	**2016**	**2017**	**2016**
	RM	**RM**	**RM**	**RM**
Interest received from:				
Fixed deposits	**2,535,570**	2,763,181	**2,535,570**	2,763,181
Money at call	**18,509**	21,615	**18,509**	21,615
Dividend income	**–**	–	**–**	2,000,000
	2,554,079	2,784,796	**2,554,079**	4,784,796

6. OTHER INCOME/(EXPENSES)

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

	The Group		The Authority	
	2017 RM	**2016 RM**	**2017 RM**	**2016 RM**
Interest income from staff loans:				
Key management personnel	**5,893**	7,528	**5,893**	7,528
Others	**41,158**	62,756	**41,158**	62,756
Rental income	**105,492**	133,222	**192,000**	142,882
Miscellaneous income	**512,754**	297,933	**90,891**	88,384
(Loss)/Gain on disposal of property, plant and equipment	**8,867**	(1,581)	**5,760**	10,081
(Loss)/Gain on foreign exchange:				
Realised	**(47,028)**	(38,755)	**(45,311)**	(5,941)
Unrealised	**(84,409)**	(11,425)	**(76,094)**	(11,425)
Allowance for impairment losses on fees and trade receivables reversed	**3,447,185**	3,542,184	**3,445,350**	3,531,650
Operational and marketing expenditure incurred under the government grant*	**(389,520)**	(345,129)	**(287,120)**	(549,724)
Audit fees	**(66,380)**	(73,836)	**(22,800)**	(24,836)
Rental of premises	**(1,987,740)**	(2,050,659)	**(1,718,996)**	(1,739,978)
Fees and trade receivable written off	**(2,788,515)**	(2,509,626)	**(2,784,300)**	(2,501,050)
Amount owing by subsidiary companies written off	**–**	–	**(11,054)**	(10,457)
Members' remuneration	**(607,597)**	(570,120)	**(306,000)**	(293,120)
Property, plant & equipment written off	**(231)**	–	**–**	–
Contributions to Labuan FSA Staff Welfare Fund	**(350,000)**	(350,000)	**(350,000)**	(350,000)
Grant to a subsidiary**	**–**	–	**(6,750,000)**	(6,500,000)
Lease of machinery and equipment	**(152,279)**	(157,989)	**(152,279)**	(157,989)
Tuition fees paid to a subsidiary	**–**	–	**(318,019)**	(395,839)
Allowance for impairment losses on fees and trade receivables recognised	**(3,729,607)**	(3,534,050)	**(3,715,566)**	(3,485,589)
Net fair value gain/(loss) on other receivables	**142,317**	260,896	**142,317**	260,896

6. OTHER INCOME/(EXPENSES) (CONTINUED)

* These included the following expenditures:

	The Group		The Authority	
	2017 RM	**2016 RM**	**2017 RM**	**2016 RM**
Infrastructure for school building	**(287,119)**	(345,129)	**(287,119)**	(549,724)

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

7. STAFF COSTS

	The Group		The Authority	
	2017 RM	**2016 RM**	**2017 RM**	**2016 RM**
Staff costs*	**34,553,062**	33,705,132	**26,407,201**	25,487,099

* These included the following staff costs:

	The Group		The Authority	
	2017 RM	**2016 RM**	**2017 RM**	**2016 RM**
Key management personnel:				
Salaries	**7,609,915**	7,868,055	**5,106,305**	5,225,842
Allowances	**649,245**	68,946	**559,903**	525,144
Employees Provident Fund	**4,365,353**	4,230,937	**3,268,457**	3,171,461

8. INCOME TAX CREDIT

	The Group		The Authority	
	2017 RM	**2016 RM**	**2017 RM**	**2016 RM**
Statement of comprehensive income:				
Deferred tax (Note 11):				
Relating to origination of temporary differences	**(3,042)**	(11,703)	**–**	–
Overprovision in prior year	**266**	20,884	**–**	–
	(2,776)	9,181	**–**	–

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

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

Income tax for other subsidiaries is calculated at the statutory tax rate of 24% (2016: 24%) of the estimated assessable profit for the year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

8. INCOME TAX CREDIT (CONTINUED)

Reconciliation between tax expense and accounting surplus

The reconciliation between tax expense and the product of accounting surplus multiplied by the applicable corporate tax rate for the years ended 31 December 2017 and 2016 are as follows:

	The Group		The Authority	
	2017 RM	**2016 RM**	**2017 RM**	**2016 RM**
Surplus before tax	**2,974,172**	3,139,515	**1,980,114**	3,201,314
Taxation at Malaysian statutory tax rate of 24% (2016: 24%)	**(713,802)**	(753,484)	**(475,227)**	(768,315)
Effect of changes in tax rate	**–**	835	**–**	–
Effect of income not subject to tax	**2,098,629**	719,264	**475,227**	768,315
Effect of expenses not deductible for tax purposes	**(1,669,740)**	(37,020)	**–**	–
Reversal of temporary differences previously not recognised	**282,146**	58,702	**–**	–
Overprovision of deferred tax in prior year	**266**	20,884	**–**	–
Deferred tax assets not recognised	**(275)**	–	**–**	–
Tax credit for the year	**(2,776)**	9,181	**–**	–

9. PROPERTY, PLANT AND EQUIPMENT

The Group	Leasehold land RM	Buildings RM	Motor vehicles RM	Computers RM	Furniture, fittings, office equipment and renovation RM	Work In Progress RM	Total RM
Cost							
At 1 January 2016	442,000	84,506,001	1,272,711	7,193,844	9,179,088	1,564	102,595,208
Additions	–	–	–	–	4,308,582	16,965	4,325,547
Disposals	–	–	–	(119,040)	(421,434)	–	(540,474)
Write off	–	–	–	–	(2,235,900)	–	(2,235,900)
At 31 December 2016/ 1 January 2017	442,000	84,506,001	1,272,711	7,074,804	10,830,336	18,529	104,144,381
Additions	–	–	–	353,254	565,687	2,860,904	3,779,845
Disposals	–	–	(1,900)	(2,169)	(2,940,460)	–	(2,944,529)
Write off	–	–	–	(28,636)	(180,831)	–	(209,467)
Reclassification	–	–	–	18,529	–	(18,529)	–
At 31 December 2017	442,000	84,506,001	1,270,811	7,415,782	8,274,732	2,860,904	104,770,230
Accumulated depreciation							
At 1 January 2016	8,808	4,318,516	852,463	2,300,125	8,140,648	–	15,620,560
Charge for the year	700	1,690,120	192,188	1,756,619	561,271	–	4,200,898
Disposals	–	–	–	(112,578)	(404,890)	–	(517,468)
Write off	–	–	–	–	(2,235,900)	–	(2,235,900)
At 31 December 2016/ 1 January 2017	9,508	6,008,636	1,044,651	3,944,166	6,061,129	–	17,068,090
Charge for the year	700	1,690,120	175,137	1,600,637	1,218,248	–	4,684,842
Disposals	–	–	(1,900)	(2,169)	(2,820,715)	–	(2,824,784)
Write off	–	–	–	(28,406)	(180,830)	–	(209,236)
At 31 December 2017	10,208	7,698,756	1,217,888	5,514,228	4,277,832	–	18,718,912
Carrying amounts							
At 31 December 2016	432,492	78,497,365	228,060	3,130,638	4,769,207	18,529	87,076,291
At 31 December 2017	431,792	76,807,245	52,923	1,901,554	3,996,900	2,860,904	86,051,318

9. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The Authority	Leasehold land RM	Buildings RM	Motor vehicles RM	Computers RM	Furniture, fittings, office equipment and renovation RM	Work In Progress RM	Total RM
Cost							
At 1 January 2016	442,000	84,506,001	761,925	6,684,103	4,566,600	1,564	96,962,193
Additions	–	–	–	–	3,885,160	16,965	3,902,125
Disposals	–	–	–	(73,331)	(197,467)	–	(270,798)
Write off	–	–	–	–	(2,235,900)	–	(2,235,900)
At 31 December 2016/ 1 January 2017	442,000	84,506,001	761,925	6,610,772	6,018,393	18,529	98,357,620
Additions	–	–	–	353,254	135,888	2,860,904	3,350,046
Disposals	–	–	–	–	(414,637)	–	(414,637)
Write off	–	–	–	(1,800)	(180,231)	–	(182,031)
Reclassification	–	–	–	18,529	–	(18,529)	–
At 31 December 2017	442,000	84,506,001	761,925	6,980,755	5,559,413	2,860,904	101,110,998
Accumulated depreciation							
At 1 January 2016	8,808	4,318,516	461,402	1,856,264	3,922,546	–	10,567,536
Charge for the year	700	1,690,120	147,338	1,716,364	396,435	–	3,950,957
Disposals	–	–	–	(72,775)	(190,474)	–	(263,249)
Write off	–	–	–	–	(2,235,900)	–	(2,235,900)
At 31 December 2016/ 1 January 2017	9,508	6,008,636	608,740	3,499,853	1,892,607	–	12,019,344
Charge for the year	700	1,690,120	130,287	1,582,002	991,933	–	4,395,042
Disposals	–	–	–	–	(294,892)	–	(294,892)
Write off	–	–	–	(1,800)	(180,231)	–	(182,031)
At 31 December 2017	10,208	7,698,756	721,762	5,080,055	2,409,417	–	15,937,463
Carrying amounts							
At 31 December 2016	432,492	78,497,365	153,185	3,110,919	4,125,786	18,529	86,338,276
At 31 December 2017	431,792	76,807,245	22,898	1,900,700	3,149,996	2,860,904	85,173,535

10. INVESTMENTS IN SUBSIDIARY

	The Authority	
	2017 RM	**2016 RM**
Unquoted shares, at cost	**900,000**	900,000

Name	Country of incorporation	Principal activities	Proportion (%) of ownership interest 2017	2016
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.

11. DEFERRED TAX ASSETS

	The Group		The Authority	
	2017 RM	**2016 RM**	**2017 RM**	**2016 RM**
At beginning of year	**9,181**	–	**–**	–
Recognised in the statements of profit or loss	**(2,776)**	9,181	**–**	–
At end of year	**6,405**	9,181	**–**	–

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

11. DEFERRED TAX ASSETS (CONTINUED)

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

	The Group		The Authority	
	2017 RM	2016 RM	2017 RM	2016 RM
Unutilised tax losses	**1,498,448**	2,390,668	**–**	–
	1,498,448	2,390,668	**–**	–

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

12. FEES AND RECEIVABLES

	The Group		The Authority	
	2017 RM	2016 RM	2017 RM	2016 RM
Current				
Fees and trade receivables	**15,230,854**	14,760,032	**15,128,504**	14,690,599
Less: Allowance for impairment	**(3,092,233)**	(2,809,811)	**(3,031,566)**	(2,761,350)
Fees and trade receivables, net	**12,138,621**	11,950,221	**12,096,938**	11,929,249
Other receivables:				
Amount due from subsidiary	**–**	–	**4,010,712**	4,554,607
Staff housing loans	**160,724**	140,187	**160,724**	140,187
Staff vehicle loans	**90,798**	106,892	**90,798**	106,892
Staff advances/sundry debtors	**98,449**	551,594	**45,268**	390,551
Refundable deposits	**648,044**	625,871	**376,152**	405,155
Interest receivable	**1,924,465**	2,210,405	**1,924,465**	2,210,405
Prepayments	**33,494**	149,499	**27,769**	88,849
Others	**200**	200	**–**	–
	2,956,174	3,784,648	**6,635,888**	7,896,646
Less: Allowance for impairment	**–**	(112,787)	**–**	(112,787)
	2,956,174	3,671,861	**6,635,888**	7,783,859
	15,094,795	15,622,082	**18,732,826**	19,713,108

12. FEES AND RECEIVABLES (CONTINUED)

	The Group		The Authority	
	2017 RM	**2016 RM**	**2017 RM**	**2016 RM**
Non–current				
Other receivables:				
Staff housing loans	**1,102,377**	1,728,214	**1,102,377**	1,728,214
Staff vehicle loans	**291,238**	370,205	**291,238**	370,205
	1,393,615	2,098,419	**1,393,615**	2,098,419
Total fees and other receivables (current and non–current)	**16,488,410**	17,720,501	**20,126,441**	21,811,527

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	
	2017 RM	**2016 RM**	**2017 RM**	**2016 RM**
Neither past due nor impaired	**12,096,938**	11,929,249	**12,096,938**	11,929,249
More than 31 days past due but not impaired	**41,683**	20,972	**–**	–
Impaired	**3,092,233**	2,809,811	**3,031,566**	2,761,350
	15,230,854	14,760,032	**15,128,504**	14,690,599

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

12. FEES AND RECEIVABLES (CONTINUED)

a) Fees and Trade Receivables (Continued)

Receivables that are past due but not impaired

The Group has fees and trade receivables amounting to RM41,683 (2016: RM20,972) that are past due at the reporting date but not impaired.

Receivables that are impaired

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

	Collectively impaired		Individually impaired		Total	
	2017 RM	**2016 RM**	**2017 RM**	**2016 RM**	**2017 RM**	**2016 RM**
The Group						
Fees and trade receivables – nominal amounts	**1,419,584**	1,247,176	**1,672,649**	1,562,635	**3,092,233**	2,809,811
Less: Allowance for impairment	**(1,419,584)**	(1,247,176)	**(1,672,649)**	(1,562,635)	**(3,092,233)**	(2,809,811)
	–	–	**–**	–	**–**	–
The Authority						
Fees and trade receivables – nominal amounts	**1,358,917**	1,200,550	**1,672,649**	1,560,800	**3,031,566**	2,761,350
Less: Allowance for impairment	**(1,358,917)**	(1,200,550)	**(1,672,649)**	(1,560,800)	**(3,031,566)**	(2,761,350)
	–	–	**–**	–	**–**	–

12. FEES AND RECEIVABLES (CONTINUED)

a) Fees and Trade Receivables (Continued)

Movement in allowance account

	The Group		The Authority	
	2017 RM	**2016 RM**	**2017 RM**	**2016 RM**
At 1 January	**2,809,811**	2,817,945	**2,761,350**	2,807,411
Impairment losses recognised	**3,729,607**	3,534,050	**3,715,566**	3,485,589
Impairment losses reversed	**(3,447,185)**	(3,542,184)	**(3,445,350)**	(3,531,650)
At 31 December	**3,092,233**	2,809,811	**3,031,566**	2,761,350

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 (2016: 30 years and 9 year respectively). The interest charged on these loans ranges from 2% to 3% (2016: 2% to 3%) per annum.

c) Amount due from subsidiary

The amount due from subsidiary is non–trade in nature, interest free and repayable on demand.

13. INVENTORIES

	The Group		The Authority	
	2017 RM	**2016 RM**	**2017 RM**	**2016 RM**
At cost:				
Books and stationeries	**171,663**	85,020	**–**	–
Uniforms, fabrics and t–shirts	**73,592**	19,275	**–**	–
	245,255	104,295	**–**	–
Inventories written off	**–**	–	**–**	–
	245,255	104,295	**–**	–

During the year, the amount of inventories recognised as an expense in the statements of profit or loss of the Group was RM102,012 (2016: RM37,814).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

14. CASH AND BANK BALANCES

	The Group		The Authority	
	2017 RM	2016 RM	2017 RM	2016 RM
Cash on hand and at banks	**8,967,574**	7,417,599	**4,082,152**	3,500,406
Fixed deposits with licensed banks	**59,000,000**	59,000,000	**59,000,000**	59,000,000
Cash and bank balances	**67,967,574**	66,417,599	**63,082,152**	62,500,406

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 2017 for the Group and the Authority were 4.00% (2016: 4.39%) per annum with maturity period of 30 to 365 days (2016: 30 to 365 days).

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

	The Group		The Authority	
	2017 RM	2016 RM	2017 RM	2016 RM
Cash at banks:				
United States Dollar	**1,424,296**	1,271,159	**1,424,296**	1,271,159
Hong Kong Dollar	**126,439**	136,425	**–**	–
Singapore Dollar	**–**	2,669	**–**	–

15. DEFERRED INCOME

Deferred income comprises the followings:

		The Group		The Authority	
		2017 RM	**2016 RM**	**2017 RM**	**2016 RM**
Grant related to income	(a)	**1,967,059**	2,356,579	**903,577**	1,190,697
Grant related to assets	(b)	**75,365,014**	77,041,374	**75,365,014**	77,041,374
		77,332,073	79,397,953	**76,268,591**	78,232,071

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 RM2,065,879 and RM1,963,479 (2016: RM2,021,489 and RM2,226,084) respectively.

The expected utilisation of the grants as at 31 December 2017 are as follows:

	The Group		The Authority	
	2017 RM	**2016 RM**	**2017 RM**	**2016 RM**
Within 12 months	**3,643,419**	4,032,939	**2,579,937**	2,867,057
After 12 months	**73,688,654**	75,365,014	**73,688,654**	75,365,014
	77,332,073	79,397,953	**76,268,591**	78,232,071

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	
	2017 RM	**2016 RM**	**2017 RM**	**2016 RM**
At 1 January	**2,356,579**	2,701,708	**1,190,697**	1,740,421
Received during the financial year	**–**	–	**–**	–
Less: Recognised in profit or loss	**(389,520)**	(345,129)	**(287,120)**	(549,724)
At 31 December	**1,967,059**	2,356,579	**903,577**	1,190,697

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

15. DEFERRED INCOME (CONTINUED)

b) Grant related to assets

	The Group		The Authority	
	2017 RM	2016 RM	2017 RM	2016 RM
Grant related to assets:				
At 1 January	**82,753,798**	82,753,798	**82,753,798**	82,753,798
Received during the financial year	**–**	–	**–**	–
At 31 December	**82,753,798**	82,753,798	**82,753,798**	82,753,798
Cumulative credits:				
At 1 January	**(5,712,424)**	(4,036,064)	**(5,712,424)**	(4,036,064)
Credited to statements of profit or loss during the year	**(1,676,360)**	(1,676,360)	**(1,676,360)**	(1,676,360)
At 31 December	**(7,388,784)**	(5,712,424)	**(7,388,784)**	(5,712,424)
Net carrying amount:				
Current	**1,676,360**	1,676,360	**1,676,360**	1,676,360
Non–current	**73,688,654**	75,365,014	**73,688,654**	75,365,014
	75,365,014	77,041,374	**75,365,014**	77,041,374

16. GOVERNMENT LOANS

Government loans represent the balance of RM3 million out of a RM6 million loan and a RM10 million loan obtained in 1996 and 2000 respectively from Bank Negara Malaysia. The loans represent government assistances and are unsecured and interest–free. The balance of the first loan and the second loan are repayable until year 2020 with staggered repayment term.

The maturities of the Government loans as at reporting date are as follows:

	The Group and The Authority	
	2017 RM	2016 RM
Within 12 months	**1,500,000**	1,500,000
After 12 months	**4,000,000**	5,500,000

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

17. OTHER PAYABLES

	The Group		The Authority	
	2017 RM	**2016 RM**	**2017 RM**	**2016 RM**
Amount due to a subsidiary	**–**	–	**7,000,000**	7,875,000
Fees received in advance	**11,037,558**	9,423,507	**11,037,558**	9,423,507
Refundable deposits	**1,056,986**	1,275,563	**602,200**	802,200
Retention payables	**1,120,038**	1,061,813	**1,120,038**	1,061,813
Accruals	**1,814,873**	2,416,971	**1,471,542**	2,133,944
Others	**2,448,427**	3,274,449	**1,534,015**	2,253,604
Total other payables	**17,477,882**	17,452,303	**22,765,353**	23,550,068

a) Amount due to a subsidiary

The amount due to a subsidiary is non–trade in nature, interest–free and payable on demand.

b) Fees received in advance

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

c) Refundable deposits

These represent security deposits paid by trust companies in accordance with the provisions of the Labuan Trust Companies Act 1990 and other security deposits.

d) Others

These comprise amounts outstanding for ongoing costs.

18. CAPITAL COMMITMENTS

	The Group and The Authority	
	2017 RM	**2016 RM**
Approved and not contracted for:		
Application system	**–**	177,878
	–	177,878

19. LEASE COMMITMENTS

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

	The Group and The Authority	
	2017	**2016**
	RM	**RM**
Financial year ended 31 December:		
2017	**–**	1,718,661
2018	**1,682,821**	1,682,821
	1,682,821	3,401,482

20. RELATED PARTIES DISCLOSURES

a) Services rendered

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

	The Group		The Authority	
	2017	**2016**	**2017**	**2016**
	RM	**RM**	**RM**	**RM**
Rental income received from a subsidiary	**–**	–	**180,000**	120,000
Tuition fees paid to a subsidiary	**–**	–	**(318,019)**	(395,839)
Contribution to Labuan Financial Services Authority Staff Welfare Fund	**(350,000)**	(350,000)	**(350,000)**	(350,000)
Marketing fees paid to a subsidiary	**–**	–	**(7,500,000)**	(10,500,000)
Grant to a subsidiary	**–**	–	**(6,750,000)**	(6,500,000)

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

20. RELATED PARTIES DISCLOSURES (CONTINUED)

b) Transactions with key management personnel

	The Group		The Authority	
	2017 RM	**2016 RM**	**2017 RM**	**2016 RM**
Salaries	**7,609,915**	7,868,055	**5,106,305**	5,225,842
Allowances	**649,245**	638,946	**559,903**	525,144
Employee Provident Fund	**1,335,731**	1,347,086	**1,027,097**	1,058,202
	9,594,891	9,854,087	**6,693,305**	6,809,188
Outstanding staff loans owing by key management personnel:				
Staff housing loans	**251,548**	311,756	**251,548**	311,756
Staff vehicle loans	**–**	13,755	**–**	13,755
	251,548	325,511	**251,548**	325,511

21. FINANCIAL INSTRUMENTS

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

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

a) Credit risk

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

b) Interest risk

Interest rate risk is the risk that the fair value or future cash flows of the Authority's financial instruments will fluctuate because of changes in market interest rates. The management is of the opinion that the Authority's exposure to interest rate risk as of 31 December 2017 is minimal.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

21. FINANCIAL INSTRUMENTS (CONTINUED)

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	
	2017 RM	**2016 RM**	**2017 RM**	**2016 RM**
United States Dollar	**142,430**	127,116	**142,430**	127,116
Hong Kong Dollar	**12,644**	13,643	**12,644**	–
Singapore Dollar	**–**	267	**–**	–

The above sensitivity analysis is unrepresentative of the inherent foreign exchange risk because the period end exposure does not reflect the exposure during the period.

d) Liquidity risk

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

Analysis of financial instruments by remaining contractual maturities

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

21. FINANCIAL INSTRUMENTS (CONTINUED)

	The Group			
	On demand or within one year RM	One year to five years RM	Over five years RM	Total RM
2017				
Non–derivative financial assets:				
Fees and other receivables	**15,061,301**	**1,180,120**	**1,409,110**	**17,650,531**
Cash and bank balances	**70,852,798**	**–**	**–**	**70,852,798**
Total undiscounted non–derivative financial assets	**85,914,099**	**1,180,120**	**1,409,110**	**88,503,329**
Non–derivative financial liabilities:				
Government loans	**1,500,000**	**4,000,000**	**–**	**5,500,000**
Other payables	**6,440,324**	**–**	**–**	**6,440,324**
Total undiscounted non–derivative financial liabilities	**7,940,324**	**4,000,000**	**–**	**11,940,324**
Total net undiscounted non–derivative financial assets/(liabilities)	**77,973,775**	**(2,819,880)**	**1,409,110**	**76,563,005**
2016				
Non–derivative financial assets:				
Fees and other receivables	15,504,246	1,333,952	1,511,278	18,349,476
Cash and bank balances	68,846,732	–	–	68,846,732
Total undiscounted non–derivative financial assets	84,350,978	1,333,952	1,511,278	87,196,208
Non–derivative financial liabilities:				
Government loans	1,500,000	5,500,000	–	7,000,000
Other payables	8,028,796	–	–	8,028,796
Total undiscounted non–derivative financial liabilities	9,528,796	5,500,000	–	15,028,796
Total net undiscounted non–derivative financial assets/ (liabilities)	74,822,182	(4,166,048)	1,511,278	72,167,412

21. FINANCIAL INSTRUMENTS (CONTINUED)

	The Authority			
	On demand or within one year RM	One year to five years RM	Over five years RM	Total RM
2017				
Non–derivative financial assets:				
Fees and other receivables	**18,705,057**	**1,180,120**	**1,409,110**	**21,294,287**
Cash and bank balances	**65,758,947**	**–**	**–**	**65,758,947**
Total undiscounted non–derivative financial assets	**84,464,004**	**1,180,120**	**1,409,110**	**87,053,234**
Non–derivative financial liabilities:				
Government loans	**1,500,000**	**4,000,000**	**–**	**5,500,000**
Other payables	**11,727,795**	**–**	**–**	**11,727,795**
Total undiscounted non–derivative financial liabilities	**13,227,795**	**4,000,000**	**–**	**17,227,795**
Total net undiscounted non–derivative financial assets/(liabilities)	**71,236,209**	**(2,819,880)**	**1,409,110**	**69,825,439**
2016				
Non–derivative financial assets:				
Fees and other receivables	19,624,259	1,333,952	1,511,278	22,469,489
Cash and bank balances	64,929,539	–	–	64,929,539
Total undiscounted non–derivative financial assets	84,553,798	1,333,952	1,511,278	87,399,028
Non–derivative financial liabilities:				
Government loans	1,500,000	5,500,000	–	7,000,000
Other payables	14,126,561	–	–	14,126,561
Total undiscounted non–derivative financial liabilities	15,626,561	5,500,000	–	21,126,561
Total net undiscounted non–derivative financial assets/(liabilities)	68,927,237	(4,166,048)	1,511,278	66,272,467

21. FINANCIAL INSTRUMENTS (CONTINUED)

d) Liquidity risk (Continued)

Fair Values of Financial Assets and Financial Liabilities

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

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

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

	The Group and The Authority	
	2017 RM	**2016 RM**
Loans and receivables carried at fair value		
Staff housing and vehicle loans	**1,645,137**	2,345,498

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).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

21. FINANCIAL INSTRUMENTS (CONTINUED)

d) Liquidity risk (Continued)

Fair Values of Financial Assets and Financial Liabilities (Continued)

Fair value measurements recognised in the statement of financial position

	The Group and The Authority			
	Level 1 RM	Level 2 RM	Level 3 RM	Total RM
2017				
Staff housing and vehicle loans	–	1,645,137	–	1,645,137
2016				
Staff housing and vehicle loans	–	2,345,498	–	2,345,498

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

22. CASH AND CASH EQUIVALENTS

	The Group		The Authority	
	2017 RM	2016 RM	2017 RM	2016 RM
Cash on hand and at bank	**8,967,574**	7,417,599	**4,082,152**	3,500,406
Fixed deposits placed with licensed banks	**59,000,000**	59,000,000	**59,000,000**	59,000,000
	67,967,574	66,417,599	**63,082,152**	62,500,406
Less: Fixed deposits with maturity period of more than 3 months	**(55,000,000)**	(55,000,000)	**(55,000,000)**	(55,000,000)
Cash and cash equivalents for statements of cash flows purposes	**12,967,574**	11,417,599	**8,082,152**	7,500,406

23. AUTHORISATION OF FINANCIAL STATEMENTS FOR ISSUE

The financial statements were authorised for issue by the Members of the Authority on 3rd April 2018.

APPENDICES

Statutory Fees in Labuan IBFC **174**
Listing of Labuan IBFC Associations **177**

STATUTORY FEES IN LABUAN IBFC

Labuan Companies (General Fees)		RM	USD
Reservation of Name of a Labuan Company (One time)		50	15
Supporting Documents Required to set–up a Labuan Company			
a)	Memorandum and Articles (Labuan Company)	Nil	Nil
b)	Memorandum and Articles (Foreign Labuan Company)	Nil	Nil
c)	Statutory declaration of compliance	Nil	Nil
d)	Consent to act as director	Nil	Nil

			Processing/Lodgment/ Registration Fees		Annual Fees/ Licences Fees	
Type of Companies/Type of Fees			**RM**	**USD**	**RM**	**USD**
A)	**Labuan Company**					
i)	**Labuan Company**					
	a)	Paid–up Capital of RM0 – RM50,000	1,000	300	2,600	800
	b)	Paid–up Capital of RM50,001 to RM999,999	2,000	600	2,600	800
	c)	Paid–up Capital of RM1 million and above	5,000	1,500	2,600	800
ii)	**Labuan Foreign Company**		6,000	2,000	5,300	1,500
iii)	**Labuan Partnership**					
	a)	Labuan Limited Partnership, Labuan Limited Liability Partnership and Recognised Limited Liability Partnership	1,000	300		
	b)	Labuan Limited Partnership/Labuan Limited Liability Partnership			1,000	300
iv)	**Labuan Protected Cell Company (PCC)**					
	a)	PCC registered under Part VIIIB of Labuan Companies Act 1990: to carry on insurance business or Labuan captive insurance business				
		– On the general assets of the Labuan PCC			30,000	9,500
		– On each of its registered cell			10,000	3,000
	b)	PCC registered under Part VIIIB of Labuan Companies Act 1990: to carry on mutual fund business				
		– On the general assets of the Labuan PCC			5,000	1,500
		– On each of its registered cell			2,000	600

STATUTORY FEES IN LABUAN IBFC

Type of Companies/Type of Fees			Processing/Lodgment/ Registration Fees		Annual Fees/ Licences Fees	
			RM	USD	RM	USD
B)	**Service Providers**					
	a)	Approved auditor	3,150	45	3,000	1,000
	b)	Approved liquidator	1,050	315	*1,000	300
C)	**Labuan Products**					
	a)	Labuan Trust/Special Trust	750	200	Nil	Nil
	b)	Labuan Foundation	750	200	750	200
D)	**Labuan Bank**					
	Labuan Bank/Labuan Investment		1,000	350	100,000	30,000
E)	**Labuan Insurance and Insurance-Related**					
	i)	**Labuan Insurance Activities**				
		a) General Insurance/reinsurance	1,000	350	50,000	15,000
		b) Life Insurance/reinsurance	1,000	350	50,000	15,000
		c) Captive Insurance	1,000	350	10,000	3,000
		d) Master rent-a-captive	1,000	350	13,000	4,000
		e) Subsidiary rent-a-captive	1,000	350	3,000	1,000
	ii)	**Labuan Insurance-Related Activities**				
		a) Underwriting Manager	1,000	350	20,000	6,500
		b) Insurance Manager	1,000	350	20,000	6,500
		c) Insurance Broker	1,000	350	20,000	6,500
F)	**Labuan Trust Company**					
		a) Labuan Trust Company	1,000	350	15,000	5,000
		b) Labuan Managed Trust Company	1,000	350	15,000	5,000
		c) Labuan Private Trust Company	1,000	350	5,000	1,500
G)	**Securities/Capital Markets**					
	i)	Private fund	2,000	600	Nil	Nil
	ii)	Public fund	1,000	350	2,000	600
	iii)	Fund Manager	1,000	350	5,000	1,500
	iv)	Fund Administrator	1,000	350	2,000	600
	v)	Securities Licensees	1,000	350	5,000	1,500

STATUTORY FEES IN LABUAN IBFC

Type of Companies/Type of Fees	Processing/Lodgment/ Registration Fees		Annual Fees/ Licences Fees	
	RM	USD	RM	USD
H) Labuan Financial Business				
i) Leasing				
a) First transaction	1,000	350	60,000	20,000
b) Each subsequent transaction	1,000	350	20,000	6,000
ii) Factoring Business	1,000	350	40,000	13,000
iii) Building Credit Business	1,000	350	40,000	13,000
iv) Credit Token Business	1,000	350	40,000	13,000
v) Development Finance Business	1,000	350	40,000	13,000
vi) Money Broking	1,000	350	5,000	1,500
vii) Labuan International Commodity Trading Company	1,000	350	40,000	13,000
I) Labuan Company Management	1,000	350	5,000	1,500
J) Payment System	1,000	350	40,000	13,000
K) Others				
a) Establishment of Kuala Lumpur/Johor Bahru Marketing Office	**300/1,000	100/350	7,500	2,500
b) Establishment of Co–Located office within Malaysia apart from Labuan	**300/1,000	100/350	10,000	3,500

Notes:

* *To be paid upon renewal of registration.*

** *RM300 applicable for Labuan company/RM1,000 applicable for licensed entity.*

LISTING OF LABUAN IBFC ASSOCIATIONS

ASSOCIATION OF LABUAN BANKS
Level 8(D), Main Office Tower, Financial Park Complex
Jalan Merdeka, 87000 FT Labuan, Malaysia

Chairman : Mr. Khairudin Ab. Rahman
Secretary : Mr. Ahmad Azrin Ahmad Zabri

Tel : +6087 452 778
Fax : +6087 452 779
E–mail : admin@alb–labuan.com

ASSOCIATION OF LABUAN TRUST COMPANIES
c/o Noblehouse International Trust Ltd
Level 1, Lot 7, Block F
Saguking Commercial Building, Jalan Patau–Patau
87000 FT Labuan, Malaysia

Chairman : Datuk Chin Chee Kee
Secretary : Mrs. Rita Mohd. Sharif

Tel : +6087 410 745
Fax : +6087 419 755
E–mail : cck@noblehouse–labuan.com

LABUAN INTERNATIONAL INSURANCE ASSOCIATION
Brumby Centre, Lot 42, Jalan Muhibbah
87000 FT Labuan, Malaysia

Chairman : Mr. Raymond Wong Shu Yoon
Secretary : Ms. Annie Undikai

Tel : +6087 593 828
Fax : +6087 417 242
E–mail : secretariat@liia–labuan.org

LABUAN INVESTMENT BANKS GROUP
c/o IBH Investment Bank Limited
7–05, 7th floor, Menara Hap Seng
Jalan P. Ramlee, 50250 Kuala Lumpur, Malaysia

Chairman : Dato' Howard Choo Kah Hoe
Secretary : Mr. Joel Raj Francis

Tel : +603 2072 0730
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E–mail : howard@ibhinvestmentbank.com

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