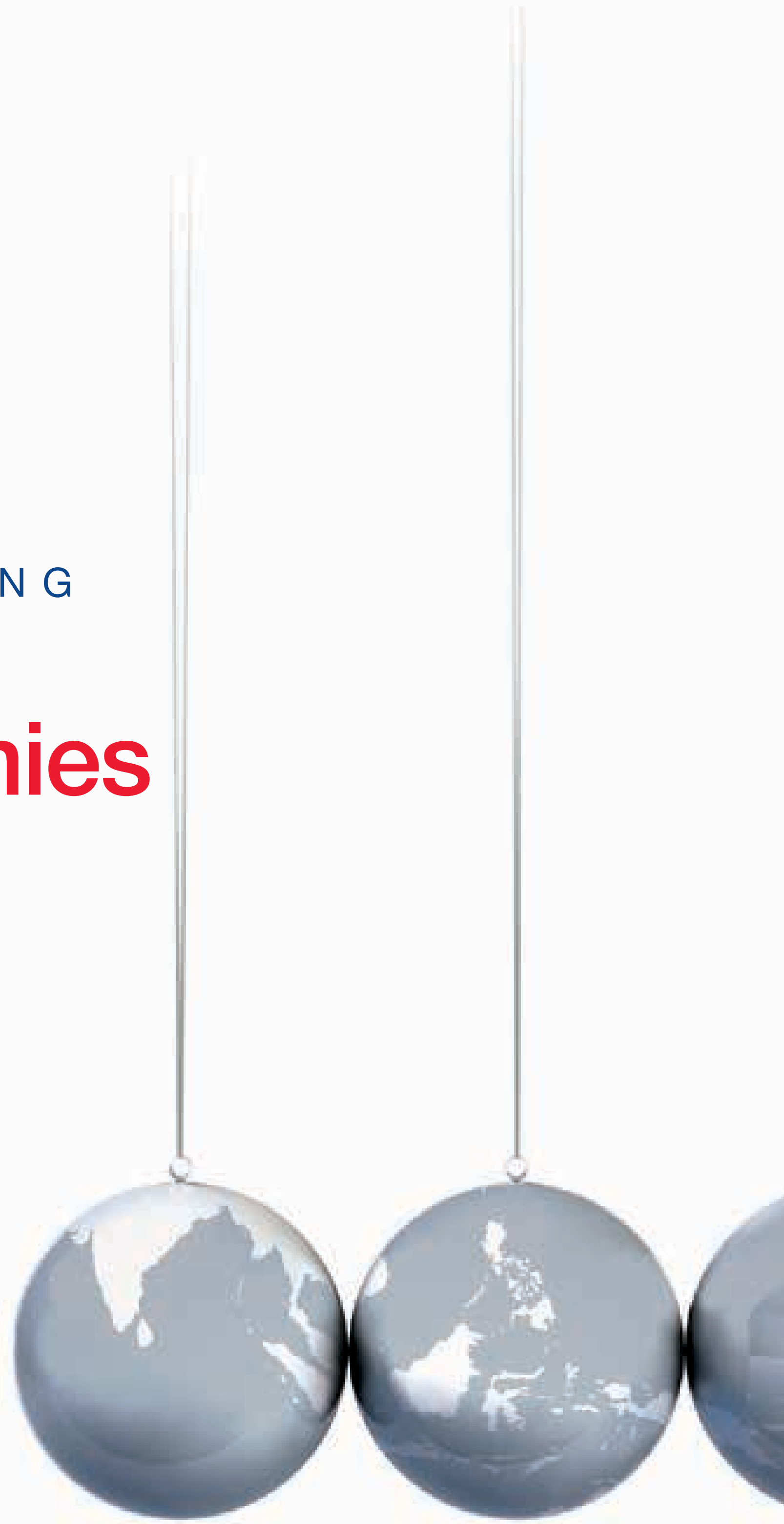
Labuan FSA Financial Services Authority

LABUAN: CONNECTING Asia's Economies

Annual Report 2013



Corporate values

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

Mission statement

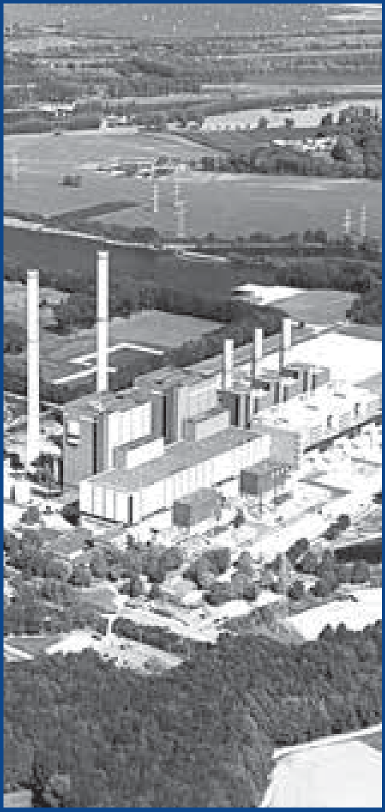
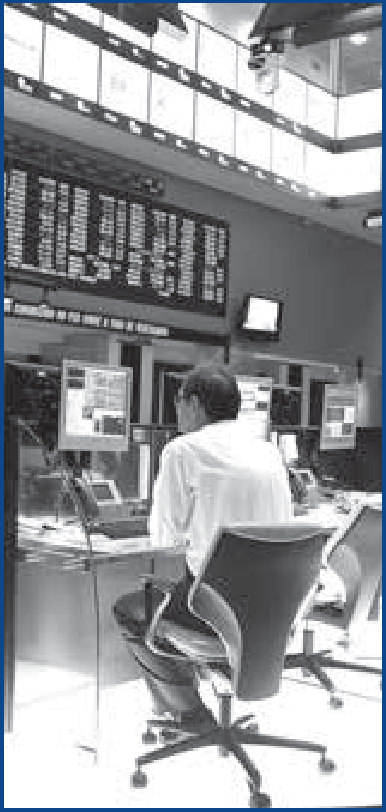
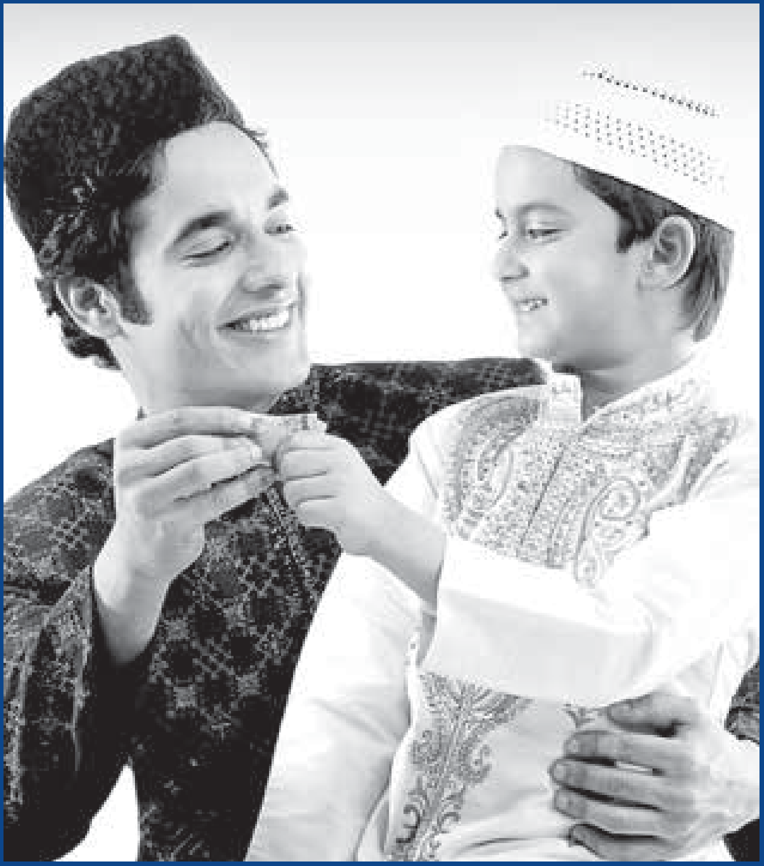
Labuan FSA shall ensure a sound, stable and dynamic Labuan International Business and Financial Centre for Asia, by committing to the highest principles and core values.


what's IN

Being central to Asian countries has enabled Labuan IBFC to position itself as the economic conduit to connect trade, business and finance in the region. With the advent of globalisation and subsequent opening up of trade, the international trade pattern has acquired a new shape across geographies. In Malaysia, growth has been anchored by robust domestic economic activities and a diversified export structure whilst in the Asian region, economies are growing at a rapid pace brought on by advancements in technology, transport and industry. As the regulatory authority for the IBFC, Labuan FSA remains committed to strengthen the centre as a viable international business and financial centre in the Asian region.

Our Business

BANKING • INSURANCE • LISTING OF FINANCIAL INSTRUMENTS

• WEALTH MANAGEMENT • OTHER LABUAN FINANCIAL BUSINESS • ISLAMIC FINANCE

Chairman's statement

The global environment continues to be characterised by shifting dynamics in the economic and policy landscape. The advanced economies are experiencing broader economic recovery, which will have positive spillovers on the rest of the world. Improving growth prospects have allowed for a gradual shift in monetary policy towards normalisation. In addition, longer term policies continue to be geared towards structural reforms, with the aim towards supporting a more sustainable global growth and job creation.

Against this backdrop, Asia faces new challenges and opportunities. In the current period, continued normalisation of monetary conditions in the advanced economies amid changing growth dynamics in the emerging market economies will lead to increased volatility in the financial markets. Large and volatile two-way capital flows will be a key feature affecting regional financial conditions. Nevertheless, Asia has large savings which can be recycled into productive investments and address the region's development requirements. Over a longer period, more sustainable growth in the large major economies supported by reforms and rebalancing activities will present new economic opportunities for businesses, investors and consumers.

The strong and strategic linkages with the Asia Pacific region have provided the Labuan IBFC with continued impetus for growth. Going forward, the Labuan IBFC is presented with significant opportunities to capitalise on the increased economic activities and growth of new businesses in the region. The ability of the Labuan IBFC entities to manage emerging challenges effectively has been key in maintaining their positions as the conduit to facilitate trade, business and investment activities in the region. At the same time, significant focus has been accorded to developmental strategies to enable the centre to reap the benefits presented by the new landscape.

Towards reinforcing these developments, the Labuan FSA has undertaken definitive actions during 2013 to enhance the regulatory and operational framework in Labuan IBFC which are aimed at improving the capacity and capability of the financial institutions as well as strengthening the conditions for financial stability. This included the strengthening of the regulatory framework for Labuan IBFC entities through the implementation of several guidelines on business conduct and risk management which are in line with international standards and best practices. These guidelines further reinforced the rigorous entry and operational requirements for institutions in Labuan as well


Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz
Chairman

as raised the prudential standards in managing counterparty exposures of these institutions. Additionally, focus has also been directed towards strengthening the anti-money laundering and counter terrorism financing (AML/CFT) framework to protect the integrity of Labuan IBFC. As the global operating environment continues to evolve, the Labuan FSA has also proactively reviewed the operational requirements on Labuan IBFC entities. During the year, several operational flexibilities were granted to Labuan IBFC entities to support a more vibrant and competitive business environment. The Labuan FSA has also embarked on a review of the existing legislations, where notable progress has been made towards bringing the legislations abreast with current developments. These measures were complemented by regular engagements with the industry to provide greater regulatory clarity and to address issues raised by the industry.

The Labuan FSA has also remained steadfast in maintaining financial stability in the Labuan IBFC through its rigorous supervisory oversight on the licensed institutions. This has involved regular on-site examinations and off-site reviews, as well as leveraging on the existing home-host supervisory framework. Following the lessons learned from the recent global financial crisis, greater emphasis is also placed on bolstering the capacity of Labuan financial institutions to better anticipate and respond to emerging risks as well as having in place the necessary safeguards against such developments. The Labuan FSA has also enhanced its enforcement and intervention actions to address any supervisory concerns.

As the Labuan IBFC becomes increasingly inter-connected with global economies, effective collaboration and coordination with international regulatory authorities has become important to strengthen cross-border cooperation arrangements. Towards this end, the Labuan FSA has concluded several bilateral Memorandum of Understandings (MoUs) with foreign regulatory authorities to collaborate and exchange information in the areas of financial surveillance, regulation and supervision as well as capacity building. The Labuan FSA has also actively participated in several important international dialogues under the auspices of international standard-setting bodies in light of the intensification of regulatory reforms since the global financial crisis. An important milestone was achieved with the selection of Labuan FSA as the representative for the Pacific Region in the Group of International Insurance Centre Supervisors. This provides an important platform for Labuan FSA to be more directly involved in improving the supervisory standards of international insurance

> "As Labuan IBFC becomes increasingly inter-connected with global economies, effective collaboration and coordination with international regulatory authorities has become important to strengthen cross-border cooperation arrangements."

business. While great progress has been achieved in aligning Labuan IBFC's regulatory framework with international standards, the Labuan FSA has continued to accord particular importance to this agenda. This has also included the compliance with international standards and practices on exchange of information for tax purposes as well as AML/CFT framework.

Moving forward, efforts to sustain the growth momentum of Labuan IBFC will focus on three main areas. First, further strengthening of Labuan IBFC's regulatory framework to safeguard financial stability. Substantial focus will be directed towards enhancing the corporate governance, risk management practices and market conduct of financial institutions and intermediaries to ensure an orderly growth of the Labuan IBFC. Second, the widening of the collaborative linkages with other supervisory authorities to promote a more robust supervisory framework and efficient exchange of information arrangements. This will be complemented by ongoing efforts to enhance the existing home-host supervisory framework and cooperation on supervisory enforcement. Third, enhancing the value proposition of the Labuan IBFC as an international financial and business centre. Efforts to further develop the Labuan IBFC as a cost-effective regional hub for global corporations and investors to conduct their business in the Asia Pacific region will be intensified. This will be undertaken in tandem with various initiatives by the Government to improve business operating environment, as well as establishing strategic partnerships with domestic and international agencies in areas which will value-add to Labuan IBFC's competitiveness.

The Authority will also continue to place emphasis in delivering its corporate social responsibilities for the Labuan community, particularly towards the progressive development of the Labuan International School (LIS), in providing state of the art educational facilities in the Labuan IBFC. The continued involvement of Labuan FSA is important to LIS in its funding and enhancing the school's facilities to ensure the LIS stays on course in achieving education excellence.

On behalf of the members of the Authority, I would like to take this opportunity to thank the members of the International Advisory Panel, the Shariah Supervisory Council, the Financial Stability Committee and the respective government departments and agencies as well as the industry for their support and contributions towards the success of the Labuan IBFC. I would also like to thank the staff and management of the Labuan FSA for their unwavering support and contributions. My gratitude also goes to Datuk Zainul Abidin Abdullah, whose term of appointment as a member of the Authority ended in September 2013 and to welcome Dato' Mohd Nadzri Osman as a new member of the Authority.

Mr. Ahmad Hizzad Baharuddin
Director General

Director General's report

For the year 2013, the Labuan International Business Financial Centre (Labuan IBFC) continued to sustain its growth trajectory across the key business sectors amidst continuing challenging external environment. The year also saw the Labuan Financial Services Authority (Labuan FSA) remained steadfast in its efforts and initiatives towards maintaining the position of Labuan IBFC as a well regulated, reputable and well functioning international business and financial centre for Asia.

Positioned as a strategic gateway to connect the regional markets within Asia-Pacific and linking Europe, Middle East and the Americas, Labuan IBFC's strong value propositions in providing a conducive business environment, remained facilitative and attractive to investors of geographical diversity to operate out of Labuan IBFC. Currently, it has more than 5,000 active entities including financial institutions operating from the jurisdiction serving businesses in the region as well as in the international markets. The use of Labuan IBFC to serve the Asian market was notably reflected in the continuing growth in the number of Labuan companies to reach 10,352 for the year under review. The majority of these companies originated from Asia-Pacific region and were primarily engaged in trading of goods and financial business as well as other business of consultancy and advisory services. The upward trending of investors using Labuan companies to serve Asia's emerging market underscores Labuan IBFC's position in building linkages in the deepening and broadening of Asia's trade and investment activities.

The banking sector, which represents the core of Labuan financial system, continued to grow in volume, against the backdrop of continuing regulatory reforms implemented at both international and national level. The sector remained stable buoyed by the region's financial stability and economic resilience. The Labuan banking sector was well-captalised with sufficient liquidity and good quality assets. The year registered an increase in total banking deposits and expansion in loans and advances. Majority of the deposits and loans were contributed by non-residents of the ASEAN countries. During the year, two new banking licences were issued, however, two banks surrendered their licences and this maintained the total number of Labuan banks at 59.

> Labuan Financial Services Authority (Labuan FSA) remained steadfast in its efforts and initiatives towards maintaining the position of Labuan IBFC as a well regulated, reputable and well functioning international business and financial centre for Asia.

For the insurance industry, the year 2013 witnessed the occurrence of several catastrophic events impacting the industry in different parts of the world. Nevertheless, the Labuan insurance sector remained resilient throughout the year. The sector also registered an improved financial performance with an industry profit before tax of USD263.3 million compared to the previous year of USD121.5 million. The sector continued to expand in reach and diversity during 2013 with 19 new licences granted, including the entrance of companies from the Middle Eastern region.

The total gross premiums income for Labuan general insurers and reinsurers decreased by 6.2% to USD1.60 billion from USD1.70 billion of the preceding year, however, the total gross premiums written by the captive insurance business and Labuan insurance brokers increased by 33.8% and 4.9%, respectively in 2013. The total assets grew at a slower pace to USD4.2 billion and the composition of assets remained conservative with fixed deposits and money market instruments continued to be the largest portion of total assets base.

The growing oil and gas industry in the Asia-Pacific region has continued to present attractive opportunities for oil-related activities including financial services of leasing and commodity trading business. For the year under review, Labuan leasing sector remained the top performing sector with 72 new leasing companies approved and the total assets leased rose to USD38.1 billion. In alignment with the continued development of oil and gas industry, the Labuan International Commodity Trading Companies (LITC) had more than doubled the total number of LITCs approved in Labuan to 23. This reflects an increasing awareness of more international oil trading companies using LITC to capitalise on the extended oil and gas incentives under the Global Incentive for Trading programme, which now covers new commodities such as refined raw material and chemicals and also improved incentive for liquefied natural gas trading. This development bodes well for Labuan IBFC to continue providing diversified financial products and services to support the expansion in downstream value chain of the oil and gas industry and in complementing Malaysia's objective to become an oil storage and trading hub for the Asia-Pacific region.

In tandem with positive regional economic growth, the rise of high net worth individuals (HNWIs) population and wealth creation remained unabated in 2013. Labuan IBFC's strategic focus in providing wealth management solutions and positioning Labuan IBFC as the domicile of choice for wealth management instruments had reaped considerable benefit for the wealth management sector in Labuan. To-date, recorded a total of 93 Labuan foundations and 53 trusts registered with Labuan FSA. This prospect augurs well for Labuan's wealth management products to continue serving the needs of HNWIs in Asia and beyond.

Over the course of 2013, global regulatory environment continued to see the implementation of unprecedented numbers of new initiatives to further restore global financial stability and stimulate economic growth. Against this backdrop, Labuan FSA had remained vigilant and responsive to the external developments; particularly in strengthening its prudential regulations and supervision oversight aimed at maintaining the safety and soundness of financial institutions in the Labuan IBFC. Equally important was the efforts put in to enhance bilateral supervisory cooperation with other regulatory authorities to strengthen regional linkages.

For the reporting year, Labuan FSA had proactively enhanced its prudential regulations after rigorous deliberations and consultations were undertaken in developing and formulating appropriate prudential policy to strengthen the position of the Labuan financial institutions. Several new policies were issued including guidelines on general reinsurance arrangements and sound practices, guidelines on single counterparty on exposure limit for Labuan banks and guidelines on compliance function for Labuan licensed entities. The Authority had also made important strides to formulate guidelines in combating money laundering and terrorism financing for the key business sectors of banking, insurance and takaful, trust company, capital market and other business, to ensure that Labuan IBFC continues meeting the changing international focus and standards in this endeavour.

While emphasising on the key functions of regulatory oversight, Labuan FSA also placed importance of having a set of facilitative business guidelines to create a more effective business solution for investors using Labuan structures as well as to ensure the existing guidelines are consistently tuned towards current business models. During the year, guidelines for various business sectors, both conventional and Islamic business, were reviewed and updated to align with current operational requirements. New business guidelines were also issued to facilitate the establishment and operational requirements of Labuan Securities Licensees and Labuan Protected Cell Companies. As part of its continued efforts to enhance Islamic finance, the Authority had issued two resolutions relating to Labuan Islamic trust and foundations, and revised guidelines on the Appointment of Shariah Advisory Board or Shariah Advisors.

Much has also been accomplished in the e-platform delivery system. The enhancement of the registrar of company on-line submission system, which is in its final stage of development, will be ready for implementation in 2014. Various realignments of the on-line statistical forms were geared towards further improving data capture expansion via the statistical management system by the Labuan reporting entities. In addition, the Authority's efforts in enhancing its website contents had shown positive result where Labuan FSA was awarded a 5-star rating in the Malaysian Government Portals and Website annual rating assessment 2013.

On the international front, Labuan FSA continued to further advance regional and international cooperation among regulatory authorities to strengthen alliances in cross border supervision. In 2013, the Authority had concluded three bilateral Memorandum of Understandings (MoUs) on mutual assistance and information sharing. The new MoU partners included Comite General des Assurances of Tunisia, The Financial Supervisory Commission, R.O.C (FSC Taiwan) and the Emirates Securities and Commodities Authority. Separately, 25 MoUs were sealed between Labuan FSA and the securities regulators of the member states of the European Union and members of the European Economic Area authorities relating to supervision of Alternative Investment Fund Managers.

On domestic alliances, MoUs were signed with the Iskandar Regional Development Authority and Kuala Lumpur Regional Centre for Arbitration aimed to foster closer collaboration towards enhancing mutual cooperation in the development of financial sector and investment opportunities as well as providing the necessary infrastructure in the Labuan IBFC. This development would further pave the way forward for the conduct of regional and international transactions and investments in Labuan IBFC as the centre matures over the years.

Capacity development and talent building remained an important focus area in the course of further progressing Labuan IBFC to the next level. Towards this end, Labuan FSA signed an MoU with the University Malaysia Sabah to build on and further strengthen the strategic partnership formed in 2000. The enhanced collaborative framework, amongst others, had incorporated new initiatives of management trainee programme and research attachment programme to provide more industry-ready entry-level graduates and contribute towards the sustainability of talent in the Labuan financial industry.

The Authority continued to work closely with the industry associations and other professional training providers to raise the competence level of professionalism in the Labuan IBFC as part of the efforts to increase the internal capability of the organisation as well as the industry players to manage the more challenging business environment.

Moving Forward

Notwithstanding the improving global growth prospects in 2014, the global economic recovery is expected to remain modest and continuing efforts to develop sound policies to navigate future challenges remain critical. In this regard, Labuan FSA will strive to undertake its statutory responsibilities in a vigilant and active manner, to respond to the growing complexity in the Labuan IBFC and new emerging challenges it poses.

Consistent with Asia's growth path, endeavours will be pursued to leverage on existing and new bilateral and multilateral initiatives to incentivise new intra-regional investment opportunities within the region including ASEAN. Towards this objective, Labuan IBFC would continue to play a prominent role to facilitate the intra-regional trade flows, contributes to the development of a more sustainable economy and mutually reinforcing regional growth.

On the financial performance of Labuan FSA, I am pleased to announce that for the year ended 31 December 2013, the Authority had recorded a significant increase in operating income of RM39.9 million as compared to RM28.8 million in 2012, while its total reserves in 2013 also increased to RM39.2 million.

In conclusion, on behalf of the management of Labuan FSA, I would like to thank the Authority members of Labuan FSA for their continued support and my gratitude also goes to all staff of Labuan FSA, their dedicated work continues to stand us in good stead.

Corporate Information

Labuan Financial Services Authority (Labuan FSA) was established on 15 February 1996, is the statutory body responsible for the regulation, supervision and development of the Labuan International Business and Financial Centre (IBFC).

OBJECTIVES OF LABUAN FSA

Labuan FSA was established:

- to promote and develop Labuan as a premier centre of high repute for international business, financial products and services; and
- to develop national objectives, policies and priorities for the systematic growth and administration of international financial business in Labuan, and to make recommendations to the Government.

In developing a vibrant and progressive IBFC in line with these objectives, Labuan FSA has embarked on a two-pronged strategy:

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

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

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

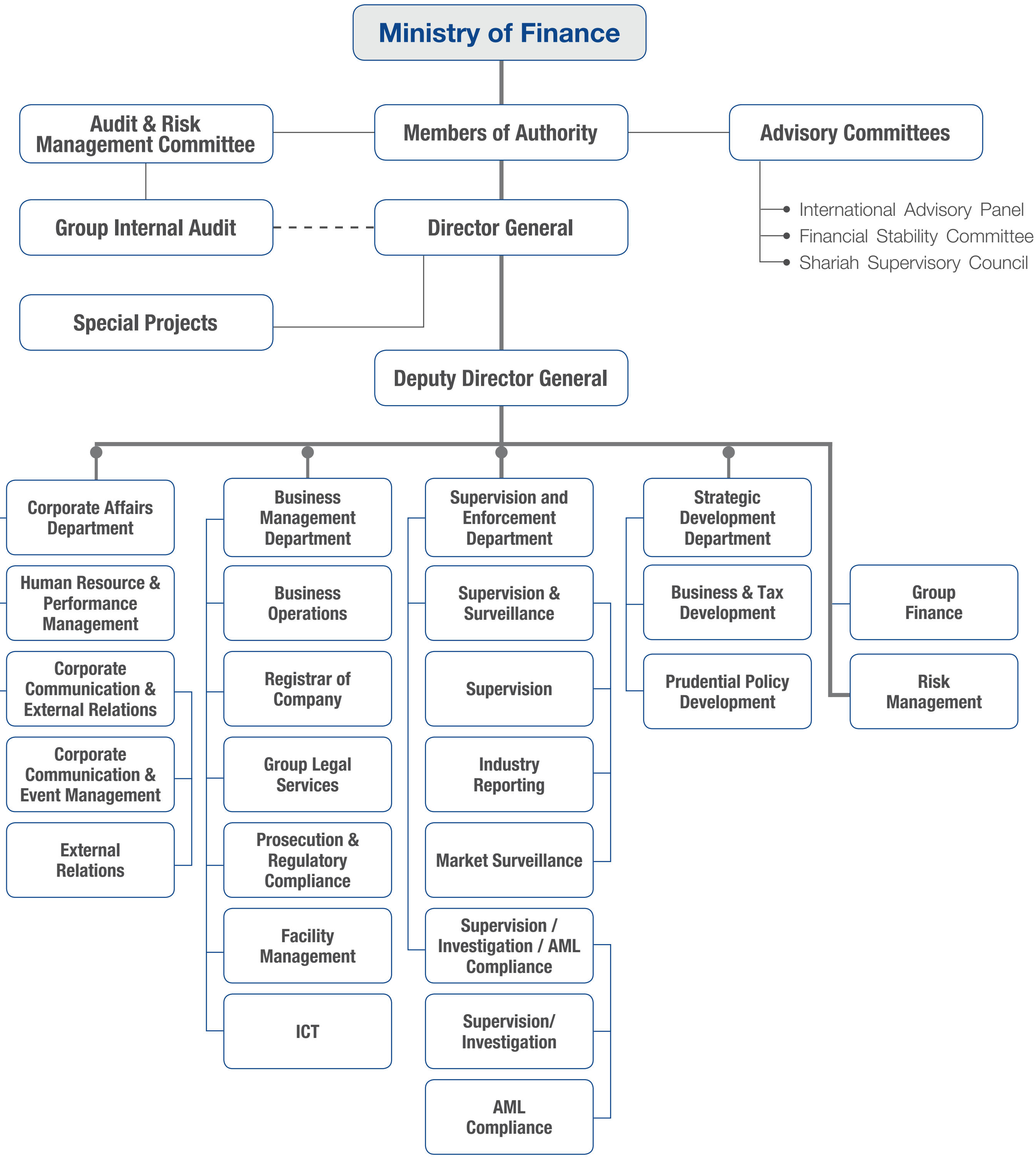
FUNCTIONS OF LABUAN FSA

Labuan FSA has been entrusted with the following functions:

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

ORGANISATION STRUCTURE

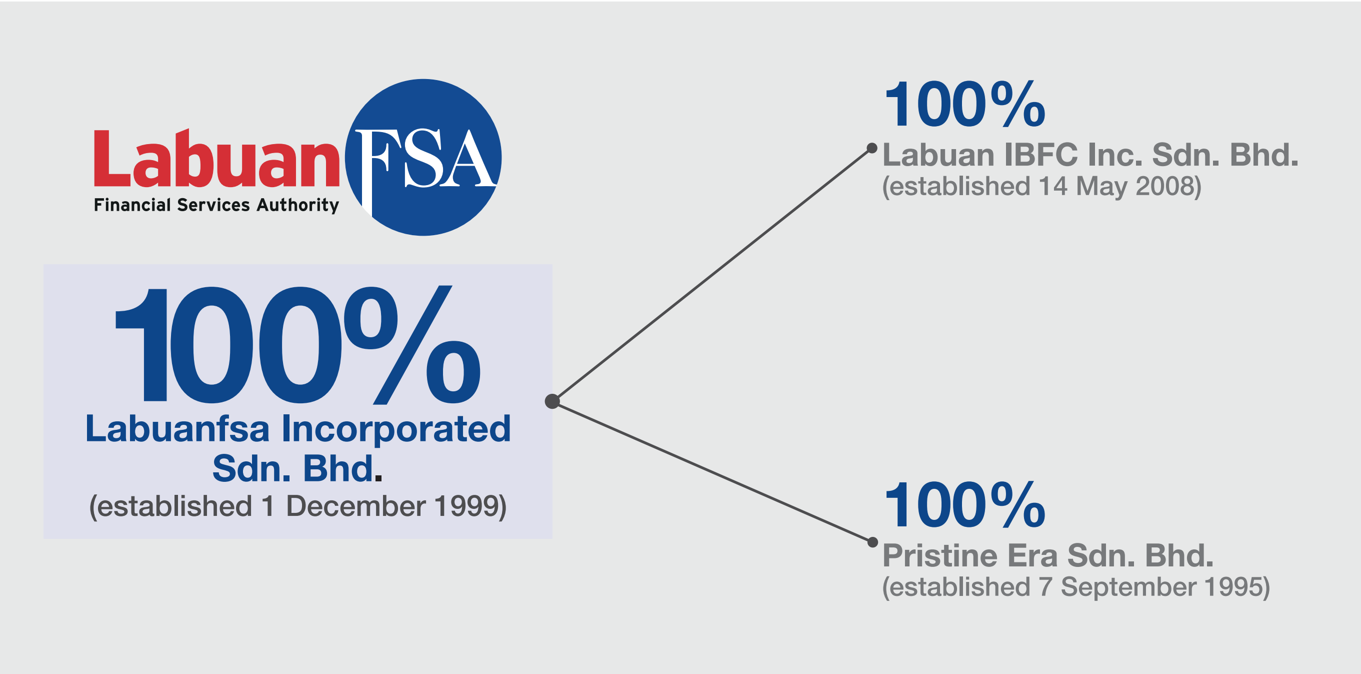
Labuan FSA is structured into five core areas, namely, the Strategic Development Department, Business Management Department, Supervision and Enforcement Department, Corporate Affairs Department and Group Internal Audit. The structure enables Labuan FSA to effectively regulate and supervise the international financial institutions in Labuan IBFC.



AUTHORITY SUBSIDIARIES

Labuan FSA owns the 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.



INTERNATIONAL MEMBERSHIPS

Labuan FSA is a member of several international organisations that promote high level of regulatory standards amongst international financial centres. These organisations are:

a. International Association of Insurance Supervisors (IAIS)

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

b. Group of International Financial Centre Supervisors (GIFCS)

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

c. Group of International Insurance Centre Supervisors (GIICS)

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

d. Asia/Pacific Group on Money Laundering (APG)

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

e. International Islamic Financial Market (IIFM)

IIFM is the global standardisation body for the Islamic Capital & Money Market segment of the Islamic financial market. IIFM acts as a market body in the development and maintenance of uniformity, assist with standards benchmarking for transparency and robustness of Islamic financial market. Its primary focus lies in the standardisation and Shariah harmonisation of Islamic products, documentation and related processes. IIFM also provides universal platform to market participants through "Global Working Groups" for the development of Islamic capital and money market. *(Member since 2002)*

f. International Organisation of Securities Commissions (IOSCO)

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

g. Islamic Financial Services Board (IFSB)

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

EVENT HIGHLIGHTS 2013

22 FEBRUARY
Launch of Labuan IBFC's Wealth Management Year 2013 by the Second Finance Minister Malaysia.

25 – 27 MARCH
Labuan FSA hosted the Regional IFSB-FIS Workshops on Liquidity Risk Management and Stress Testing Standards.

15 MAY
Labuan FSA and Universiti Malaysia Sabah signed an MoU to enhance scope of collaboration in capacity and capability development.

14 JUNE
Labuan FSA released its Annual Report 2012 by Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz, Chairman of Labuan FSA.

2 JULY
A luncheon briefing was conducted for the foreign ambassadors and high commissioners in Malaysia in conjunction with the release of Labuan FSA's annual report 2012.

3 JULY
Labuan FSA entered into 25 bi-lateral agreements with the central supervisory bodies for the financial markets of the European Union – the European Securities and Markets Authority and the European Economic Area in relation to supervision and oversight of Alternative Investment Funds.

29 AUGUST
Labuan FSA and the Iskandar Regional Development Authority signed an MoU to further enhance business and investment opportunities in Iskandar Malaysia through Labuan IBFC as the investment platform.

1 SEPTEMBER
Appointment of Dato' Mohd Nadzri Osman, CEO of Labuan Corporation as a new Authority Member of Labuan FSA.

9 SEPTEMBER
Labuan FSA signed an MoU with the Financial Supervisory Commission, R.O.C, Taiwan to strengthen supervisory and regulatory cooperation of cross-border financial institutions.

16 SEPTEMBER
Labuan FSA and the Emirates Securities and Commodities Authority signed an MoU to facilitate the execution of consolidated supervision, enforcement of laws and regulations, policy research and development.

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

A seminar on Arbitration: "Alternative Dispute Resolution for Labuan IBFC" was organised.

3 OCTOBER
Labuan FSA signed an MoU with the Comite General des Assurances, Tunisia to forge a closer relationship in strengthening cross-border supervisory and regulatory cooperation.

31 OCTOBER
The Labuan Industry Annual Dinner 2013 hosted by the Association of Labuan Trust Companies.

14 NOVEMBER
Annual Labuan International Lecture Series titled *"The Impact of the Foreign Account Tax Compliance Act (FATCA) regulations on Foreign Financial Institutions"*, delivered by Mr. Eckart Koerner.

28 NOVEMBER
Labuan FSA was awarded a 5-star rating in the Malaysian Government Portals and Website annual assessment 2013.

Leadership

Members
of the Authority

from left to right:

Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz, (Chairman), Mr. Ahmad Hizzad Baharuddin, (Director General), Datuk Oh Chong Peng, Dato' Mohammed Azlan Hashim, Datuk Ranjit Ajit Singh, Dato' Mohd Naim Daruwish, Dato' Siti Halimah Ismail, Datuk Ali Abdul Kadir, Dato' Mohd Nadzri Osman

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

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

Members
of the Authority

Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz
Chairman

Dr. Zeti Akhtar Aziz was appointed Governor of Bank Negara Malaysia in May 2000. At the Central Bank, Dr. Zeti had a key role in successfully managing the recovery of the financial system, and the economy in Malaysia during the Asian Financial Crisis. She also had an important role in the formulation and implementation of two consecutive ten year plans for the development of the financial system. This has resulted in wide-ranging financial reforms, and the successful enactment of eight new major legislations for the financial sector. The development of the financial infrastructure has significantly transformed the Malaysian Financial system.

In the Asian region, Dr. Zeti has been actively involved in strengthening regional cooperation and regional financial integration. She chaired the EMEAP Taskforce on "Regional Cooperation among Central Banks in Asia" that prepared the report for future Central Bank financial cooperation in the region which still continues today. She is a founding member of the Bank for International Settlements (BIS) Asian Consultative Group for Asia, and the first co-chair of the Financial Stability Board (FSB) Regional Consultative Group for Asia. Dr. Zeti also participates extensively in international forums on the perspective of emerging economies. Dr. Zeti was a member of the United Nations General Assembly Commission of Experts on Reform of the International Monetary and Financial System in 2009, a high-level task force established to examine reforms to the global financial system. She is currently the chair of BIS Central Bank Governance Group, where she has been a member since 2001.

Dr. Zeti has also had extensive involvement in the global development of Islamic Finance. This included being a part of the group of Governors that established the Islamic Financial Services Board and International Islamic Liquidity Management. She also headed a taskforce that prepared the report on "Islamic Finance: Global Financial Stability" which identified the building blocks to further strengthen the institutional arrangements in the Islamic financial system. In Malaysia, the recent decade saw the transformation of the Islamic financial system including its expansion and internationalisation. Dr. Zeti also had significant role in the development of talent in the Islamic financial services industry, including in the establishment of the International Centre for Education in Islamic Finance, the first global university dedicated to Islamic finance; and the International Shariah Research Academy for Islamic Finance, a research institute aimed at promoting applied research in the area of Shariah and Islamic finance.

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

Members
of the Authority

Datuk Ranjit Ajit Singh

Datuk Ranjit Ajit Singh is the Executive Chairman of the Securities Commission Malaysia (SC). He was previously Managing Director of the SC and has over 20 years' experience in the field of finance and securities regulation.

Datuk Ranjit has played a key role in international securities regulatory policy work. He is the Vice Chairman of the Board of the International Organisation of Securities Commissions (IOSCO), the global body of securities regulators and the Chairman of IOSCO's Growth and Emerging Markets Committee (GEM).

Datuk Ranjit currently chairs the Securities Industry Development Corporation, the Malaysian Venture Capital Development Council and the Capital Market Development Fund. Datuk Ranjit is also the Vice-Chairman of the Asian Institute of Finance and a member of the Board of the Labuan Financial Services Authority and the Financial Reporting Foundation. He is also a board member of the Malaysian Institute of Integrity (IIM).

Datuk 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. He has had prior working experience in Australia and Malaysia in academia, consulting and accounting.

Datuk Oh Chong Peng

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

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

Members
of the Authority

Dato' Mohammed Azlan Hashim

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

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

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

Datuk Ali Abdul Kadir

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

Datuk Ali is currently the Chairman of Jobstreet Corporation Berhad, Privasia Technology Berhad, and the Financial Reporting Foundation. He is a Board Member of Glomac Berhad, Labuan Financial Services Authority, and member of the Academic Advisory Panel of the Companies Commission of Malaysia.

Datuk Ali was appointed as the Chairman of the Securities Commission of Malaysia in 1999 and served in that capacity until 2004. He was a member of a number of national committees including the National Economic Consultative Council II, the Foreign Investment Committee, the Oversight Committee of National Asset Management Company (Danaharta) and the Finance Committee on Corporate Governance. On the international front, he was a member of the Exco of IOSCO, chairman of IOSCO's Asia-Pacific Region Committee, Chairman of the Islamic Capital Market Working Group and trustee of AAOIFI and Force of Nature Aid Foundation, and also Advisor to the Sri Lanka Securities & Exchange Commission.

Prior to his appointment to the Securities Commission, he was the Executive Chairman and Partner of Ernst & Young and its related firms. He was also the former President of the Malaysian Association of Certified Public Accountants. He was appointed an Adjunct Professor in the Accounting and Business Faculty, University of Malaya (2008 till 2011) and was then appointed to the Advisory Board of the same Faculty. He was previously chairman of Milux Corporation Berhad, Microlink Solutions Berhad and Director of Labuan IBFC Inc., Development & Commercial Bank Bhd (now RHB Bank), Tokio Marine & Fire Insurance Bhd and Takaful Malaysia Bhd.

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

Members
of the Authority

Dato' Mohd Nadzri Osman

Dato' Mohd Nadzri is the Chief Executive Officer of Labuan Corporation since 1 September 2013. He started off his career in government with Public Services Department in 1986 and has since held various positions under the Ministry of Transport from 2008. Prior to joining Labuan Corporation, Dato' Mohd Nadzri had also served in various Ministries such as Domestic Trade, Consumerism and Cooprative.

Dato' Mohd Nadzri holds a Masters Degree in Security Studies from University of Hull United Kingdom, a Bachelor of Arts (Honours) and Diploma in Public Administration from the University of Malaya and INTAN, Malaysia respectively.

Dato' Siti Halimah Ismail

Dato' Siti Halimah is the representative of the Ministry of Finance. Currently, she is the Under Secretary of the Tax Analysis Division, Ministry of Finance. She began her career with the Government in the Economic Planning Unit of the Prime Minister's Department and has since held various senior positions in the Tax Analysis Division.

Dato' Siti Halimah also sits on the Board of Malaysia-Thailand Joint Authority, Malaysian Investment Development Authority, Halal Industry Development Corporation Sdn Bhd and the Inland Revenue Board.

She holds a Bachelor of Economics from University of Malaya and a M.Sc (Demography) from London School of Economic, United Kingdom.

Members
of the Authority

Dato' Mohd Naim Daruwish

Dato' Mohd Naim Daruwish graduated with a LLB (Hons) degree from the University of Malaya. He started off his career as a Legal Officer with the Legal Department of Bank Pertanian Malaysia on April 1984 before being appointed as Magistrate in 1985 and later as a Senior Magistrate.

He was then appointed as the Manager and later as the Senior Manager of the Prosecution/Litigation Division, Legal Department of the Employees Provident Fund (EPF), Kuala Lumpur. Among the positions held by him in EPF were the General Manager of the Enforcement Department, the Senior General Manager of Legal Department and the Senior General Manager of the Contribution Department.

He is also a board member of Labuan Financial Services Authority (Labuan FSA), the Audit Oversight Board of the Securities Commission Malaysia (AOB), the Malaysian Accounting Standards Board (MASB) and the Board of Trustees of the National Welfare Foundation of Malaysia (NWF).

Mr. Ahmad Hizzad Baharuddin

Mr. Ahmad Hizzad was appointed the Director-General of Labuan Financial Services Authority (Labuan FSA) on 3 October 2011. He currently serves as director for Labuan IBFC Inc. Sdn. Bhd, Labuanfsa Incorporated Sdn. Bhd, Pristine Era Sdn. Bhd, Financial Park (L) Sdn. Bhd, Labuan Corporation and a member of the Audit Committee of Labuan Corporation. Mr. Ahmad Hizzad is also a Board Member of the International Islamic Financial Market in Bahrain.

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

The Shariah Supervisory Council





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

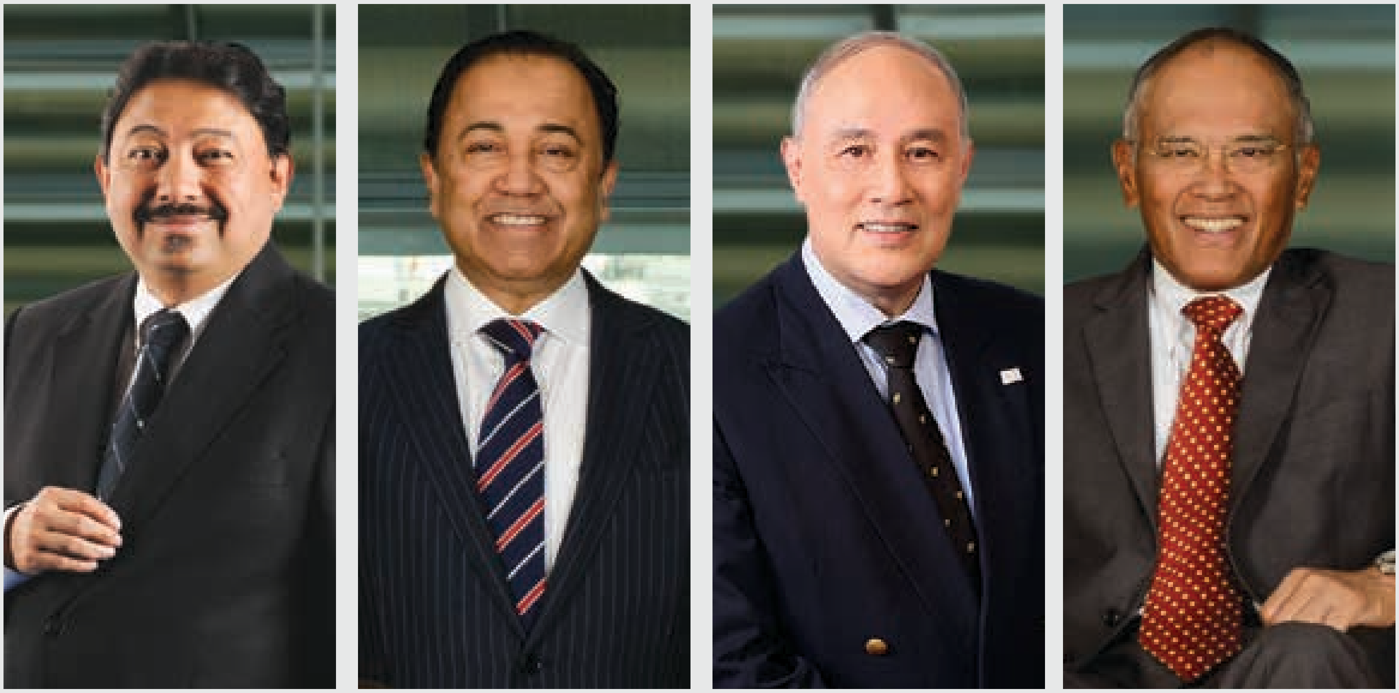
from left to right:

Dr. Mohd Daud Bakar (Chairman), Dato' Dr. Abdul Halim Ismail, Professor Madya Dr. Ahmad Shahbari @ Sobri bin Solomon, Dr. Mohamed Ali Elgari Bineid, Dr. Engku Rabiah Adawiah

not pictured:

Dr. Hussein Hamed Hassan

The International
Advisory Panel



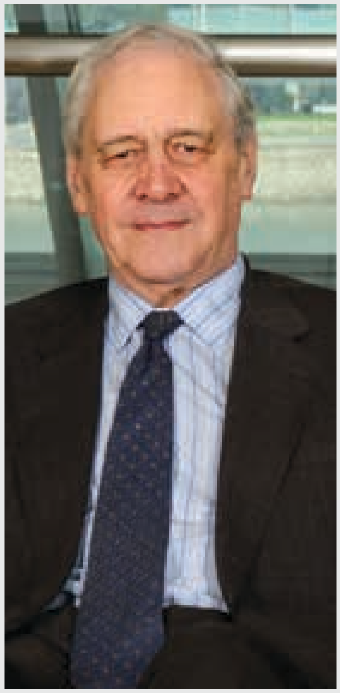
The International Advisory Panel (IAP) is a consultative body that advises on the strategic direction of the IBFC relating to business and market development. The Authority appoints members of the IAP.

from left to right:

Dato' Mohammed Azlan Hashim (Chairman), Mr. Iqbal Khan, Mr. Anthony Neoh,
Tan Sri Dato' Megat Zaharuddin Megat Mohd Nor, Mr. Michael Troth, Datuk Wira Jalilah Baba,
Mr. Mark Lea, Mr. Frank McInerney.

Leadership






bottom left to right:

Datuk Shireen Ann Zaharah Muhiudeen,
Dato' Mohammad Faiz Azmi

not pictured

Datuk George Ratilal, Baron Frederik Van Tuyll

The Financial
Stability Committee




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

from left to right:

Mr. Ahmad Hizzad Baharuddin (Chairman), Mr. Danial Mah Abdullah, Ms. Che Zakiah Che Din, Mrs. Madelena Mohamed, Mr. Wong Yoke Weng

Management
of Labuan FSA






from left to right:

Mr. Ahmad Hizzad Baharuddin (Director General), Mr. Danial Mah Abdullah, Mr. Iskandar Mohd Nuli, Mr. Mohd Rizlan Mokhtar, Mr. Azuddin Jasin, Mrs. Yon Zahimah Ibrahim

Management
of Pristine Era Sdn. Bhd.



Mr. Mohd Rizlan Mokhtar　*Mrs. Zainab Batin*　*Mr. Wan Ahmad Sanusi Mahmood*

Management
of Labuan IBFC Inc. Sdn. Bhd.





from left to right:

Mr. Saiful Bahari Baharom (CEO)
Ms. Rajam Sega
Mr. Jaffree Ismail
Ms. Woon Sue Ling
Ms. Shamillia Sivathambu

Statement of Corporate Governance

Statement of Corporate Governance

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

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

GOVERNANCE FRAMEWORK

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

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

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

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

ACCOUNTABILITY

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

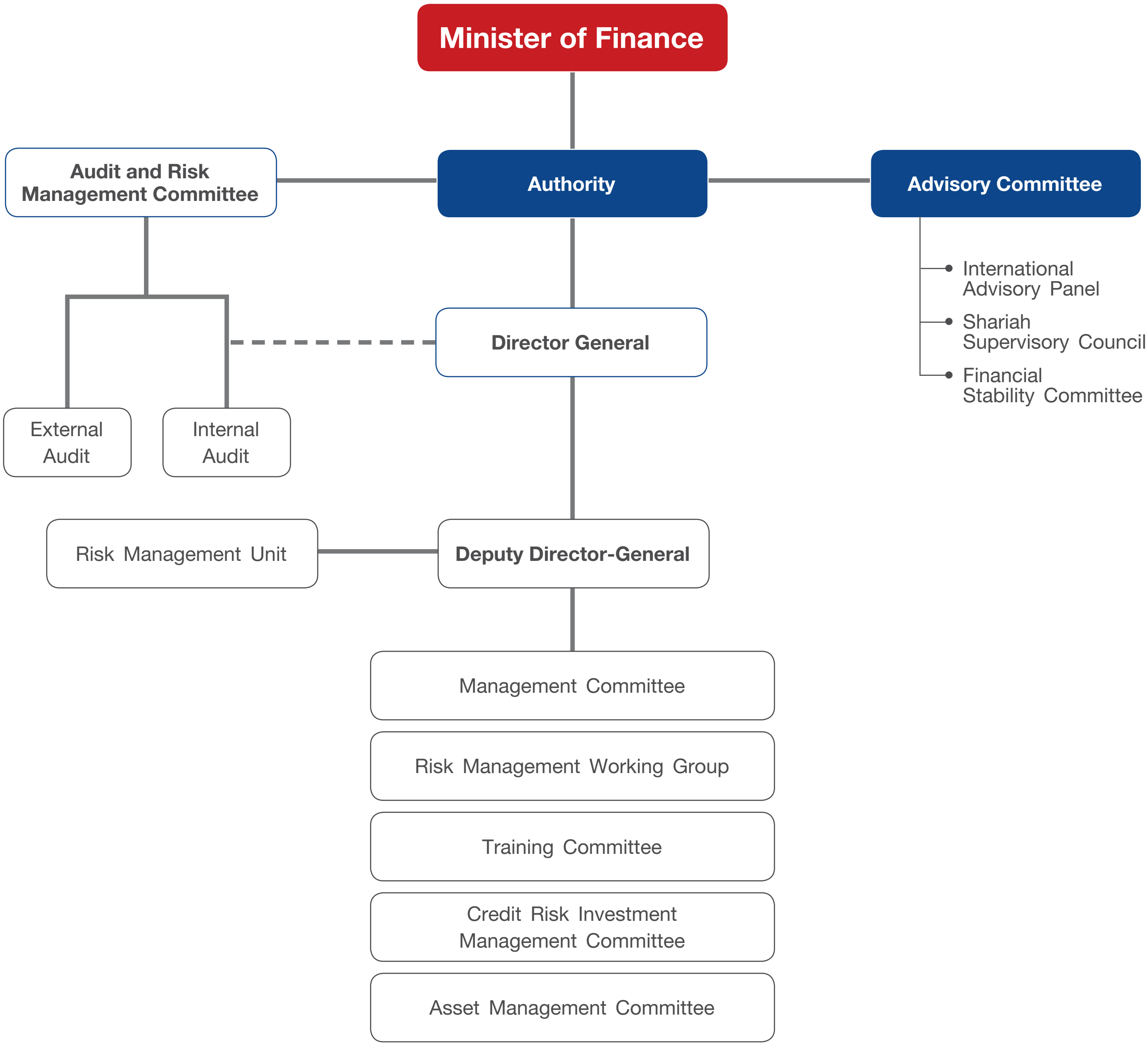
The Authority

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

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

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

Governance Framework



The Authority convened six meetings in 2013 and the members' attendance record is as follows:

Authority Members	Attendance
Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz (Chairman)	5/6
Mr. Ahmad Hizzad Baharuddin	6/6
Datuk Oh Chong Peng	4/6
Dato' Mohammed Azlan Hashim	5/6
Datuk Ali Abdul Kadir	6/6
Dato' Zainul Abidin Abdullah (Retired on 1 September 2013)	3/4
Dato' Siti Halimah Ismail	3/6
Dato' Mohd Naim Daruwish	3/6
Datuk Ranjit Ajit Singh	4/6
Dato' Nadzri Osman (Appointed on 1 September 2013)	2/2

The Audit and Risk Management Committee Report

The Audit and Risk Management Committee (ARMC) was established in accordance with the oversight powers extended to the Authority by the Act. The ARMC convened four meetings in 2013 and the attendance record of the members is as follows:

Audit Committee	Attendance
Datuk Oh Chong Peng (Chairman)	4/4
Datuk Ali Abdul Kadir	4/4
Dato' Mohammed Azlan Hashim	3/4
Dato' Zainul Abidin Abdullah (Retired on 1 September 2013)	3/3
Dato' Nadzri Osman (Appointed on 1 September 2013)	0/1

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

The ARMC had performed the following key activities:

- Reviewed the audit plan for 2013 and provided oversight on the work performed by the internal audit throughout the year;
- Reviewed the accounting and financial reports including other key issues raised by the internal and external auditors and Auditor-General's office;
- Reviewed the financial reports including quarterly and annual financial statements;
- Reviewed and advised the Authority on the 2013 budget proposal;
- Reviewed and advised on the status of risk and its management on issues relating to strategic, financial, operational, legal and reputational risks of Labuan FSA; and
- Reviewed and advised an the implementation and management of the Business Continuity Plan.

INTEGRITY

Good corporate culture demands high integrity at all level of the organisation. The effective governance of Labuan FSA is built on individual values which are aligned with the following organisational shared values:

- Integrity, commitment and professionalism;
- Open and honest communication;
- Teamwork;
- Business and customer oriented; and
- Continuous learning.

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

Labuan FSA marked an important milestone in 2013 to support the efforts of the Malaysian Government and the Malaysian Anti-Corruption Commission in combating corruption by implementating the integrity pact for procurement. In addition, Labuan FSA's staff had pledged to comply with the Regulations of Discipline under the Discipline and Surcharge Act 2000. Such actions reinforced the roles of Labuan FSA as the regulatory and supervisory body to implement best practices in corporate governance, and adherence to ethical standards internally as well as to its business fraternity. The enhanced integrity of individual staff and Labuan FSA at the organisation level was manifested through commendable result of *Sistem Pengurusan Audit Nilai* which was carried out in 2013. During the year, an Integrity Unit was established in Labuan FSA, to be in line with the government's aspiration to ensure the employees of government agencies practise strong work culture and moral.

ORGANISATION COMPLIANCE

Throughout the year under review, the Group Internal Audit (GIA) had performed eight audit reviews on selected functions of Labuan FSA to ensure that the risk management, internal controls and governance processes continued to remain effective. In 2013, GIA had modified its existing risk based methodology to be in line with the enterprise wide risk management approach whereby prorities were given to the identified vulnerable risks consistent with high risk areas recognised by the management. Another eight significant risks had been identified and approved to be audited in 2014.

In recognition of the need to instill clear accountability in every line of its significant activities, Labuan FSA undertook to review the procedure manuals of all units. The two-year project which aimed at enhancing efficient and effective key controls, simplify procedures and strengthen internal systems that support governance practices, is anticipated to be completed by second quarter of 2014.

ENTERPRISE RISK MANAGEMENT

Labuan FSA had implemented an Enterprise Risk Management (ERM) framework to identify, analyse, evaluate, monitor and manage risks faced by the organisation. The ERM framework outlines the risk management governance and structure, processes, accountabilities as well as responsibilities throughout Labuan FSA.

In 2013, Labuan FSA completed another full cycle of the ERM process as well as reviewed and enhanced its risk profiles. This process included the participation of the Risk Management Unit, Head of Units/Departments, Risk Management Working Group (RMWG), Audit and Risk Management Committee (ARMC) and the Authority. The process is illustrated in the following diagram.

Diagram 1: Key actions under ERM process

Unit/Dept Risk Assessment

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

Risk Management Working Group

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

Audit and Risk Management Committee

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

Authority Members

- Present the assessment reports to the Authority members for understanding and further guidance.
- Status of signification risks of Labuan FSA and its subsidiaries within given risk appetite.

The RMWG and ARMC met three and two times, respectively, to discuss and decide on various risk related matters, including the identification of new or emerging risks that may affect the achievement of the objectives and strategic goals of Labuan FSA and its subsidiaries. The key risks deliberated at RMWG and ARMC were on management of enterprise risks which included transversal risks such as manpower, supervisory, data management and information technology risks.

Key Activities in 2013

Key activities pertaining to risk management that were undertaken for the year under review were as follows:

Diagram 2: Key Activities

Risk Review

- A top down review of enterprise level risks was conducted to ensure the risk implications and any change in strategy were identified.
- The results of the review were reported in the RMWG and ARMC for approval.

Awareness Initiatives

- Staff awareness programme on Health and Safety at Workplace was jointly organised by Labuan FSA and National Institute of Occupational Safety and Health (NIOSH). The programme focused on possible risk and threats available as well as recommended mitigating actions at the workplace.
- Issuance of three periodic bulletins relating to various topics on risk management for internal circulation.

Review and Revamp Guideline on Health and Safety

- The Guideline on Health and Safety was revamped and converted into Health and Safety Act 1994. The new policy included more risk mitigation measures as well as to reaffirm the Management's commitment of the importance to adhere to the best practices in safeguarding the welfare of employees and safety of office.

Review and Revamp the Procedure Manual of Risk Management Unit

- The unit has revamped its procedure manual to improve its internal processes. The processes are based on ISO 31000:2009, Risk Management Principles and Guidelines.

Significant Risks Affecting Labuan FSA

The ERM assessment involves the identification and evaluation of key risks affecting Labuan FSA in achieving its objectives as well as the development of initiatives to mitigate these risks. The key risks for 2013 are categorised in the following group risks:

Diagram 3: Group Risks

The key risks and a brief description of the initiatives to mitigate these risks are as follows:

a) Finance

Labuan FSA requires sufficient funding to support operational expenses for its regulatory functions and enhancement of capability and competency of the industry. In addition, there is a need to provide financial resources to support its subsidiaries. The financial position of Labuan FSA had significantly improved over the years through the unwavering support of the government and higher revenue from the revised fee structures for Labuan IBFC.

b) Human Resource

Employees attended structured training and development programmes to enhance competency and capability skills specifically on regulatory issues. Potential candidates are subjected to a structured recruitment process. As part of the succession planning, a Management Trainee Program was implemented to provide talent succession for Labuan FSA. To enhance its human capital management including recruitment and retention of talent, Labuan FSA is undertaking a review of its Employees' Terms and Conditions.

c) Regulatory

As a result of the assessment on Labuan FSA by the International Monetary Fund in 2012, Labuan FSA had enhanced its Risk Based Supervisory Framework to be in accordance with international standards and best practices. Additional manpower was recruited for the Supervision and Enforcement Department and a new dedicated Prudential Policy Unit was created in June 2013. These had further strengthened the regulatory and supervisory functions of Labuan FSA.

To further enhance statutory data registry, Labuan FSA is in the midst of updating the Registrar of Company's system to ensure the new system is able to process statutory required data more efficiently. Similarly, the Statistical Management System is undergoing further enhancement to address the issues on data comprehensiveness and data integrity.

d) Document Management

Labuan FSA had established a new Records Management Unit to manage documentation storage, which included filing, archiving and disposing in order to ensure that all data/documents are processed and stored systematically according to legal requirements. In addition, data from critical systems are backed up through the IT's Disaster Recovery Plan (DRP).

Whistle Blowing

A Guidelines on Whistle Blowing (Guidelines) was implemented to provide an avenue for all employees as well as members of the public to disclose any improper conduct committed within Labuan FSA and its subsidiaries. The main objective of the Guidelines was to maintain a high standard of corporate governance and business integrity, in order for Labuan FSA to serve its stakeholders more effectively. The Guidelines provided measures to safeguard the confidentiality of the whistleblower and to ensure no retaliation on the whistleblower if the individual has acted in good faith.

Business Continuity Plan

In July 2013, Labuan FSA successfully tested the Business Continuity Plan (BCP) through a disaster simulation exercise. Employees were stationed at the standby site and base site to perform their respective roles in the simulation. The simulation was carried out to enhance Labuan FSA's preparedness to respond and reduce the impact of disaster as well as recover and restore Labuan FSA's critical functions within a reasonable period of time. The BCP is crucial towards sustaining the organisation's operational capability during disaster.

TRANSPARENCY

Transparency is the means of holding the organisation accountable to its mandated roles and objectives. The effective manner in which transparency is exhibited will enhance the integrity of the organisation, as its actions and performance could be objectively judged by stakeholders. The Authority recognises that in addressing the need for transparency, its corporate governance framework should be complemented by a balanced disclosure in addition to provisions of a wide range and relevant information. The collaboration on disclosure of information to relevant stakeholders are important to avoid conflict of interest that may compromise the transparency, accountability and integrity of organisation.

As a statutory body, Labuan FSA is subjected to financial as well as management and operational audit by the Auditor-General's Office (AG). Labuan FSA is required to submit its accounts to be audited by the AG every year before the accounts are tabled to Parliament. It is the commitment of Labuan FSA to provide a clear and meaningful assessment of its financial performance, supported by the chairman's statement and audited financial statements. Labuan FSA also ensures that the accounting records disclosed are reported with accuracy for a true and fair view of the financial position and state of affairs of the organisation based on generally accepted accounting principles. The professional relationship with the AG provides an avenue for greater transparency as the relevant reports which are certified by the AG are also published and made available to the public.

At the industry level, Labuan FSA continued to uphold transparency and maintained its consultative approach with the industry players on issues and developments relating to the IBFC business. Bilateral meetings with the associations and the council members of the Labuan banks, Labuan investment banks, Labuan insurance and insurance related companies, and Labuan trust companies were conducted during the year on quarterly and half yearly basis. Regular engagements, both formal and informal had facilitated greater understanding of the business requirements and served as an effective platform for greater collaboration and good rapport between Labuan FSA and the industry players. Furthermore, Labuan FSA had maintained its active participation in meetings of the International Islamic Financial Market and Malaysian Islamic Financial Centre, in consistent with its efforts to elevate the development of Islamic finance in Labuan IBFC and Malaysia as a whole.

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

As the roles and functions of Labuan FSA continues to expand amidst a more challenging business environment, there is a compelling need for strategic and integrated responses by Labuan FSA to ensure that its corporate governance remains relevant and effective to achieve the mandated objectives.

Industry Performance of Labuan IBFC

PART 01

PART 02

Part 01 Business Overview

MARKET OVERVIEW OF LABUAN IBFC

Labuan IBFC continued to show encouraging growth in the number of financial institutions and their business activities in 2013. This is evident in the insurance, leasing, foundation and Labuan international commodity trading business. The ease of establishing business in Labuan IBFC through an efficient licensing and application process, coupled with facilitative regulatory regime and conducive tax framework have attracted strong domestic and international investors' interest in these sectors.

The increase in business establishments is the result of constant efforts by the Labuan FSA to further enhance the centre's competiveness through an improved business delivery system and favourable business environment. The efficient licensing processes enabled the Authority to meet the growing interest from new investors and industry players, without compromising its commitments and obligations to ensure only genuine entities and individuals are allowed to establish and operate their business in Labuan IBFC. As the global investing communities continue to focus their attention towards Asia, Labuan FSA remains vigilant of the challenges that international flows may bring, requiring appropriate steps to be taken in monitoring the dynamics of market externalities and ensuring that Labuan IBFC remains as a sound and robust financial centre for Asia, with a wide international and regional linkages.

LABUAN TRUST COMPANIES AND LABUAN COMPANIES

Market Development

The growing pace of Asia's economies coupled with the unique mid-shore business features provided through Labuan IBFC have attracted multinational corporations across the globe onto its shores. With the increased business growth, the demand for trust company services for the incorporation or registration of companies has been on an increasing trend.

The Labuan trust companies are highly capable in offering professional services ranging from trusteeships, secretarial and administrative services to business structure solutions. They have also been continuously enhancing themselves to stay ahead of the curve in offering cost-effective solutions, processes, and facilities within an operating environment that demands high integrity standards and level of professionalism.

Sector Development

Labuan Trust Companies

During the year, Labuan FSA had granted licence to a full-fledged trust company and revoked the licence of another. The revocation was due to breach of provisions under the Labuan Financial Services and Securities Act 2010 (LFSSA). This brought the total number of approved trust companies to 37 (2012: 37), which comprised 28 full-fledged, eight managed trust companies and one private trust company.

The Labuan trust companies reported an increase of 10.6% in the total operating income to USD21.8 million (2012: USD19.7 million) with an improvement in profit before tax by 9.6% to USD7.2 million (2012: USD6.6 million).

Labuan Companies

In 2013, the total number of Labuan companies had surpassed the 10,000th mark. The annual growth of Labuan companies including Labuan pre-incorporated companies and Labuan protected cell companies maintained its double digit growth rate of 11.0% (2012: 10.6%) with a total of 865 new registrations compared to 779 in the previous year. This resulted in a 9.1% growth in the total number of Labuan companies from 9,487 in 2012 to 10,352 as at the end of 2013.

The Labuan companies registered in Labuan IBFC originated from more than 100 countries. In terms of segregation by region, 58.8% (2012: 57.7%) of the operating Labuan companies originated from South East Asia and Pacific region, largely from Malaysia, Indonesia, Singapore, Australia and Thailand. This was followed by Europe with 12.0% (2012: 13.3%) where the investors were mainly from United Kingdom, Netherlands, Germany, Ireland, France and Switzerland. The Far East region contributed to 11.8% (2012: 13.0%) with investors from Hong Kong, Taiwan and Japan. The remaining investors were from United States of America with 10.0% (2012: 9.7%) share and the Middle East and Africa reflecting 7.4% (2012: 6.3%) composition.

Guidelines Issued

As part of the initiative to ensure company incorporation via trust companies remained facilitative, a revised Guidelines on Incorporation of Labuan Pre-Incorporated Company was issued in 2013. The revised Guidelines was intended to further clarify the processes and operational requirements of Labuan Pre-Incorporated Companies (LPC) specifically with regard to its fee structure, whereby the LPC is exempted from paying annual fee of USD800 or

RM2,600 for a maximum period of two years. This incentive was aimed to further improve the business propositions of Labuan IBFC by allowing Labuan trust companies to pre-incorporate Labuan companies and offer to investors who are keen in establishing companies in Labuan in an expeditious manner.

During the year, Guidelines on The Establishment of Labuan Protected Cell Companies was also issued to the industry. It clarified the procedures and regulatory requirements for the establishment of Labuan Protected Cell Companies (PCC). A PCC is a single company consisting of a core and a number of cells. Each cell has separate assets and liabilities attributed to it where its assets are legally protected from being used to meet the liabilities of the other cells. The permitted scope of business for Labuan PCC includes insurance/captive insurance and general takaful/captive takaful as well as mutual fund/islamic mutual fund.

In 2013, Labuan FSA continued its efforts to enhance the competency and professionalism of Labuan trust companies by reviewing the examination matrix and questions for Labuan trust officers aimed at upgrading their skills to perform in a more competitive globalised environment.

Supervisory and Regulatory Oversight

During the year, supervisory activities for trust companies were focused on off-site surveillance and monitoring. The trust companies' activities, financial performance and conditions were reviewed through the statistical submissions, audited financial statements, engagements with the board, management and internal auditors as well as issuance of questionnaires on specific areas of concern. The risk profiles established from the supervisory activities were used to determine the type and extent of supervisory intervention for each individual trust company.

In addition to off-site surveillance and monitoring, thematic on-site examinations in the area of Anti-Money Laundering/Counter Financing of Terrorism (AML/CFT) were conducted on six trust companies. The main areas of the assessments covered the adequacy of the AML/CFT framework and the effectiveness of implementation measures. Several key areas of improvements were identified, which included the adequacies of policies and procedures, board and management oversight, training and awareness programmes for employees and due diligence conducted on clients. With regard to due diligence, particular enhancements were required on customers' risk profiling, due diligence on beneficial owners, assessment on sources of funds and enhanced due diligence on high risk clients.

From the supervisory activities conducted, instances of non-compliances with regulatory requirements were discovered. Based on the severity of the non-compliances, Labuan FSA had taken various enforcement actions throughout the year, which included issuance of reprimand and show cause letters, removal of a trust officer and also a revocation of licence.

In general, the industry financial footing remained sound during the year, with shareholders' funds improving to USD23.0 million as at 31 December 2013, an increase of 12.2% from the previous year.


CONNECTING THROUGH

As much as half of the world's capital is estimated to flow through international business and financial centres, making

banking

activities the most important in these centres. Labuan banks are in the business of providing wide host of financial services to international customers and investors including credit facilities, receiving deposits, building credit business and money broking amongst others.

LABUAN BANKS

Market Development

The international financial system remained resilient as past economic headwinds dissipated in the final quarter of 2013. Despite the volatility of the financial markets, Asian banking systems were in favourable conditions with banks remaining profitable and well-capitalised with low non-performing loan ratio. The regulatory environment remains challenging for Asian banks as increasingly stringent capital requirements could potentially limit banks' balance sheet growth in the years ahead. Liquidity or funding also remained an issue for banks, where funding markets in Asia may be less developed than that in other regions.

Following the global financial crisis, regulations have been reviewed to further enhance the safety and stability of financial institutions and the financial system. Regulatory authorities are also taking into account the uncertainties in the implementation and development of regulatory reforms.

Sector Development

In 2013, the total number of Labuan banks in operation was 59, comprising 43 banks and 16 investment banks, of which three were Islamic banks and another three were Islamic investment banks. During the year, two reputable and well-known banks from Malaysia and Pakistan established their branches in Labuan. Nevertheless, two banks surrendered their licenses in 2013 due to a strategic decision and group restructuring exercise undertaken at their home jurisdiction.

The total assets of Labuan banks increased by 1.4% to USD42.7 billion in 2013 (2012: USD42.1 billion), mainly due to increases in loans and advances. Islamic assets contributed USD2.3 billion (2012: USD2.3 billion) of the total assets for the year.

As in the previous year, the main sources of funding for Labuan banking industry were borrowings from head offices and other financial institutions, comprising 65.2% of the total funding. The total loans and advances rose 5.9% to USD27.7 billion in 2013 of which 60.2% was granted to non-residents. Total Islamic financing also increased by 46.8% to USD775.6 million (2012: USD528.5 million), accounting for 2.8% share against the total loans of the industry. Majority of the Islamic financing was granted to non-residents. During the year, the total deposits also grew by 3.2% to USD10.7 billion (2012: USD10.4 billion) and deposits from non-residents continued to constitute the major portion, which accounted for 63.9% of the total deposits. Total Islamic deposits generated by the Labuan Islamic banks (including conventional banks with Islamic windows) accounted for 2.1% share against the total deposits of the industry.

In terms of distribution of loans, the financing, insurance and business sector accounted for the highest proportion amounted to USD5.1 billion (2012: USD5.7 billion) of the total industry loans, followed by the transport, storage and communications sector and the mining and quarrying sector.

During the year, profit before tax of the Labuan banking industry reduced by 11.8% to USD571.0 million (2012: USD647.6 million). Consequently, return on assets also declined to 1.3% from 1.5% in 2012.

Supervisory and Regulatory Oversight

In ensuring the safety and soundness of the financial system within Labuan IBFC, supervisory activities covering banking institutions are continuously being carried out through on-site inspections, off-site reviews, regular supervisory engagements with the management and board of the concerned institutions, regular engagements with external and internal auditors, as well as with the home regulators under the home-host supervisory cooperation arrangements. Greater cross-border network on home-host supervisory cooperation was enhanced through an MoU signed with the Financial Supervisory Commission of Taiwan in 2013.

As part of Labuan FSA's preparation towards the forthcoming Mutual Evaluation Exercise on Malaysia's (including Labuan) Anti-Money Laundering/Counter Financing of Terrorism (AML/CFT) regime which will be carried out by the Asia Pacific Group (APG), thematic inspections focusing on AML/CFT were conducted on six banks during the first half of 2013. Labuan banks were also required to complete self-assessment questionnaires on AML/CFT as well as submitting to Labuan FSA independent audit assessments on AML/CFT.

As part of the on-going off-site monitoring, all banks were risk-profiled, whereby supervisory engagements and interventions were based on the risk ratings of each institution. Specifically, six banks had been identified to have supervisory concerns. The main concerns of these institutions include being under the United Nation (UN) and United States sanctions, issues relating to minimum capital requirements, corporate governance practices, risk management and internal control. A bank under the UN sanction had its licence suspended since 2010. Frequent engagements were held with the senior managements and directors of these institutions to ensure that the issues of concerns are appropriately addressed.

Overall in 2013, the banking sector remained strong with good quality assets, sufficient liquidity and was well-capitalised collectively. The industry's total capital risk weighted capital adequacy ratio was 23.1%, while core capital ratio stood at 23.0%. Based on a 3-month classification, gross non-performing loan and net non-performing loan remained low at 1.5% and 0.8%, respectively.

Guidelines Issued

One of the key lessons drawn from the global financial crisis was that bank failures could arise from overconcentration of exposures to individual counterparties. To address this, increased regulations on such large exposures are needed so as to ensure that banks appropriately manage their concentration risks within their financial capacity and do not materially impair the banks' solvency standing due to any adverse eventuality.

In this regard, Labuan FSA had revised the Guidelines on Single Counterparty Exposure Limit for Labuan Banks in 2013. The revision was necessary to strengthen the existing back stop measures to sufficiently address exposures to not just those emanating from single counterparty but also connected counterparties. In essence, new requirements introduced include clarification on the scope and treatment of exposures applicable to a single counterparty, providing clear parameters for identifying connected counterparties, as well as Labuan FSA's expectations with regard to the enforcement of the Guidelines.

CONNECTING THROUGH

Labuan IBFC is home to more than 200 licensed insurance and insurance-related entities and boasts a substantial retrocession market. Aside from Reinsurance and Retakaful, Labuan IBFC also offers a wide range of risk management structures, such as captives and protected cell companies. The increase in the diversity of players further enhances the centre's ability to serve the

insurance

needs of the growing economies in the Asia Pacific region.

LABUAN INSURANCE

Market Development

Asian (re)insurance market continued to show its growth potential with the establishment of more Asia-based reinsurers. The encouraging business trend in Asia can be seen as a corollary development to address the increasing economic losses due to natural and man-made catastrophes around the region which leads to increasing insurance penetration and reinsurance coverage. In fact, the Asian catastrophes for 2013 had caused the largest economic losses in monetary terms compared to other regions and constituted almost half of the global total.

Albeit the frequency and severity of regional catastrophes, the increased losses had not significantly impacted the financial standing of the non-life industry. The Asian non-life (re)insurers were able to withstand the higher claims experience via maintenance of adequate capital buffer and prudent reserving level. The catastrophe-claim experience had also led to better risk management practices amongst the industry players via review of their business portfolio to manage any concentration risks as well as the adoption of sophisticated catastrophe-modeling for a more prudent underwriting with sufficient financial buffer.

On the regulatory front, efforts have been made to enhance the overall financial resilience and risk management capabilities of (re)insurers to absorb losses arising from unforeseen business volatilities. The prudential regulations have had positive spillover effects on the non-life business due to increased demand for reinsurance capacities in Asia by direct insurers as part of their risk and capital management, as well as business strategisation. With higher sectoral stability promoted by the stronger regulatory requirements in tandem with higher demands for (re)insurance protection, it is expected that the Asian (re)insurance industry including Labuan's will continue to experience a favourable growth trajectory going forward.

Sector Development

For the year 2013, 19 approvals were granted to insurance and insurance-related entities comprising four reinsurers, three retakaful operators, three insurers, four captives and five brokers. However, nine insurance and insurance-related entities surrendered their licences either due to strategic or business decisions. As a result, the number of approved Labuan insurance and insurance-related entities had increased to 213 (2012: 203) which included new takaful and retakaful operators.

This year witnessed the establishment of international renowned (re)insurers in Labuan IBFC. In support of its steady expansion and diversification plan in Asian market, a Middle East reinsurer has set up its first overseas branch in Labuan IBFC. Notably, the increase in number of retakaful operators in Labuan IBFC was due to the entrance of a reinsurer from the United States and a retakaful operator from Bahrain, which were set up to carry on Labuan general and family retakaful business.

In terms of operation of the Labuan insurance industry, the total capitalisation of the industry has dropped slightly by 2.2% to USD722.9 million (2012: USD739.0 million) attributable to the surrender of the nine licences. Total shareholding of Labuan insurance industry was still dominated by foreign entities which accounted for 71.3% (2012: 73.4%).

As at the end of 2013, the total assets recorded for Labuan insurance entities decreased by 3.2% to USD4.2 billion (2012: USD4.4 billion). Fixed deposits and money market instruments remained as the largest portion of total assets representing 33.8% or USD1.4 billion. Similar to previous years, the composition of assets of Labuan insurers remained stable with the largest allocation in fixed deposits.

The total gross premiums written by the Labuan general (re)insurers as at 31 December 2013 reduced by 6.2% to USD1.6 billion (2012: USD1.7 billion). Non-resident business contributed a higher share of 53.1% (2012: 53.9%) as compared to resident business. Fire sector continued to contribute the highest share in the market of 36.0% (2012: 38.6%) while the engineering sector recorded an increase of 27.7% in premium written by Labuan general (re)insurers. The total gross contributions generated by Labuan takaful and retakaful (including the retakaful windows) recorded a total of USD136.9 million (2012: USD390.1 million) with non-resident business remained as the major contributor at 87.4% (2012: 75.7%).

The overall net retention ratio for the industry was lower at 65.7% (2012: 70.6%), mainly due to a decrease in retention in fire, marine and motor sectors. Nevertheless, motor sector maintained the highest net retention of 97.3% (2012: 98.3%). Meanwhile, the earned premium recorded a decrease of 12.5% to USD1.1 billion (2012: USD1.3 billion). The ratio of net claims incurred to earned premium income (gross premium less cessions and reserves for unexpired risks) decreased from 57.0% in 2012 to 47.4% in 2013. The decrease in net claims incurred resulted in an increased underwriting margin by 44.6% amounting to USD277.5 million (2012: USD191.9 million).

The year under review showed an increase in investment-linked insurance products underwritten with a total of 195 policies issued during the year (2012: 166). In terms of top line revenue, this translated to USD3.7 million worth of premiums compared to USD2.9 million in 2012.

In terms of captive insurance business, four new captives were approved. However, four captive insurers surrendered their licences, including one which had converted its licence to an insurer's. This maintained the total number of captive insurers at 41 as recorded in 2012. Captive business recorded total gross premiums of USD437.5 million in 2013, an increase of 33.8% compared to USD327.1 million in 2012. The increase was mainly due to the risks underwritten in engineering sector.

For Labuan insurance brokers, the total premium processed increased by 4.9% to USD964.3 million (2012: USD919.2 million), out of which, 87.3% (2012: 87.1%) was derived from general insurance business. The general insurance premiums transacted by Labuan insurance brokers were for reinsurance cessions placed with Malaysian insurers (32.4%), overseas (40.7%) as well as Labuan insurers (14.3%). For life insurance business, 12.2% or USD117.3 million (2012: USD115.3 million) was derived from direct business placed with overseas insurers. The total amount of brokerage fees earned by the Labuan insurance broking sector increased by 9.3% to USD75.0 million (2012: USD68.6 million). The brokerage fee earned from the general insurance business comprised 85.6% of the total brokerage income, consistent with the higher proportion of general insurance premiums processed during the year.

Supervisory and Regulatory Oversight

During the year, supervisory activities for Labuan insurance and insurance-related companies were focused on off-site surveillance and monitoring while on-site examinations were focused on one large reinsurer as well as six thematic inspections, in the area of Anti-Money Laundering/Counter Financing Terrorism (AML/CFT).

The off-site surveillance activities conducted in 2013 discovered instances of non-compliances with regulatory requirements, particularly on failures to comply with the requirement of maintaining the minimum capital requirement by the insurance-related companies and the minimum margin of solvency by the insurers as stipulated under the Labuan Financial Services and Securities Act 2010 and relevant guidelines. Based on the severity of the non-compliances, Labuan FSA had taken various enforcement actions against 13 insurance brokers, one captive, one reinsurer and one direct insurer, which included issuance of reprimand, directives and show cause letters, restriction of business and imposition of administrative penalties or compound as well as other supervisory interventions.

During the first half of the year, thematic inspections on AML/CFT were conducted on three Labuan insurers and three brokers. The main areas of the assessments were on the adequacy of the AML/CFT framework and the effectiveness of implementation measures. Several key areas of improvements were identified, which include the inadequacy of policies and procedures, board and management weak oversight, lack of training and awareness programmes for employees and inadequacy of due diligence conducted on clients, particularly on customers' risk profiling, due diligence on beneficial owners, assessment on sources of funds and enhanced due diligence of high risk clients.

In 2013, Labuan FSA had also signed a Memorandum of Understanding on Cooperation and Mutual Assistance with the Comite General Des Assurances of Tunisia to foster a closer relationship in strengthening cross-border cooperation including supervisory enforcement and exchange of information. Closer engagements and coordination between Labuan FSA and other domestic and regional regulators would further enhance the state of readiness to manage the more difficult operating environment towards preserving financial system stability.

In general, the corporate governance of the insurance industry as a whole, including board and senior management oversight functions as well as risk management systems had improved significantly over the years. In terms of financial stability, the insurance sector was able to maintain a comfortable solvency position and positive financial performance in 2013 despite facing increasingly challenging business environment. This is evident by the sector's strong margin of solvency of 5.2 times above the minimum required level and registered a profit before tax of USD263.3 million.

Labuan FSA anticipates the prospects for further long-term growth of the insurance sector in Labuan would continue to remain positive in line with the region's business growth. In order to face future challenges, the Labuan insurers need to continuously review its strategies to manage increasing competition from other international insurers while ensuring that their operations are sufficiently resilient to weather the adverse market conditions. This effort includes continuous strengthening of their underwriting practices and risk management capabilities in tandem with the market's.

Guidelines Issued

The year 2013 marked another important milestone for Labuan FSA in elevating the regulatory framework for the insurance industry in Labuan IBFC. In particular, Labuan FSA had revised the Guidelines on General Reinsurance Arrangements which came into effect on 1 April 2013. The review was intended to promote the development of a sound, matured and dynamic reinsurance market in Labuan IBFC in tandem with the positive regional and global insurance business trend. Shaped by the objective of becoming a reinsurance and retakaful centre in the region, it is imperative that the relevant regulations in Labuan IBFC are on par with the international standards and best practices.

Premised by such benchmarking, the review entailed reinforced monitoring and controls over the reinsurance arrangements of ceding (re)insurers and (re)takaful operators which involve the need for a robust assessment on reinsurance counterparties. To ensure the viability of the prudential requirements, the Guidelines accord certain flexibilities whereby Labuan (re)insurers and (re)takaful operators may operate within permitted parameters as approved by their boards of directors.

LABUAN FUND MANAGEMENT/ CAPITAL MARKETS

Market Development

The positive economic climate and the rise in middle class has driven the fund management industry in the Asia-Pacific region. Over the years, countries in the Asia-Pacific region have anticipated economic growth, especially China and Japan. Within the region, there are many developing economies with a need for investment to fund the expected significant GDP growth. There are also economies, such as Japan, that have established pension systems and high rates of savings with large amounts of investable funds. These economic features make the Asian market very attractive to investors and fund management companies. Moreover, Asia-Pacific's middle class has grown dramatically relative to other regions in recent years. An increasing middle class presents a huge opportunity for the region and has also contributed to the growth in savings pools within the region and in turn, demand for fund management services.

Labuan IBFC is one of the jurisdictions in Asia-Pacific region that offers fund management services. There are many advantages of setting-up a fund in Labuan. Under the new Labuan Financial Services and Securities Act 2010 (LFSSA), the fund and asset management sectors allow the structuring of mutual funds in the form of companies, partnerships or unit trusts, a protected cell company, or a foundation. Labuan funds support multi structures, i.e. the fund can be in multi-currencies, investing in multi-risk instruments, investors with multi-risk classes, multi-fees and so on. Moreover, Labuan FSA provides a hassle-free entry for fund management companies. Furthermore, with the growing interest in Shariah compliant financial instruments, Labuan Islamic funds offer attractive business opportunities for international players to structure Islamic funds in the centre.

Sector Development

During the year, eight notifications on the establishment of private funds were submitted to Labuan FSA, bringing the total number of private funds to 59 (2012: 51) while the total cumulative fund size increased by 9.8% to USD12.0 billion (2012: USD11.0 billion). One registered public fund was revoked due to its failure to pay annual licence fee, which was in breach of the provision under the LFSSA.

For the year 2013, two fund management companies surrendered their licences due to business decision by the shareholders whilst two fund management licences were revoked due to failure to pay annual licence fees. As a result, the total number of fund management companies declined to eight as at 31 December 2013 (2012: 12).

Guidelines Issued

A revised Guidelines on the Establishment of Labuan Mutual Funds including Islamic Mutual Funds was issued in 2013. The revision of the Guidelines was aimed at ensuring its alignment with international practices and requirements.

In addition, several enhancements have been incorporated for investors' protection. The information memorandum/ prospectus of Labuan mutual funds shall provide full, true and plain disclosure of all facts and circumstances that would facilitate a reasonable assessment by a prospective investor in determining whether to purchase or subscribe to the mutual funds.

Supervisory and Regulatory Oversight

The activities undertaken by the fund managers during the year remained limited and did not pose significant financial stability risk to Labuan IBFC. The fund managers' activities and financial performance were monitored through the analysis of statistical data and audited financial statements submitted to Labuan FSA. In addition, supervisory engagements were held with identified fund managers to discuss on areas of risk and improvements as well as business performance. During the year, fund managers which breached the regulatory requirements were placed under close monitoring. These fund managers had been reprimanded and penalties were imposed on the non-compliances committed.

During the year, Labuan FSA had signed MoUs for mutual assistance in supervisory cooperation with the European Securities and Markets Authority and also with The Emirates Securities Commodities Authority of the United Arab Emirates.

Labuan Securities Licensee

The year 2013 was notable for the Labuan capital market as the first few securities licensees were licensed in Labuan IBFC. During the year, four approvals were granted to carry on business as a securities licensee (2012: nil). Securities licensee refers to a person who provides investment advice or administrative services in respect of securities for the purpose of investment and dealing in securities. The permitted activities are categorised into three main activities, namely providing investment advices, administrative services in respect of securities for the purposes of investment and dealings in securities. The permitted activities of a Labuan securities licensee are distinguished from a Labuan fund manager, whereby the latter also includes the carrying of fund management services. In addition, a Labuan securities licensee is not allowed to hold clients' monies/assets.

Guidelines Issued

The year under review saw the issuance of The Guidelines on The Establishment Of Labuan Securities Licensee including Islamic Securities Licensee to serve as a guidance to clarify the application procedure, operational and regulatory requirements for Labuan securities licensee. The Guidelines sets out market conduct and practice standards that should be observed by Labuan securities licensees to enhance market integrity and investors' confidence.

Labuan International Financial Exchange

Labuan International Financial Exchange (LFX) recorded three new listings in 2013. Notwithstanding this, three existing instruments were delisted from LFX upon reaching maturity, maintaining the total number of active listings at 32 (2012: 32). The market capitalisation of LFX increased by 19.3% to USD23.5 billion (2012: USD19.7 billion) with Islamic instruments making up 28.8% or USD6.8 billion of the total market capitalisation of LFX (2012: 34.7% or USD6.8 billion). The three new instruments listed on the LFX were:

- Guaranteed Notes – Due 2022, USD1.8 billion by 1MDB Energy Limited
- Guaranteed Notes – Due 2023, USD3.0 billion by 1MDB Global Investment Limited
- Exchangeable Trust Certificates – Due 2019, SGD600 million by Indah Capital Ltd


CONNECTING THROUGH

As one of the most vibrant sectors in Labuan due to its advantages in terms of low start-up costs, existence of a broad range of products, service providers, regulatory framework and facilitative tax structure, Labuan's

leasing

environment spearheads the growth of the sector by providing unparalleled value to investors that choose to do business on its shores.

OTHER LABUAN BUSINESS

Labuan Leasing

Market Development

The global asset leasing activity is slowly improving from the lows of 2012, mainly due to higher leasing turnover in the U.S. and London market. Nonetheless, leasing activity in Asia continued to be vibrant, mainly driven by the growth in the aviation as well as the oil and gas industry. The aviation industry is forecasted to be a growing industry in Asia especially China. Aircraft leasing has become an extremely important source of funding for the aviation industry. This presented attractive opportunities to global leasing industry as demand for aircrafts is on an increasing trend, is complemented with corresponding growth for lease financing. In addition, the oil and gas industry also has a positive outlook with increasing number of oil and gas projects in the Asian region. In view of this market potential, leasing business has tremendous growth potential with Labuan IBFC favourably poised as a conductive platform to offer these structures.

Sector Development

Leasing continued to be a growth sector in Labuan IBFC as demonstrated by the increasing number of new leasing entries in the year 2013. A total of 72 new companies were approved to carry on leasing business, while 14 leasing companies had ceased its operations due to, among others, completion of lease dealings. Combining the licence movements, the total number of Labuan leasing companies increased to 312 (2012: 257).

In terms of geographical distribution, the majority of leasing companies in Labuan were originated from the South East Asia and the Pacific region, followed by the America and Caribbean region, Europe, Far East as well as Middle East and African region. Majority of the leasing companies were established to facilitate inter-company leasing transactions for the provision of offshore support services to complement the growth in the oil and gas industry activities in the Asian region. Apart from that, Labuan IBFC also continued to be the international aircraft leasing hub for aviation sector to facilitate the purchase and leasing of aircrafts. As a result, the cumulative amount of assets leased registered an increase of 17.6% to USD38.1 billion (2012: USD32.4 billion).

Guidelines Issued

During 2013, the Guidelines on the Establishment and Operations of Labuan Leasing Business was revised in order to ensure that the licensing and operational requirements under the guidelines were in tandem with the amendments to the legislation. Labuan FSA had also issued a clarification note on several requirements specified under the Guidelines during year to elucidate on its implementation.

The revised guidelines imposed substance-related requirements such as the requirement to open a bank account in Labuan or Malaysia and stamp duty compliance on leasing agreements, the maintenance of adequate and proper records as well as booking of accounts in Labuan. In addition, to accord flexibility and encourage more leasing business out of Labuan, the restriction on the number of transactions that can be undertaken by a leasing company was removed.

Labuan International Commodity Trading Company

Market Development

Countries in Asia are already consuming around three times more oil than they produce, and consumption is increasing twice as fast in the region as compared with global trends. This trend drives a growing demand for storage and refining of petroleum products as well as the petrochemical businesses in the Asian region to meet the growing needs especially in China, India and Southeast Asia.

In tandem with this development, the Global Incentives For Trading (GIFT) programme had been established to encourage global petroleum trading companies to use Malaysia as a platform to enter the Asian market. Companies that participate in the GIFT programme will register their companies under the Labuan International Commodity Trading Company (LITC) which is administered by Labuan FSA.

Sector Development

During the year, a total of 15 trading companies were licensed to carry on Labuan international commodity trading business under the GIFT Programme, while one approval granted was deemed as null and void due to the applicant's decision not to pursue with its application for a licence. This more than doubled the total number of LITCs approved in Labuan to 23 (2012: 9).

Guidelines Issued

A revised Guidelines on The Establishment Of Labuan International Commodity Trading Company Under The Global Incentives For Trading (GIFT) Programme was issued in 2013. Under the revised guidelines, GIFT companies undertaking petroleum and petroleum-related products including liquefied natural gas and coal trading activities are further incentivised by allowing them to deal with residents in any currency other than Ringgit Malaysia.

CONNECTING THROUGH

In the area of

wealth management

Labuan IBFC offers a comprehensive range of wealth management solutions including foundations and trusts. More than 60% of Labuan foundations originate from the Asia Pacific region, and this bodes well with the positioning of Labuan IBFC as the preferred choice of wealth management centre in this region.

WEALTH MANAGEMENT

Market Development

Over the last few years, the population and wealth of high net-worth individuals (HNWIs) in the Asia-Pacific region has grown significantly, driven by years of economic prosperity and investment gains throughout the region. Based on this trend, Asia-Pacific region is poised to become the largest wealth management market in the world. The combined wealth of HNWI in Asia-Pacific is projected to grow at 9.8% annually to reach an anticipated USD15.9 trillion by 2015. Moreover, Asia-Pacific's HNWIs, excluding Japan, are highly confident in all aspects of the wealth management industry's ability to generate future wealth. In this regard, the rapid growth in the number of HNWIs and investment preferences created a niche market for wealth management in Asia-Pacific. Wealth management tools such as trust and foundation are used for estate planning, investment holding and charitable purposes or to manage private wealth.

Sector Development

For year 2013, a total of 28 new Labuan foundations were registered, bringing the total number of Labuan foundations to 93, an increase of 43.1% (2012: 65) of which 85 were conventional and eight registered as Islamic foundations. Since its introduction in 2010, the foundation framework in Labuan has been able to garner strong interest amongst the HNWIs particularly from the Asia-Pacific region. One of the key advantages of Labuan foundation is that the set up is not limited to charitable purposes. A Labuan foundation has flexible structure to suit the numerous objectives and varied purposes of individuals, families and corporations. Moreover, there is no minimum value of property/asset required for the initial set up of a Labuan foundation. The flexible entry criteria ensures that a foundation is available for all. The Labuan foundation framework also allows for setting up of Islamic foundations where the investing public are gradually realising the investment potential through Islamic instruments. The object, purpose and activity of the Labuan Islamic foundation must be in compliance with Shariah principles, ensuring prudential safeguards.

The Labuan foundations registered in Labuan IBFC originated mainly from Asia-Pacific with 66.0% (2012: 63.0%), Middle East and Africa 17.0% (2012: 20.0%), Europe 10.0% (2012: 9.0%), America 1.0% (2012: 5.0%) and Far East with 6.0% (2012: 3.0%).

Guidelines Issued

A Guidelines on The Establishment Of Labuan Foundation including Islamic Foundation was first issued in 2013 and followed up with a revised guidelines issued in the same year to align with the latest development of the Foreign Exchange Administration policies issued by the Central Bank of Malaysia.

The Guidelines highlighted the requirements and clarifications for the establishment of Labuan foundations. It also enhanced further the governance framework of Labuan charitable foundations especially those soliciting donation from the public. For Malaysian founders, they are free to endow Malaysian properties to a Labuan Foundation upon approval by Labuan FSA.

Guidelines on Compliance Function for Labuan Licensed Entities

The growing intensity of regulatory and legal requirements on financial institutions necessitates for these institutions to develop an effective governance mechanism for the purpose of monitoring and assessing their obligations on ongoing basis. This is achieved via the compliance function as an internal control within a financial institutions' corporate governance framework which augments other controls and risk management practices of the organisation.

Taking cue from the aforementioned regulatory trend, Labuan FSA had issued a new Guidelines on Compliance Function for Labuan Licensed Entities in 2013. Previously, the requirement for all Labuan Entities (LEs) to have a compliance function was confined to the enforcement of AML/CFT requirements via the enforcement of the Circular of Information on Designated Compliance Officer issued in 2003.

The new guidelines was intended to enhance the compliance officer's role to a full-fledge function which oversees all legal and regulatory requirements applicable to an LE as well as monitors adherence to the organisation's own internal policies. By giving greater prominence to the compliance function, it will serve as a reliance mechanism not just within the financial institution concerned but also to Labuan FSA in its supervision of the financial institutions.

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

Malaysia's anti-money laundering and counter-financing of terrorism (AML/CFT) regime, including in Labuan, would undergo the third Asia/Pacific Group (APG) Mutual Evaluation Exercise in August 2014. Malaysia is among the first countries to be assessed based on the new standards and methodology, with focus given on technical compliance and effectiveness assessment under the 40 Financial Action Task Force (FATF) Recommendations and 11 Immediate Outcomes, respectively.

Labuan FSA revised its AML/CFT Guidelines, putting in place the requirements of the FATF 40 recommendations. The revised Guidelines, which came into effect in December 2013 for banking sector, insurance and takaful sector, trust company sector, capital markets and other business sector were based on the principle that reporting institutions must conduct their business in conformity with high ethical standards and safeguard against undertaking any business transaction that is or may be connected with or may facilitate ML/TF. This is to safeguard the integrity and soundness of Labuan IBFC and Malaysian financial system.

Further, the Guidelines incorporated extensive requirements, among others on the obligation of reporting institutions to adopt risk based approach in identifying, assessing, understanding and mitigating the ML/TF risks, customer due diligence and AML/CFT compliance programme. The main emphasis of the guidelines is focused on policies, procedures and controls, roles and responsibilities of board of directors and senior management as well as compliance management arrangements at the head office level apart from training and awareness programme and internal audit function.

During the year 2013, 18 on-site thematic inspections focusing on AML/CFT were conducted on identified banks, insurance and trust companies to assess the level of compliance and adequacy of AML/CFT framework as well as the effectiveness of its implementation measures. In addition, the reporting institutions were also required to complete self assessment questionnaires and conduct the AML/CFT independent assessment to confirm the effectiveness of the policies and procedures that have been put in place to mitigate those ML/TF risks.

In strengthening the monitoring of financial institutions in meeting robust requirements on AML/CFT, relationship and cooperation with the international supervisors and authorities were also enhanced. Besides a series of MoUs signed with various international regulators for cross-border supervisory cooperation network and information exchange, letters were also sent to 17 home supervisors to enquire whether the home supervisors also conduct consolidated supervision including AML/CFT matters.

Following the FATF announcement in July 2013, Labuan FSA had advised all Labuan financial institutions to give special attention by enhancing scrutiny on any business relationships and transactions with any individuals and entities from high risk jurisdictions as identified by FATF.

Labuan FSA had also informed all financial institutions to be cautious in dealing with any sanctioned entities which were listed under the United States Office of Foreign Assets Control or European Union Sanction. Labuan FSA also reminded all financial institutions of the possible ramifications for facilitating financial transactions for or with these or other US sanctioned entities.

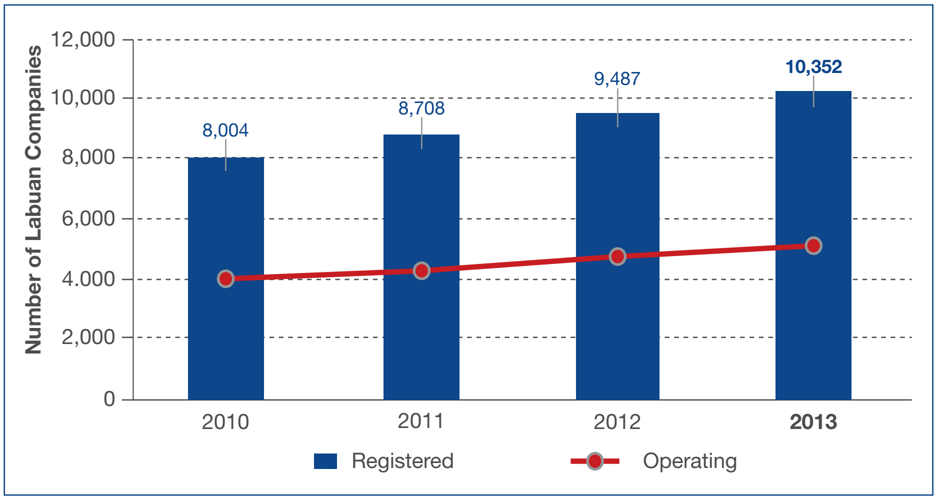
Continuous outreach programmes will be conducted by Labuan FSA with the aim to instill greater awareness on AML/CFT risk and ensure effective AML/CFT implementation by the reporting institutions.

Part 02

Statistical Data by Sectors

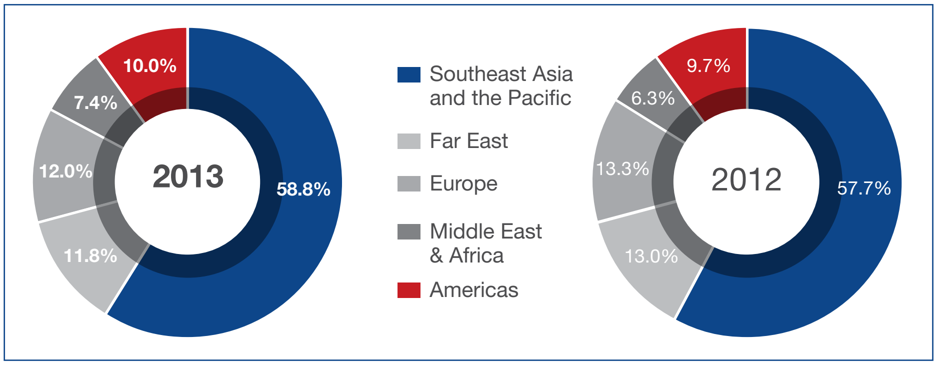
LABUAN COMPANIES

Chart 1: Number of Registered and Operating Companies



- Total companies grew by 9.1% to 10,352 companies.
- 71.0% of the companies are from Asia-Pacific, largely originated from Indonesia, Singapore, Australia, Thailand and Malaysia.

Chart 2: Operating Companies Breakdown by Region



LABUAN TRUST COMPANIES

Table 1: Key Data

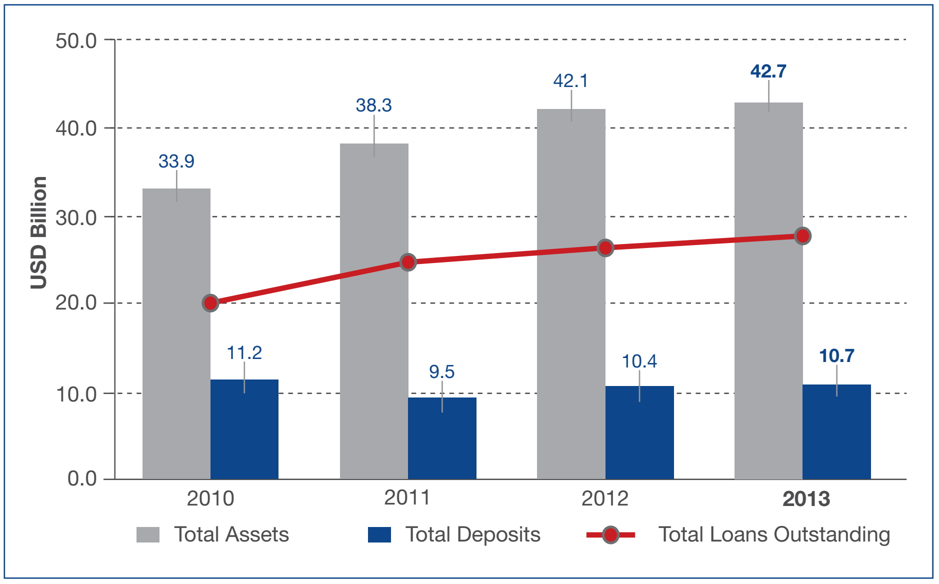
	2011	2012	2013	Annual change (%)
Number of Trust Companies	32	37	**37**	**–**

	USD'000			Annual change (%)
Operating Income	17,554	19,672	**21,762**	**10.6**
Profit Before Tax	4,246	6,571	**7,204**	**9.6**

- The total operating income for the Labuan trust companies increased by 10.6% to USD21.8 million (2012: USD19.7 million).
- The profit before tax recorded an increase of 9.6% amounting to USD7.2 million (2012: USD6.6 million).

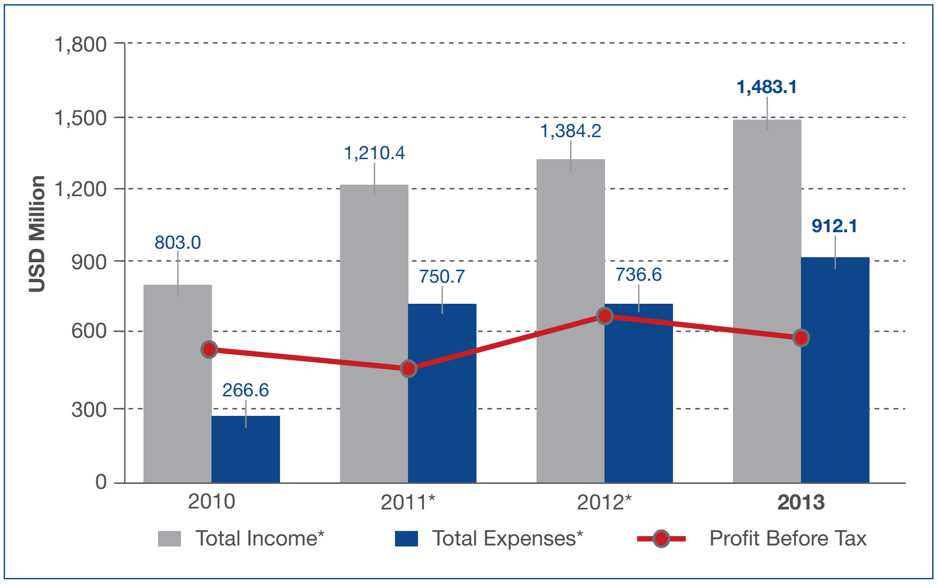
LABUAN BANKS

Chart 1: Total Assets, Total Deposits and Loan Outstanding



- Total asset continued to grow by 1.4% to USD42.7 billion.
- The increase was driven by demand in loans and advances of USD27.7 billion accompanied by increase in deposit to USD10.7 billion
- Overall, the Labuan banking sector remained strong with good quality assets, sufficient liquidity and well capitalised.

Chart 2: Total Income, Total Expenses and Profit Before Tax



* *Restated*

- Total income increased by 7.1% to USD1.5 billion.
- Total expenses increased by 23.8% to USD0.9 billion
- Pre-tax profits decreased to USD571.0 million.

LABUAN BANKS

Table 1: Direction of Lending by Sectors

Loans by Sectors	2011*	2012	2013	2013 Change (%)	2013 Share (%)
	USD Million				
Agriculture, Hunting, Forestry and Fishing	1,670.0	2,333.8	2,321.0	-0.6	8.4
Mining and Quarrying	2,379.7	3,058.7	4,455.8	45.7	16.1
Manufacturing	2,514.4	2,168.1	2,400.2	10.7	8.7
Electricity, Gas and Water	1,665.5	1,997.4	1,925.7	-3.6	6.9
Property of which:					
Real Estate	1,016.5	1,519.5	1,639.2	7.9	5.9
Construction	642.6	642.2	765.6	19.2	2.8
Housing	134.9	113.5	89.5	-21.1	0.3
Wholesale and Retail Trade and Restaurants and Hotels	363.0	845.0	843.4	-0.2	3.0
Transport, Storage and Communications	5,055.3	4,480.0	5,107.1	14.0	18.4
Financing, Insurance and Business Services	6,089.5	5,651.6	5,115.8	-9.5	18.4
Other Services	113.8	87.8	134.6	53.3	0.5
Miscellaneous	3,041.7	3,306.1	2,944.5	-10.9	10.6
Total	**24,686.8**	**26,203.8**	**27,742.4**	**5.9**	**100.0**

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

* *Restated*

- Strong demand of loans recorded in other services sector which increased by 53.3% (2012: -22.8%) followed by the mining and quarrying sector.
- Financing, Insurance and Business services sector and Transport, Storage and Communications sector remained the two major sectors funded by the Labuan banks.

Table 2: Sources and Uses of Funds

	2011	2012	2013	2013 Change (%)	2013 Share (%)
	USD Million				
Sources:					
Deposits	9,468.7	10,406.9	10,743.6	3.2	25.2
Amount due to financial Institution/ Interbank borrowing	25,138.9	27,322.2	27,820.1	1.8	65.2
Others	3,736.0	4,384.2	4,126.3	(5.9)	9.7
Total	**38,343.6**	**42,113.3**	**42,690.1**	**1.4**	**100.0**
Uses:					
Cash and Short-term Funds	1,781.6	1,598.7	1,192.3	(25.4)	2.8
Balances due from Head Office and Branches Outside Malaysia	6,999.0	7,884.9	7,428.8	(5.8)	17.4
Investments	3,002.0	4,100.7	4,430.1	(8.0)	10.4
Loans and Advances	24,686.8	26,203.7	27,742.4	5.9	65.0
Fixed Assets	6.2	7.7	7.5	(1.8)	0.0
Others	1,868.0	2,317.6	1,899.0	(18.5)	4.4
Total	**38,343.6**	**42,113.3**	**42,690.1**	**1.4**	**100.0**

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

- Loan and advances were mainly funded from head offices or interbank borrowings which accounted for 65.2% or USD27.8 billion.

LABUAN BANKS

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

	2011*	2012	2013	Change (%)
	USD Million			
Total Deposits	**9,468.7**	**10,406.9**	**10,743.6**	**3.2**
Residents*	2,932.1	4,159.1	**3,883.4**	**(6.6)**
% share	*31.0*	*40.0*	***36.1***	–
Non-Residents*	6,536.6	6,247.8	**6,860.3**	**9.8**
% share	*69.0*	*60.0*	***63.9***	–
Total Loans Outstanding	**24,686.8**	**26,203.8**	**27,742.4**	**5.9**
Residents	8,938.7	10,327.9	**11,050.6**	**7.0**
% share	*36.2*	*39.4*	***39.8***	–
Non-Residents	15,748.1	15,875.8	**16,691.7**	**5.1**
% share	*63.8*	*60.6*	***60.2***	–

* *Restated*

- The total deposits increased by 3.2% to USD10.7 billion (2012: USD10.4 billion).
- Majority of the deposits were from non-residents which accounted for 63.9% or USD6.9 billion (2012: 60.0% or USD6.2 billion).
- The total loans outstanding increased by 5.9% to USD27.7 billion (2012: USD26.2 billion).
- Non-residents made up 60.2% of the overall total loans outstanding (2012: 60.6%).

LABUAN INSURANCE

Table 1: Growth

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

- Out of these licencees, there are one takaful, seven retakaful, 15 windows of insurance/reinsurance entities and 13 retakaful windows of general reinsurance brokers operating in Labuan IBFC.

Table 2: Total Capitalisation

	2011		2012		2013	
Held By	USD'000	Share (%)	USD'000	Share (%)	USD'000	Share (%)
Malaysian	197,099	30.8	196,907	26.6	**207,196**	**28.7**
Others	443,753	69.2	542,132	73.4	**515,671**	**71.3**
Total	**640,853**	**100.0**	**739,039**	**100.0**	**722,867**	**100.0**

- The total capitalisation of the industry slightly decreased by 2.2% equivalent to USD722.9 million (2012: USD739.0 million) with total foreign shareholdings at 71.3% (2012: 73.4%).

Table 3: Total Assets

	2011		2012		2013	
	USD'000	Share (%)	USD'000	Share (%)	USD'000	Share (%)
Fixed Assets	36,624	1.0	53,084	1.2	**59,315**	**1.4**
Due from Ceding/Related Companies	570,910	15.6	625,022	14.3	**620,860**	**14.7**
Fixed Deposits/ Money Market	1,202,442	32.9	1,530,408	35.0	**1,431,653**	**33.8**
Cash and Bank Balances	378,504	10.4	496,877	11.4	**462,239**	**10.9**
Investments	632,740	17.3	694,363	15.9	**777,020**	**18.4**
Others	828,805	22.7	972,587	22.2	**879,276**	**20.8**
Total	**3,650,025**	**100.0**	**4,372,341**	**100.0**	**4,230,361**	**100.0**

- The total assets recorded for Labuan insurance entities for the year 2013 decreased by 3.2% to USD4.2 billion (2012: USD4.4 billion).
- Fixed deposits and money market instruments contributed the largest proportion of 33.8% or USD1.4 billion of the total asset base.
- Similarly as in previous year, the composition of assets allocation by the Labuan insurers reflected the risk aversion appetite due to the uncertainty of the global market.

LABUAN INSURANCE

Chart 1: Total Assets and Number of Insurance and Insurance-Related Licences

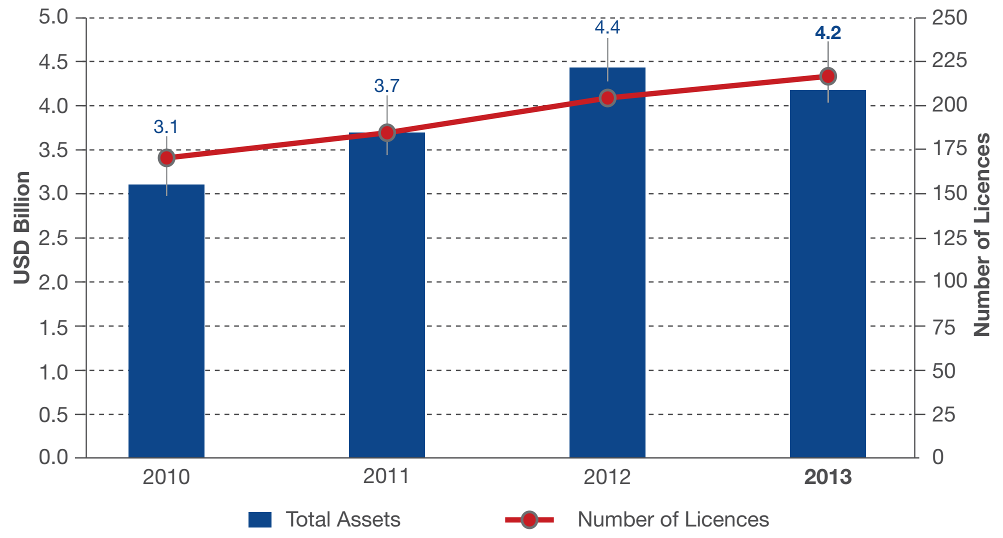


Table 4: Distribution of Gross Premiums

Year	Total Malaysian	Others	Fire	Marine	Engineering	Motor	Other Classes	Total
				USD'000				
2011	808,113	767,298	561,902	204,623	310,398	190,954	307,534	**1,575,411**
2012	801,300	937,229	671,552	200,582	309,263	164,136	392,996	**1,738,529**
2013	764,251	866,408	587,484	162,491	395,040	110,523	375,121	**1,630,659**
				Change (%)				
2011	42.4	20.4	9.5	40.4	31.7	99.1	43.5	**30.8**
2012	(0.8)	22.1	19.5	(2.0)	(0.4)	(14.0)	27.8	**10.4**
2013	(4.6)	(7.6)	(12.5)	(19.0)	27.7	(32.7)	(4.5)	**(6.2)**
				Share (%)				
2011	51.3	48.7	35.7	13.0	19.7	12.1	19.5	**100.0**
2012	46.1	53.9	38.6	11.5	17.8	9.4	22.6	**100.0**
2013	46.9	53.1	36.0	10.0	24.2	6.8	23.0	**100.0**

Note:
Figures may not necessarily add up due to rounding

- The total gross premiums written by the Labuan general (re)insurers decreased by 6.2% to USD1.6 billion (2012: USD1.7 billion).
- Non-resident business constituted a majority share of 53.1% (2012: 53.9%) as compared to resident business.
- Fire sector continued to contribute the highest market share of 36.0% (2012: 38.6%).
- Engineering sector recorded an increase in gross premium of 27.7%.

LABUAN INSURANCE

Chart 2: Distribution of Gross Premiums

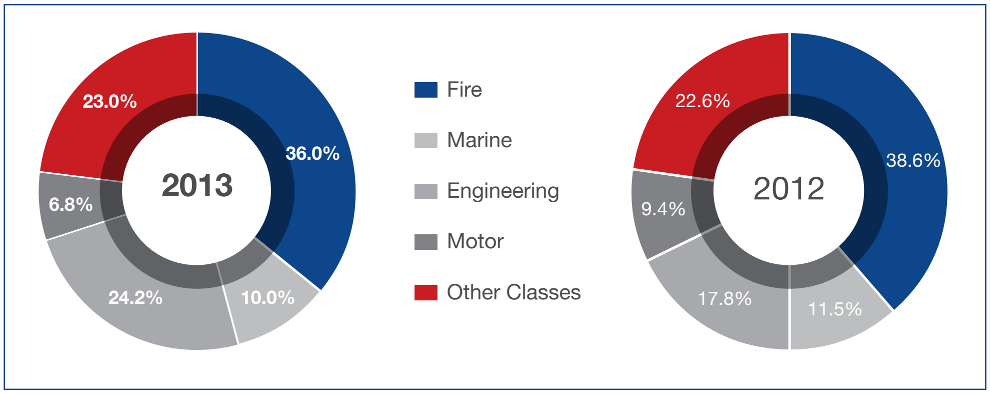


Table 5: Gross Contribution of Retakaful Business

Year	Total Malaysian	Others	Fire	Marine	Engineering	Motor	Other Classes	Total
				USD'000				
2011	138,697	320,754	172,357	45,597	40,823	119,842	80,831	**459,450**
2012	94,910	295,231	142,142	31,840	30,341	73,149	112,667	**390,140**
2013	17,232	119,627	64,534	14,088	14,902	6,253	37,082	**136,859**
				Change (%)				
2011	156.3	31.9	23.8	35.7	39.6	325.4	20.5	**54.6**
2012	(31.6)	(8.0)	(17.5)	(30.2)	(25.7)	(39.0)	39.4	**(15.1)**
2013	(81.8)	(59.5)	(54.6)	(55.8)	(50.9)	(91.5)	(67.1)	**(64.9)**
				Share (%)				
2011	30.2	69.8	37.5	9.9	8.9	26.1	17.6	**100.0**
2012	24.3	75.7	36.4	8.2	7.8	18.7	28.9	**100.0**
2013	12.6	87.4	47.2	10.3	10.9	4.6	27.1	**100.0**

Note:

Figures may not necessarily add up due to rounding

- The total gross contributions generated by Labuan takaful and retakaful (including the retakaful window) recorded a total of USD136.9 million (2012: USD390.1 million) with non-resident business remained as the major contributor at 87.4% (2012: 75.7%).

LABUAN INSURANCE

Table 6: Net Retention Ratio (%)

Year	Malaysian	Others	Fire	Marine	Engineering	Motor	Other Classes	Total
2011	66.2	76.9	75.3	80.4	41.5	98.8	71.5	**71.4**
2012	60.7	79.1	73.9	73.7	40.4	98.3	75.6	**70.6**
2013	53.3	76.7	69.1	69.1	42.7	97.3	74.0	**65.7**

- The overall net retention ratio for the industry was slightly lower at 65.7% (2012: 70.6%), mainly due to the decrease in retention of all sectors with the exception of engineering sector.
- Motor sector maintained the highest net retention of 97.3% among others (2012: 98.3%).

Table 7: Underwriting Experience

	Earned Premium Income	Net Claims Incurred		Commission		Management Expenses		Underwriting Margin	
Year	USD'000	USD'000	Ratio (%)	USD'000	Ratio (%)	USD'000	Ratio (%)	USD'000	Ratio (%)
2011*	1,115,031	757,184	67.9	286,253	25.7	43,909	3.9	**27,685**	**2.5**
2012	1,262,813	719,461	57.0	302,481	24.0	48,967	3.9	**191,904**	**15.2**
2013	1,104,881	523,438	47.4	242,317	21.9	61,639	5.6	**277,486**	**25.1**

* *Restated*

- The underwriting margin ratio improved to 25.1% (2012: 15.2%).
- The ratio of net claims incurred to earned premium income (gross premium less cessions and reserves for unexpired risks) decreased from 57.0% in 2012 to 47.4% in 2013.
- The decrease in net claims incurred resulted in an increase in underwriting margin by 44.6% which amounting to USD277.5 million (2012: USD191.9 million).
- The increase in the underwriting margin was due to less occurrence of natural catastrophe losses as compared to the previous years.

LABUAN INSURANCE

Table 8: Statistics on Investment-Linked Policies

Year		New Policies Malaysian	New Policies Others	New Policies Total	Policies in Force Malaysian	Policies in Force Others	Policies in Force Total
2011	No. of Policies	157	15	**172**	992	72	**1,064**
		USD'000					
	Sum Insured	4,205	400	**4,605**	17,384	1,316	**18,700**
	Single Premiums	4,068	434	**4,502**	17,338	1,470	**18,808**
2012	No. of Policies	155	11	**166**	970	45	**1,015**
		USD'000					
	Sum Insured	11,590	256	**11,846**	21,648	1,560	**23,208**
	Single Premiums	2,746	142	**2,888**	19,062	1,482	**20,544**
2013	No. of Policies	183	12	**195**	652	53	**705**
		USD'000					
	Sum Insured	4,658	609	**5,267**	20,858	2,209	**23,067**
	Single Premiums	3,383	288	**3,671**	19,606	1,676	**21,282**

- Year 2013 showed an increase in investment-linked insurance products with a total of 195 policies issued (2012: 166). In terms of value, USD3.7 million worth of premiums was written compared to USD2.9 million in 2012.

Table 9: Distribution of Gross Premiums for Captive Business

Year	Malaysian	Others	Fire	Marine	Engineering	Motor	Other Classes	Total
	USD'000							
2011	259,657	54,038	21,562	19,652	196,514	488	75,479	313,694
2012	231,603	95,464	34,173	24,210	185,088	–	83,595	327,066
2013	290,997	146,551	34,262	21,171	274,718	36	107,361	437,548
	Change (%)							
2011	46.4	(0.7)	42.7	(7.3)	29.2	–	73.8	35.3
2012	(10.8)	76.7	58.5	23.2	(5.8)	1.0	10.8	4.3
2013	25.6	53.5	0.3	(12.6)	48.4	–	28.4	33.8
	Share (%)							
2011	82.8	17.2	6.9	6.3	62.6	0.2	24.1	100.0
2012	70.8	29.2	10.4	7.4	56.6	0.0	25.6	100.0
2013	66.5	33.5	7.8	4.8	62.8	0.0	24.5	100.0

- Home grown captive wrote USD437.5 million in total gross premiums in 2013, an increase of 33.8% compared to USD327.1 million in 2012.
- The increase in gross premium was mainly due to the risks underwritten in the engineering sector arising from the aviation and manufacturing industry.

LABUAN INSURANCE

Table 10: Premiums Placement by Insurance Brokers

	2011	2012	2013	Yearly Change	Market Share
General Business		USD'000		%	
Labuan	140,074	133,609	**137,538**	**2.9**	**14.3**
Malaysia	294,452	323,055	**312,441**	**(3.3)**	**32.4**
Others	331,864	344,227	**392,096**	**13.9**	**40.7**
Sub Total	**766,390**	**800,890**	**842,075**	**5.1**	**87.3**
Life Business		USD'000		%	
Labuan	1,403	2,309	**4,901**	**112.2**	**0.5**
Malaysia	–	741	**–**	**(100.0)**	**–**
Others	129,904	115,307	**117,328**	**1.8**	**12.2**
Sub Total	**131,307**	**118,357**	**122,229**	**3.3**	**12.7**
Grand Total	**897,697**	**919,247**	**964,304**	**4.9**	**100.0**

- The total premiums processed by Labuan insurance broker increased by 4.9% to USD964.3 million (2012: USD919.2 million).
- Out of the total, 87.3% (2012: 87.1%) was derived from the general insurance business. The general insurance premiums transacted by Labuan insurance brokers were for reinsurance cessions placed with Malaysian insurers (32.4%), overseas (40.7%) as well as Labuan insurers (14.3%).
- For the life insurance business, 12.2% or USD117.3 million (2012: USD115.3 million) was derived from direct business placed with overseas insurers.

Table 11: Brokerage Fee Earned by Insurance Brokers

	2011	2012	2013	Yearly Change	Market Share
General Business		USD'000		%	
Labuan	5,945	6,062	**6,607**	**9.0**	**8.8**
Malaysia	12,362	14,028	**12,655**	**(9.8)**	**16.9**
Others	51,391	37,809	**44,934**	**18.8**	**59.9**
Sub Total	**69,697**	**57,899**	**64,195**	**10.9**	**85.6**
Life Business		USD'000		%	
Labuan	146	473	**326**	**(31.0)**	**0.4**
Malaysia	–	16	**–**	**(100.0)**	**–**
Others	12,393	10,204	**10,466**	**2.6**	**14.0**
Sub Total	**12,540**	**10,693**	**10,793**	**0.9**	**14.4**
Grand Total	**82,237**	**68,592**	**74,988**	**9.3**	**100.0**

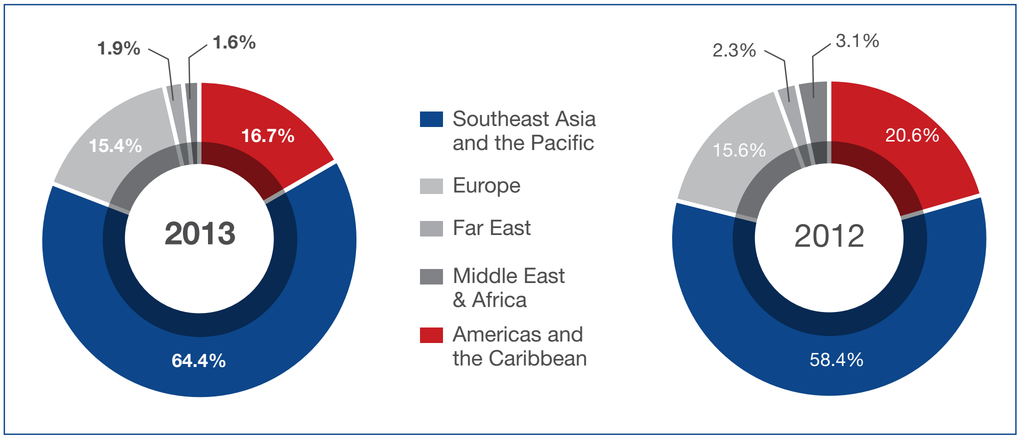
- The total amount of brokerage fees earned by the Labuan insurance broking sector increased by 9.3% to USD75.0 million (2012: USD68.6 million).
- The brokerage fee earned from the general insurance business comprised 85.6% of the total brokerage income, consistent with the higher proportion of general insurance premiums processed during the year.

LABUAN LEASING

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

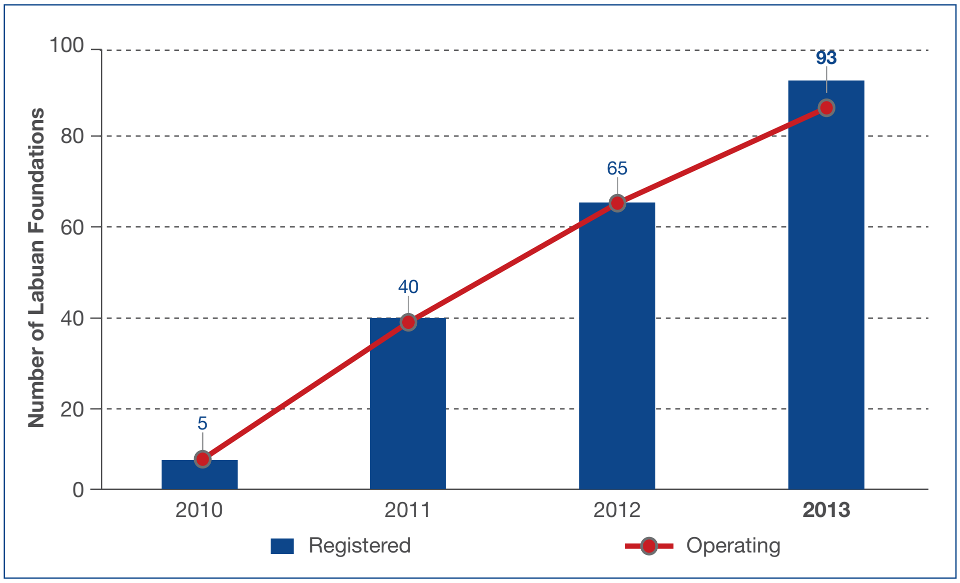
- The number of leasing company increased to 312 companies (2012: 257) with 72 new leasing approvals, 14 ceased operations and three approvals deemed null and void.
- Total cumulative asset leased continued to grow by 17.6% to USD38.1 billion (2012: USD32.4 billion).
- Majority of the leasing companies originated from the Asia-Pacific region and involved in businesses related to oil and gas and aviation.

Chart 2: Labuan Leasing – Breakdown of Origin by Region



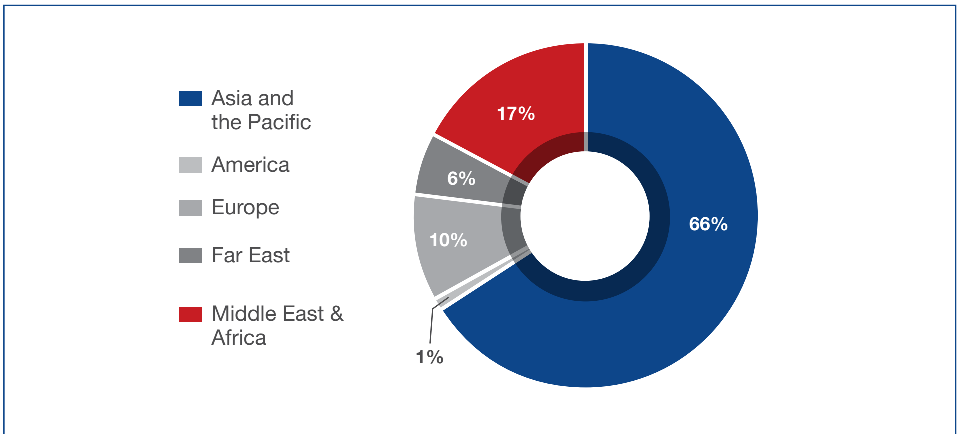
LABUAN FOUNDATIONS

Chart 1: Growth in Number of Labuan Foundations



- The number of Labuan foundations increased significantly by 43.1% to 93 (2012: 65)
- Majority of the Labuan foundations were originated from the Asia-Pacific region.

Chart 2: Labuan Foundations by Region



LABUAN INTERNATIONAL FINANCIAL EXCHANGE

Chart 1: Number of Listings and Market Capitalisation

- The market capitalisation of LFX increased by 19.3% to USD23.5 billion (2012: USD19.7 billion) with Islamic instruments making up 28.8% or USD6.8 billion of the total market capitalisation of LFX.

UPSCALING OF PRUDENTIAL REGULATIONS FOR LABUAN IBFC – APPROACH & INITIATIVES

Over the last decade, Labuan International Business and Financial Centre (IBFC) had grown to become an integral part of the Malaysian financial system. This is evident from the increased influx of players; expanded business volume and the wide-ranging diversity of financial products offered currently as compared to the centre's early years. Realising on its niche sectors and mid-shore role, Labuan IBFC aspires to become a vibrant centre for reinsurance and retakaful activities as well as a wealth management hub for the region.

The positive business trending can be attributed to the sound and stable business climate endowed by the strong entry policies and facilitative regulatory regime that caters for the establishment of capable financial institutions. In tandem, Labuan IBFC has also made a notable milestone in its regulatory infrastructure via the enhancements in Labuan legislations in 2010. With the expanded legal framework, there is a need to complement it with strengthened prudential regulations to be on par with the international standards to support the orderly development and stability of the financial sector. This initiative was regarded a key priority by the Authority as evidenced from:

- Its inclusion into the national recommendation package committed under the Financial Sector Blueprint 2011-2020 (Blueprint);
- The establishment of Financial Stability Committee, a cross-agency forum which comprises representatives from Labuan Financial Services Authority, Bank Negara Malaysia and Securities Commission of Malaysia. This serves as a discursive platform on, among others, new prudential policies to ensure their appropriateness and sufficiency taking into account the on shore's experience and equivalent regulations; and
- The setting up of a Prudential Policy Development Unit within the Authority in order to accord dedicated focus and resources on prudential policy review and formulation.

Guiding Principles for Prudential Policymaking

The Authority subscribes to key principles which underpin the formulation of prudential regulations. The principles provide for due consideration to be undertaken in developing and effecting the appropriate prudential policy which is suited to the needs and circumstances of Labuan financial institutions. This is achieved via the three-pronged principles as outlined below:

- Principle I: *Proportionate regulations*

  The **intensity of the policy requirements needs to commensurate with the risk materiality and significance** posed by the different types of financial institutions. This necessitates the need to differentiate between the primary market players and intermediaries to ensure that the policy requirements are appropriate to the role assumed by the various institutions.

- Principle II: *Strategic benchmarking*

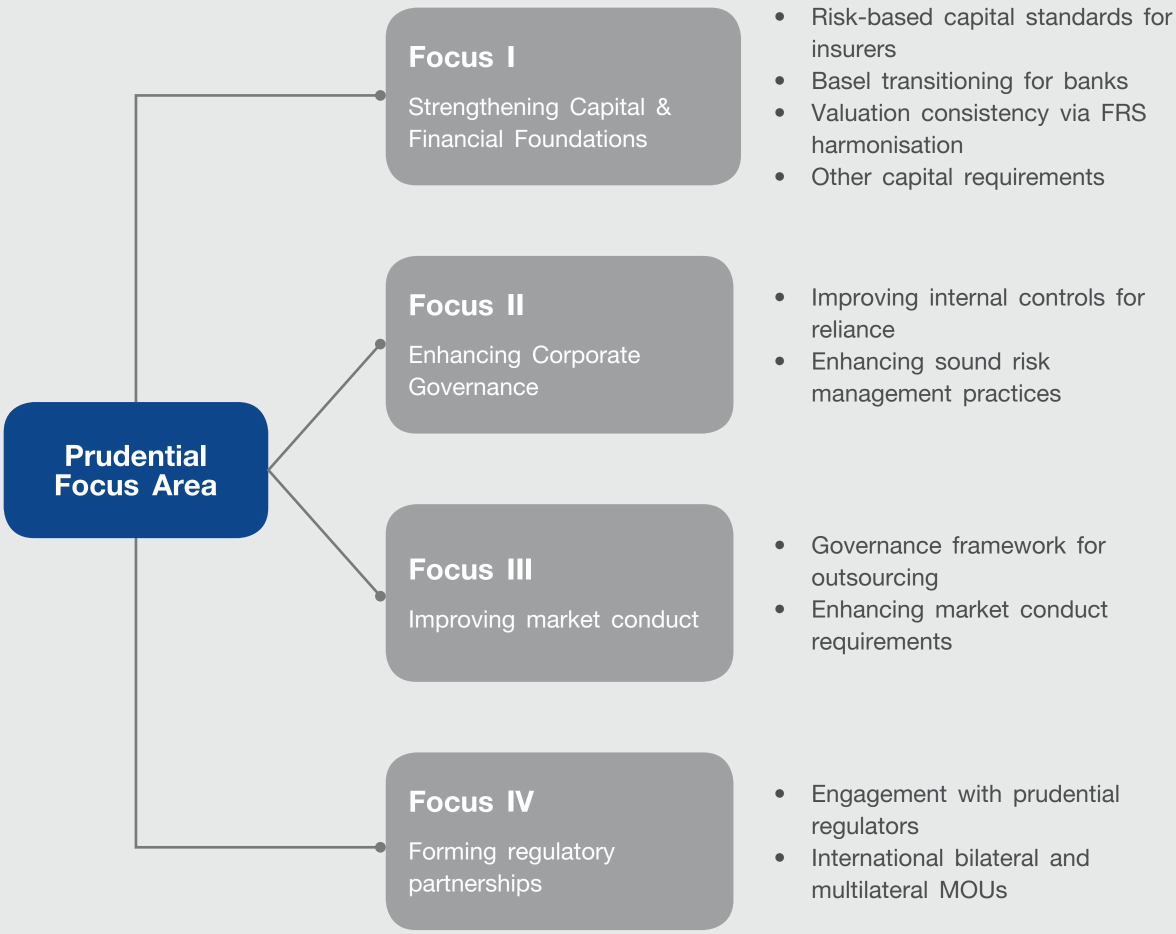
  It is imperative that the prudential **policies incorporate the international standards as base line requirements**. Being a mid-shore centre, these policies are **benchmarked to the onshore comparable regulations**; but would need to be moderated to appropriately cater for the international business setting based on the practices of peer offshore financial centres around the globe.

- Principle III: *Phased implementation approach*

  Taking cognisant of the cost and impact of a major prudential policy, the Authority adopts a **gradual implementation approach for new, major requirements as opposed to a full-blown "big-bang" imposition** to the industry. This allows the Authority to permeate the prudential fundamentals as a strong foundation within the financial sector before phasing in more sophisticated requirements as the financial institutions grow in maturity and capability. This also enables sufficient preparation by the financial institutions and for them to internalise the prudential requirements as part of their business set up as opposed to mere fulfilment of their regulatory obligations.

Focus Areas of Prudential Regulation Upscaling

Diagram 1



The upscaling of the prudential regulations is guided by the Blueprint's recommendations whereby broad areas have been identified. Based on the review of the International Monetary Fund's Financial Sector Assessment Programme (FSAP) in 2012, these areas were further defined to specific prudential policy initiatives that are required to foster more resilient and well-governed Labuan financial institutions as outlined in Diagram 1.

With the identified focus areas, the Authority had kickstarted a programme of regulatory upscaling action plans in 2013 which will grow in momentum and will be implemented in phases. The focus areas of the upscaling exercise are in essence thematic cornerstones from which specific prudential policy initiatives are being or will be developed throughout 2014 till 2016:

(i) Focus I: *Strengthening Capital & Financial Foundations*

Initiatives on capital enhancement and related regulations so as to develop strong financial foundation and resilience of financial institutions include:

- **Evolving towards a risk based capital regime for the insurance and takaful sector** from the current margin of solvency requirements. This includes harmonisation of reserving requirements to ensure adequate financial buffer and comparability as well as risk-sensitive capital adequacy measurement.

- **Transitioning towards more advanced Basel requirements for the banking sector** in order to keep pace with the international standards. This is to ensure that the capital buffer for banks adequately caters for all major risk components aside from the current credit risks, sound internal capital management is practised and sufficient disclosures are provided.

- **Harmonising the financial reporting standards** that can be adopted by the financial institutions. This is imperative particularly for insurers, takaful operators and banks in order to streamline the base line asset and liability valuations to ensure sufficiency in their regulatory capital base.

- **Other financial-related requirements** to support the insurance and banking capital standards whilst reinforcing financial discipline amongst the other financial institutions.

(ii) Focus II: *Enhancing Corporate Governance*

Initiatives to improve the corporate governance framework and practices of key financial institutions which pertain to:

- **Strengthening the corporate governance framework especially the internal controls and key functionaries of financial institutions** so as to promote effective self-regulation whilst allowing for supervisory reliance by the Authority.

- **Promoting sound risk management culture amongst** financial institutions particularly on key risk areas such as investment and outsourcing activities.

- **Engaging and enabling key agencies and external auditors** to actively co-regulate and supervise the activities of financial institutions.

(iii) <u>Focus III: *Improving market conduct*</u>

Initiatives to cultivate higher professionalism and sound business practices in the increasingly vibrant Labuan business environment which include:

- **Establishing minimum standards to be adhered by the Labuan service provider.** This will be established indirectly by a set of outsourcing governance requirements which principal institutions need to meet prior to engaging any service providers.

- **Reviewing of the existing market conduct regulations** to ensure the sufficiency of their requirements and scope based on best practices, which will inculcate the provision of international-class services by Labuan service providers.

(iv) <u>Focus IV: *Regulatory partnership*</u>

Initiatives to foster closer ties between the Authority and key regulatory authorities and agencies in the domestic and international markets. Consistent with the first Guiding Principles earlier mentioned; this will ensure a healthy, ongoing exchange of regulatory information which includes inputs into the strategic benchmarking exercise so as to develop consistent or comparable prudential regulations. The regulatory partnerships are being pursued by the Authority via:

- **Enhancing engagement with domestic prudential regulators** to maintain ongoing regulatory cooperation and conducive work relationship. This is important for the development of appropriately prudent policies so as to avoid unnecessary regulatory arbitrage, whilst ensuring the policies' viability in practice.

- **Forming stronger regulatory relationship with peer regulators and supervisors in international centres, and multilateral supervisory agencies and groupings** as means of exchanging views on pertinent matters including prudential regulations. Such international networking will lend invaluable perspective on international best practices that will be considered and evaluated in the prudential policymaking by the Authority.

With the combination of the said prudential measures and carefully managed transitioning plans, the industry players' resilience as well as safety and soundness will be elevated to a higher level. The Authority is confident that the upscaling of the prudential regulation initiatives will further enhance Labuan IBFC's status as an orderly, vibrant international-conforming business centre.

Box Article II

PROTECTED CELL COMPANIES

Background

Historically, the concept of Protected Cell Company (PCC) was first developed and introduced in 1997 in response to the demand from companies who wish to take advantage of the captive approach to insurance risk management but did not wish to establish a captive of their own. Captive insurance companies are established with the main objective of insuring risks emanating from parent group or groups, and also insuring risks of the group's customers, depending on how the captive is structured. This is an alternative form of risk management through which companies can have insurance protection while having control over how they are insured. The PCC enables a company to set up captive through the cell of a PCC without incorporating a standalone captive insurance company.

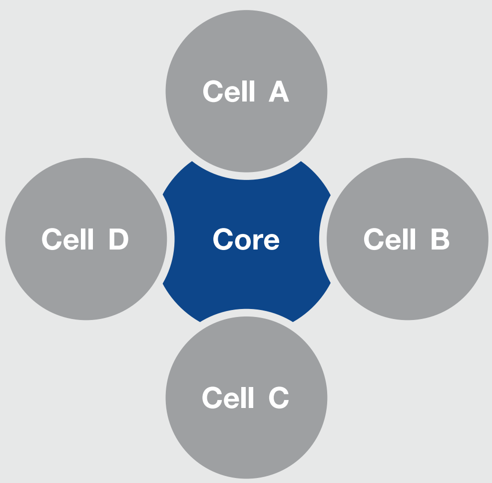
Many jurisdictions have introduced PCC in their jurisdictions with different names used, Cayman Island and British Virgin Island with Segregated Portfolio Company, Bermuda and Bahamas with Segregated Account Company as well as Luxembourg with open-end investment company with multiple compartments. Although the structure is named differently in various jurisdictions, conceptually, the principle is the same i.e. to segregate and protect assets of one cell from liabilities of other cells. Today, there are more than 40 jurisdictions globally offering similar form of PCC structure with various name used.

Key Features

A PCC is a single company consisting of two distinct elements i.e. a core and any number of cells as shown in Diagram 1. The core and each cell have separate assets attributed to it known as "general assets" and "cell assets", respectively. The cell owner may subscribe for redeemable preference shares which would have the right to participate in the risks and rewards of the cell but would normally not have voting rights over the PCC. Creditors of a particular cell in a PCC shall only have recourse against the assets of the cell and not to the assets of other cells or the core. Normally, the core provides centralised management services to all the cells. Only the cells are risk bearing which can underwrite risk.

A PCC, inclusive of the core and its cells, is single legal entity, has one board of directors, one Memorandum and Articles of Association, undergoes one audit and typically only makes one regulatory filing. As such, the operating cost of a cell captive within a PCC is typically lower as compared to a standalone captive.

Diagram 1: PCC Structure

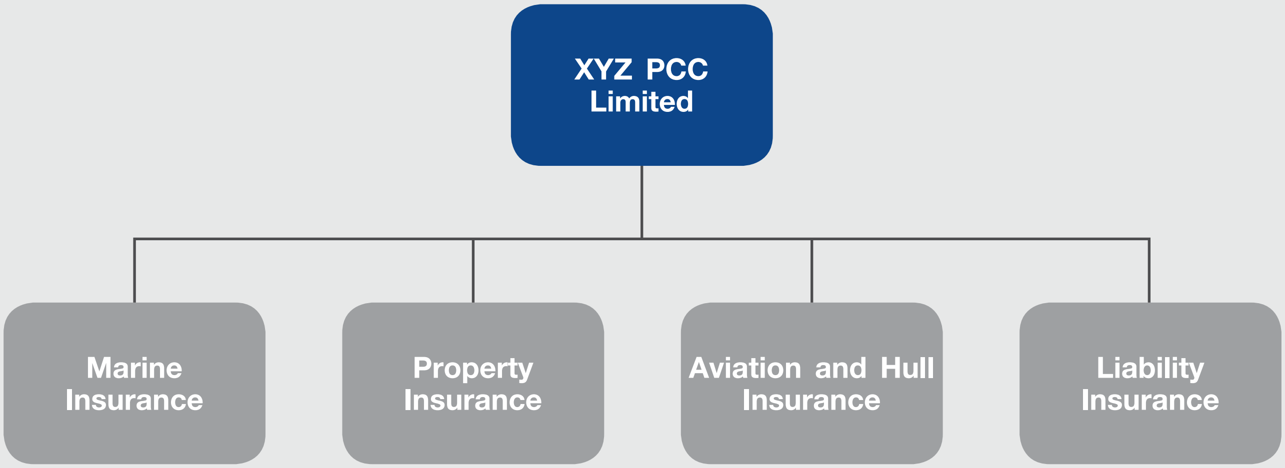


Use of PCC

PCC can be used for various purposes and ways, which may include the following:

(a) Association captive and multi owner captive: The PCC structure enhances what an association captive or a multi owner captive can provide its members by ensuring that the adverse result of one member does not affect other members. For many years, associations have purchased insurance on behalf of their members. Similarly, companies within a different industry have also combined to form multi owner captive to harness the advantage of the purchasing power of the wider group. Sample structure is provided as per Diagram 2.

Diagram 2: Structure for Captive Insurance

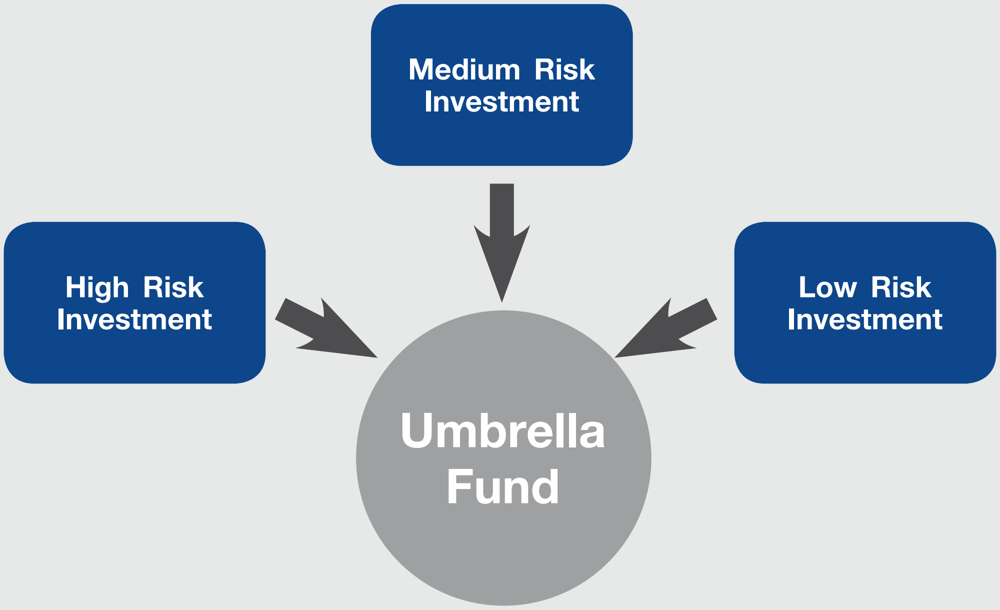


(b) Fronting Cells: Cells which are owned by third parties to enable large multi-national corporations to access the reinsurance market. The cells retain no risk, but are simply used to issue an insurance policy to the insured which is mirrored by a reinsurance policy between the cell and a reinsurer. Hence, it allows multinational corporations to have access to cover in the cheaper wholesale reinsurance market. This has been widely practised across the PCC jurisdictions.

(c) Transformer Cells: Cells which are used to convert a capital market instrument, such as a credit derivative into an insurance contract which is insured by an insurance company. This provides the insurance company with exposure to various forms of investment product (the derivative) but through its traditional business method, the writing of an insurance policy. This enables banks and capital markets to access reinsurance markets where premium is generally lower than in direct markets.

(d) Umbrella Funds: Under umbrella funds, each cell can be used as an investment vehicle for different asset classes of funds to achieve separate objectives and/or strategies of different investors as per Diagram 3. The cell will benefit from its assets and liabilities being ring-fenced from the assets and liabilities of other cell. Thus, if one of the cells suffers losses in the market, it will not affect the assets of other cell. This structure also allows one investor to create a new cell to satisfy its risk appetite and permits the cell to independently deal with their preferred fund manager, custodian and other service providers.

Diagram 3: PCC Structure for Mutual Fund



Advantages of PCC

The advantages of using a PCC are numerous, among others as follows:

(a) Start-up and operating costs are lower due to the sharing of services provided through the PCC concept. As the cell is not required to have its own board of directors, instead being managed by the board of the PCC, this reduces the sponsors' time and management involvement needed.

(b) The establishment of a cell is easier as the framework is already in place through the PCC. Thus, it is less cumbersome and less time processing in the setting up of a cell.

(c) There is usually no minimum regulatory capital requirement for a cell of a PCC. The minimum regulatory capital requirement is imposed on the PCC as a whole. However, the cell shall have a sufficient capital commensurate with its business underwritten. This enables smaller companies to have access to the reinsurance market as the capital required is lower than that required for a standalone captive.

(d) It is also easier to exit the cell than a stand-alone captive. As the cell is not a separate legal entity in its own, therefore there are no formal liquidation or winding up procedures to undertake. Accordingly, once all insurance liabilities have been satisfied, the cell is free from any creditors and cell shares have been redeemed, whichever applicable, a cell can be closed quite quickly in comparison to company liquidation or winding up.

(e) Protection by statute against third party claims through the PCC's governing legislation.

(f) Provides flexibility and ability to segregate run-off business from active business or manage the risks of a subsidiary which a group may wish to divest of at some future point.

Box Article II

Labuan PCC

The Labuan PCC was introduced in Labuan IBFC in 2010 in line with the enactment of the amended legislation i.e. Labuan Companies Act 1990 (LCA). LCA generally deals with the establishment, structure and operations of Labuan PCC while its business activities are governed under the Labuan Financial Services and Securities Act 2010 and Labuan Islamic Financial Services and Securities Act 2010.

Labuan PCC is basically a Labuan company which has unique features as compared to normal company. The comparison of normal Labuan company with Labuan PCC is provided in Table 1.

Table 1: Comparison between Labuan Company and Labuan PCC

Labuan Company	Labuan PCC
Single Memorandum and Articles of Association	Single Memorandum and Articles of Association for Labuan PCC and the cells
Single Board of Director	Single Board of Director for Labuan PCC and the cells
No ability to create cells	Ability to create cells
Can undertake any trading or non-trading activities	Can undertake captive insurance/takaful and mutual funds/ Islamic mutual funds activities only

Box Article II

Guidelines on the Establishment of Labuan Protected Cell Companies

On 11 December 2013, Labuan FSA issued the Guidelines on the Establishment of Labuan Protected Cell Companies (Guidelines) to further clarify the procedures and regulatory requirements for the Labuan PCC. The establishment of a Labuan PCC requires prior approval from Labuan FSA. Among the salient features of the Guidelines are as follows:

(a) Labuan PCC can undertake captive insurance (including captive takaful) or mutual funds (including Islamic mutual funds) activities.

(b) Labuan PCC must inform through written communication to any person that enters into business transactions with the Labuan PCC that they are dealing with a Labuan PCC, the particular cell that the person is entering into transaction is identified and specified unless that the transaction is not in respect of a particular cell and only the assets of that particular cell are available to meet the cell's obligations and liabilities. The Guidelines provides sample disclosure that can be used by the Labuan PCC to be included as part of its promotional document to customers or investors as follow:

> *"ABC PCC Limited ("name of the Labuan PCC") is established as a protected cell company, under Part VIIIB of the Labuan Companies Act 1990 (LCA). This means that under Labuan laws, and provided the conditions of the LCA have been complied with, the assets attributable to each cell of the Company will only be available to creditors of that cell.*
>
> *Prospective investors should bear in mind that the segregation of assets and liabilities as provided for in this manner, whilst recognised and protected under the Labuan laws, may not be recognised in certain other jurisdictions in which the company's assets may be located."*

(c) In addition, Labuan PCC shall observe and comply with other regulatory requirements which include capital requirement, corporate governance and compliance to Labuan laws, reporting and margin of solvency requirement.

(d) Annual fee that is payable by a Labuan PCC is as follows:

Captive insurance/takaful
Core: RM30,000
Each individual cell: RM10,000

Mutual Funds/Islamic Mutual Funds
Core: RM5,000
Each individual cell: RM2,000

Way Forward

Traditional captives are no longer viewed simply as an alternative option and the PCC structure is a viable option for captive owners. The potential cost savings, diverse uses and unique benefits offered by a PCC means that it will continue to be a preferred structure for the captive market.

Labuan IBFC is among the few jurisdictions that offer PCC in the Asia-Pacific region. It is the first to do so in ASEAN region and aims to becoming a PCC centre for the Asia-Pacific region. Towards this aim, the Labuan PCC structure may be further enhanced by expanding the business activities that can be conducted under it based on market demand. In addition, the prudential requirements for Labuan PCC including corporate governance, capital and solvency requirement as well as other regulatory requirements would be enhanced gradually in line with the growth of PCC in Labuan IBFC.

Organisational Development

Corporate Social Responsibilities

As an organisation with strong core values, Labuan FSA recognises the importance of balancing its business operations and fulfilling its corporate social responsibility (CSR) to achieve a long term sustainability growth. The CSR initiatives in Labuan FSA are primarily built on three main pillars aligned with the Labuan IBFC's business to integrate knowledge, environment awareness and community engagement in close collaboration with its employees and stakeholders.

Driving and participating in various portfolios of community involvement activities, Labuan FSA has created positive vibes between the society and the organisation through its employees' participation in CSR activities. In 2013 various activities were undertaken:

1. Knowledge Sharing

A series of knowledge sharing sessions were held during the year, focusing towards enhancing the knowledge and competencies of the Labuan IBFC industry players. These included the conduct of technical workshop on Liquidity Risk Management and Stress Testing Standards; the annual Labuan International Lecture Series entitled "Impact of The Foreign Account Tax Compliance Act regulations on Foreign Financial Institutions" and a seminar on "Arbitration – Alternative Dispute Resolution". A briefing was also conducted to the foreign diplomats in Malaysia as part of Labuan FSA's efforts to update on the development of the IBFC. These programmes shall continue to serve as part of its communication channels to impart knowledge and share information with the Labuan IBFC's stakeholders.

Under the strategic partnership with the Universiti Malaysia Sabah (UMS), various programmes were conducted in 2013 to promote education excellence. The programmes included briefing and knowledge sharing sessions with the university students career talk internship programme. During the year, Labuan FSA had embarked on a Management Trainee Programme (MTP) with the objective to create a training platform for graduates by attaching them to different units and departments of Labuan FSA, to enable them to understand and learn the breath of product portfolios and the depth of Labuan IBFC's industry. Currently, seven management trainees had been attached under the MTP and upon completion of MTP, those who met the expected standards will be considered for absorption into the organisation.

Furthermore, under the UMS collaborative framework, Labuan FSA also contributed a keynote presentation on "Emerging Mega-Trends in Asian Market" at the UMS Applied International Business Conference as part of its joint public education programme with the University. The annual Academic Students Excellence Awards were also presented to outstanding students of UMS as well as primary and secondary students in Labuan who had excelled in their studies.

2. Environmental Commitment

Labuan FSA supports initiatives in protecting and conserving global green environment. Towards this aim, Labuan FSA had sponsored and participated in the annual Community Tree Planting Project in support of international green wave campaign. In partnership with some of the local government agencies, Labuan FSA had planted more than 30 trees in this green project. Furthermore, the Authority had also supported a CSR programme on *"Kampung Air Bersih dan Indah"* where 200 units of waste bins were sponsored by Labuan FSA aimed at promoting awareness on green and clean environment.

3. Community Engagement

As part of its internal engagement initiatives, Labuan FSA's employee volunteer group called "CARE" was formed during the year. Through CARE, Labuan FSA organised several fundraising activities to raise money for charity causes which included food, water and clothing distribution to the less-fortunate families, fire victims as well as donations of books and stationeries to schools in the rural areas. Through CARE's voluntary initiatives, Labuan FSA had reached out to the underprivileged in Labuan and its vicinity areas in Sabah and Sarawak. During the year, CARE had also collaborated with the Pink Ribbon Wellness Foundation and Labuan Rotary Club to organise a talk on breast health and wellness campaign in Labuan to create cancer awareness among the local community.

During the year, Labuan FSA had given corporate sponsorships to relevant stakeholders and organisations in support of their community projects. A new CSR project undertaken by Labuan FSA during the year was the organisation of the Labuan FSA Day – a "knowledge and fun filled day". The objective of organising the Labuan FSA Day was to enhance rapport between Labuan FSA and the Labuan community. Staff of Labuan FSA together with the Labuan community participated in the fundraising activities of charitable car wash, treasure hunt competition, books sales and "VVIP Cook Out" competition. Funds raised during the event were channelled to the fire victims in Labuan, and the various needy and underprivileged families in Labuan and Sabah.

Human Resource Development

In supporting its Strategic Direction and Corporate Action Plan, Labuan FSA continued to develop its workforce through various initiatives including effective recruitment, retention and reward strategy, training and development and performance management.

As at 31 December 2013, Labuan FSA had a total of 101 full-time employees in various departments including Strategic Development, Business Management, Supervision and Enforcement and Corporate Affairs. Labuan FSA monitored its manpower requirement in line with its roles to develop, regulate and supervise the Labuan International Business and Financial Centre.

Recognising the importance to enhance staff technical skills, knowledge and competencies and to address their developmental needs, Labuan FSA had invested in courses, seminars, conferences and workshops conducted by local and international recognised training providers, agencies and institutions. In year 2013, in-house trainings on various topics were conducted on regular basis while external trainings were provided to staff based on relevant basis. In addition, staff development programmes were created, particularly for personal development to improve leadership skills and to build stronger relationship among the staff.

To improve the soft skills to enable staff to perform their roles effectively, external consultants were appointed to provide training on mastering office applications with the objective to improve work efficiency through effective usage of office applications. In addition, courses on business and report writing and conversational English were conducted to further improve both writing and communication skills. In order to enhance staff knowledge on accounting and financial statements, an external trainer was engaged to provide in-house training on financial acumen to targeted groups within the organisation.

Labuan FSA had also organised structured development programmes for staff with the objective to enhance their leadership capabilities. The programmes conducted were as follows:

i. Motivation and coaching programme was designed to improve leadership capabilities of the middle and senior level management. The six-modules programme was conducted to increase team effectiveness and efficiency through the creation of positive environment and use of facilitative techniques to stimulate innovation and continuous improvement. In addition, it was also designed to improve leadership capability to motivate and inspire their teams.

ii. Situational leadership programme was organised for the middle to senior level management with the objective to improve the performance of the organisation through alignment of individual goals with the corporate objectives as well as modelling behaviours and leadership capabilities eg. interpersonal skills, communication, decision making etc. to enhance effectiveness, team leadership and organisational commitment.

iii. Emerging leadership programme was developed for the middle management level to enhance their personal attributes, learn to be more influential and better leaders as well as to create a high performance culture within their teams.

iv. A teambuilding exercise “Journey towards team Excellence” was conducted for Senior Executives and below, focusing on the reinforcement of shared values through experiential learning and identification of high potential talent. The programme provided better understanding of leadership and teamwork (inter and intra department) and the application at work.

Labuan FSA continued to provide a conducive working environment for staff to improve and develop themselves further. For new joiners, on-boarding programmes were organised to cater the needs of new staff in understanding the functional roles of each department/unit in Labuan FSA. Internal Reinforcement Education Programmes were offered throughout the year with the objective of providing opportunities for staff to learn from their colleagues who are in-house subject matter experts on various areas. In addition, an attachment programme with the Central Bank of Malaysia was also arranged for Labuan FSA’s staff to obtain greater exposure on financial surveillance.

To advocate high standards of corporate governance and best practices within Labuan FSA, it had also engaged the Malaysian Institute of Corporate Governance for a briefing on corporate integrity. Further, as part of its moral and social responsibilities to its employees, Labuan FSA continued to invest and promote a healthy and safe environment by conducting an Occupational Safety and Health Awareness programme to staff with the assistance from the National Institute of Occupational Safety and Health, Sabah Regional Site Office in Labuan.

To support the short to mid-term holistic planning for Labuan FSA’s talent supply, a management trainee (MT) programme had been introduced as a platform for a structured development programme for fresh graduates. This is part of an initiative designed to address the attraction, retention and turnover issues in Labuan FSA. In 2013, Labuan FSA had recruited seven MTs to be in this programme. Apart from the MT programme, Labuan FSA continued taking in selected students from Universiti Malaysia Sabah and other universities/colleges to undergo practical training as a pre-requisite for completion of their studies.

Moving forward, Labuan FSA will continuously strive to provide a conducive and caring working environment for staff to develop their talents and capabilities including facilitating their personal growth areas. Key initiatives for year 2014 is to review the current Salary and Terms and Conditions of Services and Human Resource Management System and develop a three-year individual learning roadmap in line with its aspiration to inculcate continuous learning in the organisation and to develop capable staff to meet challenges ahead.

Labuan International School

The involvement of Labuan FSA in managing and funding the Labuan International School (LIS) signifies its commitment to the local and international communities to provide holistic facilities and enhance the quality of life in Labuan IBFC. The Authority's support of LIS is in line with the Government's initiatives to maximise the potentials and synergies of the IBFC with the establishment of Universiti Malaysia Sabah-Labuan International Campus, Labuan Matriculation College and several industrial and vocational institutions.

The following programmes continued to be offered by LIS:

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

The support of the Malaysian Government had been and will continue to be critical to the development of LIS as a reputable international education centre. In 2013, the Government had allocated funding for the construction of two hostel blocks with adjoining dining hall, as well as an Olympic-sized swimming pool with springboard diving facilities completed with a spectator stand. The construction will start in the early part of 2014 and is expected to be completed by end of 2015. These new facilities will complement the state of the art facilities currently available in the new school campus which began its operations in September 2012.

LIS had been given full accreditation in 2012 by the Cambridge International Examination which entitles LIS to conduct international learning programmes such as Checkpoint and IGCSE for lower secondary and upper secondary.

As at the end of November 2013, LIS had a total of 332 students comprising both local and foreign students. The enrolment is expected to increase with the planned expansion of the facilities under Phase II project.

In meeting the desired standards, LIS provides primary and secondary levels for both national and international syllabuses, hence offering parents the choice of an alternative education for their children - an education for the world of global communication and opportunities.

Excellent academic achievement is one of LIS main objectives in its pursuit of attaining education of an international standard for both its primary and secondary schools. In this ever-challenging decade of the 21st century, it is important that today's children are educated to be well prepared in facing the world's new challenges. LIS aims to develop modern thinkers in a 21st century learning environment where cultural understanding, communication, critical thinking, information literacy, arts appreciation and environmental responsibilities play important roles. LIS aspires to educate and nurture our future generation to be well developed in MIND, BODY and SOUL which fits the ideals of A Scholar, A Sportsman and A Gentleman.

In line with its concept of "MIND, BODY, SOUL", LIS will continue to provide an all-round education curricular that strives to nurture well-rounded students. The MIND development focuses on meeting the needs of all students through programmes tailored for individual needs in open classrooms without boundaries. The school had continuously embraced new ideas and state of the art technology including embarked on a new virtual learning environment platform – "The Schoology", which is a learner-centred one to one learning programme that engages personalisation of learning and developing long life learner skills.

LIS strongly believes that challenging the mind is the best way to achieve academic excellence in all LIS students. Apart from the strong commitment of the academician in their daily interaction in the classrooms, LIS also provides specialised Academic Intervention Programme to further challenge the mind of the children. Academic programmes such as Mastery Intensive Revision Programme and Remedial Classes were conducted throughout the year. Another two special intervention programmes introduced in 2013 were the Extensive English Programme and the Reading Programme, for secondary and lower primary students, respectively and the examination classes were given top priority. These programmes will empower all academicians to monitor a child's progress and to be able to provide constructive advice to parents. This is an on-going effort to ensure that the children progress positively in their learning and produce excellent results in all internal and public examinations. Students were also given opportunities to participate in international level competitions such as IMAS and Mitsubishi Asian Awards Children's Enikki Fest Competition 2012/2013 where a student of LIS became a recipient of the award. LIS had also created opportunities for the students to challenge their mind through participation in Inter-School Debate Competition 2013. More of such activities of the mind with public speaking will be organised to nurture the minds of LIS students.

LIS prides itself in the varieties of the extra-curricular activities offered to build the strength of the BODY. Exciting expeditions including Annual Campori ranging in their level of difficulties were offered throughout the year. These activities would instil leadership qualities, while demonstrating the importance of discipline and teamwork. Not without very pleasing results, the students had also been exposed to swimming as early as in kindergarten level. Recent participation in Labuan interschool swimming competition in early 2014 had resulted in LIS emerging champion in the secondary level.

Teaching the children to be caring and compassionate towards others complements the ideals of challenging the MIND and building a strong BODY in every child. In this regard, the LIS children are continually exposed to charity events in school. An annual charity drive was organised by Persatuan Anak Penyayang to help the needy and support cancer research in Malaysia through National Cancer Council Malaysia. Another occasion which LIS students learn charity was through the activities of Interact Club under the sponsorship of the Rotary Club.

Our long-term aim is to create a new breed of truly well-rounded LIS students who embody Sportsmen & Gentlemen, to be confident and poised with an ear for music, proficient in at least one musical instrument and have a growing appreciation for dance and vocal. Performing arts was integrated into both primary and secondary schools curriculum. Many annual events were organised for the students aimed to nurture their inner talents.

Financial Statements

REPORT OF THE AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF
LABUAN FINANCIAL SERVICES AUTHORITY
FOR THE YEAR ENDED 31 DECEMBER 2013

Report on the Financial Statements

The financial statements of Labuan Financial Services Authority and the Group have been audited by my representative, which comprise the Statements of Financial Position as at 31 December 2013, Statements of Comprehensive Income, Statements of Changes in Reserves and Statements of Cash Flows for the year ended and a summary of significant accounting policies and other explanatory information.

Authority Members' Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Group and Labuan Financial Services Authority as at 31 December 2013 and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and Labuan Financial Services Authority Act 1996, (Act 545)

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

(ONG SWEE LENG)
For AUDITOR GENERAL
MALAYSIA

PUTRAJAYA
3 JUNE 2014

Statement by The Members of the Labuan Financial Services Authority

We, **DR. ZETI AKHTAR AZIZ** and **AHMAD HIZZAD BAHARUDDIN**, being two of the Members of **LABUAN FINANCIAL SERVICES AUTHORITY**, state that, in the opinion of the Members of the Authority, the accompanying statements of financial position, statements of comprehensive income, statements of cash flows and statements of changes in reserves are properly drawn up in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards so as to give a true and fair view of the financial position of **LABUAN FINANCIAL SERVICES AUTHORITY** as at 31 December 2013 and its financial performance and cash flows for the year ended.

On behalf of the Members of the Authority.

DR. ZETI AKHTAR AZIZ
Chairman

AHMAD HIZZAD BAHARUDDIN
Director-General

Labuan, Malaysia
29 April 2014

Statutory Declaration by the Officer Primarily Responsible for the Financial Management of Labuan Financial Services Authority

I, **DANIAL MAH ABDULLAH** (600626-07-5151), being the officer primarily responsible for the financial management of **LABUAN FINANCIAL SERVICES AUTHORITY**, do solemnly and sincerely declare that the accompanying statements of financial position, statement of comprehensive income, statements of cash flows and statements of changes in reserves are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act 1960.

DANIAL MAH ABDULLAH

Subscribed and solemnly
declared by the above named
DANIAL MAH ABDULLAH
in the Federal Territory of Labuan
on this 29 April 2014

Before me,

COMMISSIONER FOR OATHS
L 006
NORMALA MAT JALI
MALAYSIA

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

Statements of Comprehensive Income

for the Financial Year Ended 31 December 2013

		Group		Authority	
	Note	2013 RM	2012 RM	2013 RM	2012 RM
Revenue	4	**41,684,564**	30,134,819	**39,907,617**	28,763,423
Other operating income					
Government grant	13	**18,181,837**	15,418,937	**17,498,572**	14,343,520
Income from other investments	5	**1,103,849**	1,063,669	**1,090,638**	869,106
Other income	6	**845,959**	837,838	**426,818**	1,503,283
Other operating expense					
Staff costs	7	**(25,794,323)**	(24,155,017)	**(17,630,539)**	(16,753,986)
Depreciation of property, plant and equipment	9	**(2,234,573)**	(2,709,197)	**(1,463,345)**	(1,172,064)
Other expenses	6	**(22,632,742)**	(18,060,818)	**(28,231,303)**	(25,123,970)
Surplus/(deficit) before tax		**11,154,571**	2,530,231	**11,598,458**	2,429,312
Income tax expense	8	**(2,642)**	(4,940)	**–**	–
Net surplus for the year		**11,151,929**	2,525,291	**11,598,458**	2,429,312

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

Statements of Financial Position
as at 31 December 2013

	Note	Group 2013 RM	Group 2012 RM	Authority 2013 RM	Authority 2012 RM
ASSETS					
Non-current assets					
Property, plant and equipment	9	**62,200,165**	60,406,468	**61,683,983**	59,154,393
Investment in subsidiary	10	–	–	**900,000**	900,000
Other receivables	11	**7,053,390**	8,578,139	**7,053,390**	8,578,139
		69,253,555	68,984,607	**69,637,373**	68,632,532
Current assets					
Fees and other receivables	11	**16,844,294**	10,732,205	**19,575,915**	13,309,810
Cash and bank balances	12	**48,203,462**	39,481,786	**45,456,005**	32,168,163
		65,047,756	50,213,991	**65,031,920**	45,477,973
Total assets		**134,301,311**	119,198,598	**134,669,293**	114,110,505
RESERVES AND LIABILITIES					
Current liabilities					
Deferred income	13	**14,115,594**	12,301,431	**12,036,571**	9,539,143
Other payables	14	**14,119,112**	10,368,091	**15,994,335**	7,917,433
Government loans	15	**1,500,000**	500,000	**1,500,000**	500,000
Income tax payables		**2,642**	3,042	**–**	–
		29,737,348	23,172,564	**29,530,906**	17,956,576
Non-current liabilities					
Deferred income	13	**55,429,936**	56,595,936	**55,429,936**	56,595,936
Employee benefits	16	**523,000**	471,000	**523,000**	471,000
Government loans	15	**10,000,000**	11,500,000	**10,000,000**	11,500,000
		65,952,936	68,566,936	**65,952,936**	68,566,936
Total liabilities		**95,690,284**	91,739,500	**95,483,842**	86,523,512
Reserves					
Accumulated surplus		**38,611,027**	27,459,098	**39,185,451**	27,586,993
Total reserves and liabilities		**134,301,311**	119,198,598	**134,669,293**	114,110,505

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 2013

	Accumulated surplus RM
GROUP	
Opening balance at 1 January 2012	24,933,807
Net surplus for the year	2,525,291
Closing balance at 31 December 2012	27,459,098
Opening balance at 1 January 2013	27,459,098
Net surplus for the year	11,151,929
Closing balance at 31 December 2013	38,611,027
AUTHORITY	
Opening balance at 1 January 2012	25,157,681
Net surplus for the year	2,429,312
Closing balance at 31 December 2012	27,586,993
Opening balance at 1 January 2013	27,586,993
Net surplus for the year	11,598,458
Closing balance at 31 December 2013	39,185,451

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 2013

	Group		Authority	
	2013	2012	2013	2012
	RM	RM	RM	RM
OPERATING ACTIVITIES				
Surplus before tax	**11,154,571**	2,530,231	**11,598,458**	2,429,312
Adjustments for:				
Depreciation of property, plant and equipment	**2,234,573**	2,709,197	**1,463,345**	1,172,064
Allowance for impairment loss on investment in subsidiary written-back	**–**	–	**–**	(899,999)
Utilisation of government grant	**(18,181,837)**	(15,418,937)	**(17,498,572)**	(14,343,520)
Gain on disposal of property, plant and equipment	**(66,054)**	(35,543)	**(46,264)**	(31,466)
Provision for long term employee benefits	**52,000**	54,000	**52,000**	54,000
Property, plant and equipment written off	**10,047**	98,915	**10,047**	7,338
Interest income	**(1,281,959)**	(1,264,923)	**(1,268,748)**	(1,070,360)
Operating Deficit Before Working Capital Changes	**(6,078,659)**	(11,327,060)	**(5,689,734)**	(12,682,631)
Changes in working capital:				
Fees receivable	**(5,524,411)**	(539,908)	**(5,696,282)**	(469,613)
Other receivables	**937,071**	(209,756)	**953,426**	276,134
Amounts due from subsidiaries	**–**	–	**1,500**	(4,941)
Fees received in advance	**3,146,296**	1,587,243	**3,146,296**	1,587,243
Refundable deposits	**–**	(200,000)	**–**	(200,000)
Other payables and accruals	**604,725**	(573,078)	**487,806**	4,006
Amount owing to a subsidiary	**–**	–	**4,442,800**	300,157
Cash Used In Operations	**(6,914,978)**	(11,262,559)	**(2,354,188)**	(11,189,645)
Income tax paid	**(3,042)**	(1,898)	**–**	–
Interest received	**178,110**	201,254	**178,110**	201,254
Net Cash Used In Operating Activities	**(6,739,910)**	(11,063,203)	**(2,176,078)**	(10,988,391)
INVESTING ACTIVITIES				
Decrease/(Increase) in fixed deposits	**9,595,458**	(10,267,162)	**10,103,883**	(15,467,162)
Proceeds from disposal of plant and equipment	**126,224**	35,569	**46,265**	31,493
Additions of property, plant and equipment	**(4,098,487)**	(58,822,699)	**(4,002,983)**	(58,641,479)
Interest received	**1,103,849**	1,063,669	**1,090,638**	869,106
Net Cash From/(Used) In Investing Activities	**6,727,044**	(67,990,623)	**7,237,803**	(73,208,042)
FINANCING ACTIVITIES				
Government grant	**18,830,000**	78,930,316	**18,830,000**	78,930,316
Repayment of Government loans	**(500,000)**	(500,000)	**(500,000)**	(500,000)
Net Cash From Financing Activities	**18,330,000**	78,430,316	**18,330,000**	78,430,316
Net increase/(decrease) in cash and cash equivalents	**18,317,134**	(623,510)	**23,391,725**	(5,766,117)
Cash and cash equivalents at 1 January	**7,314,624**	7,938,134	**701,001**	6,467,118
Cash and cash equivalents at 31 December (note 12)	**25,631,758**	7,314,624	**24,092,726**	701,001

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

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") as issued by the Malaysian Accounting Standards Board ("MASB") and International Financial Reporting Standards.

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

The financial statements are presented in Ringgit Malaysia (RM).

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 2013, the Group and the Authority adopted the following new and amended MFRS and IC Interpretations mandatory for annual financial periods beginning on or after 1 January 2013.

Descriptions	Effective for annual periods beginning on or after
Amendments to MFRS 101: Presentation of Items of Other Comprehensive Income	1 July 2012
MFRS 3 Business Combinations (IFRS 3 Business Combinations issued by IASB in March 2004)	1 January 2013
MFRS 127 Consolidated and Separate Financial Statements (IAS 27 revised by IASB in December 2003)	1 January 2013
MFRS 10 Consolidated Financial Statements	1 January 2013
MFRS 11 Joint Arrangements	1 January 2013

2. Summary of significant accounting policies (continued)

2.2 Changes in accounting policies (continued)

Descriptions	Effective for annual periods beginning on or after
MFRS 12 Disclosure on Interest in Other Entities	1 January 2013
MFRS 13 Fair Value Measurement	1 January 2013
MFRS 119 Employee Benefits (IAS 19 as amended by IASB in June 2011)	1 January 2013
MFRS 127 Separate Financial Statements (IAS 27 as amended by IASB in May 2011)	1 January 2013
MFRS 128 Investment in Associate and Joint Ventures (IAS 28 as amended by IASB in May 2011)	1 January 2013
IC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine	1 January 2013
Amendments to MFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013
Annual Improvements 2009-2011 Cycle	1 January 2013
Amendments to MFRS 1: Government Loans	1 January 2013
Amendments to MFRS 10, MFRS 11 and MFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	1 January 2013

Adoption of the above standards and interpretation did not have any effect on the financial performance or position of the Group and the Authority except for those discussed below:-

MFRS 127 Separate Financial Statements

As a consequence of the new MFRS 10 and MFRS 12, MFRS 127 is limited to accounting for subsidiaries, jointly controlled entities and associates in separate financial statements.

Amendments to MFRS 101: Presentation of Financial Statements (Annual Improvements 2009-2011 Cycle)

The amendments to MFRS 101 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, exchange differences on translation of foreign operations and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affects presentation only and has no impact on the Group and the Authority’s financial position and performance.

2.3 Standards issued but not yet effective

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

Descriptions	**Effective for annual periods beginning on or after**
Amendments to MFRS 132: Offsetting Financial Assets and Financial Liabilities	1 January 2014
Amendments to MFRS 10, MFRS 12 and MFRS 127: Investment Entities	1 January 2014
Amendments to MFRS 136: Recoverable Amount Disclosures for Non-Financial Assets	1 January 2014
Amendments to MFRS 139: Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014
IC Interpretation 21 Levies	1 January 2014
Amendments to MFRS 119: Defined Benefit Plans: Employee Contributions	1 July 2014
Annual Improvements to MFRSs 2010-2012 Cycle	1 July 2014
Annual Improvements to MFRSs 2011-2013 Cycle	1 July 2014
MFRS 9 Financial Instruments (IFRS 9 issued by IASB in November 2009)	To be announced
MFRS 9 Financial Instruments (IFRS 9 issued by IASB in October 2010)	To be announced
MFRS 9 Financial Instruments: Hedge Accounting and amendments to MFRS 9, MFRS 7 and MFRS 139	To be announced

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

2. 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.

Losses within a subsidiary are attributed to the non-controlling interests even if that results in a deficit balance.

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

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

2. Summary of significant accounting policies (continued)

2.4 Basis of consolidation (continued)

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.

2.5 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. Summary of significant accounting policies (continued)

2.6 Foreign currencies

The Group and the Authority's financial statements are presented in Ringgit Malaysia, which is also the Authority's functional currency. For each entity the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and has elected to recycle the gain or loss that arises from this method.

2.7 Revenue recognition

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

a) Fee income from business

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

b) Other fees

Revenue is recognised upon performance of services and to the extent that it is 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.

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.

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

2. Summary of significant accounting policies (continued)

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.

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.

2. Summary of significant accounting policies (continued)

2.9 Taxes (continued)

b) Deferred tax (continued)

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.

2.10 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.

2. Summary of significant accounting policies (continued)

2.10 Property, plant and equipment (continued)

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.

a) Group as a lessee

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

b) Group as a lessor

Leases in which the Group and the Authority do not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

2.12 Financial instruments — initial recognition and subsequent measurement

a) 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. The Group and the Authority determine the classification of its financial assets at initial recognition.

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.

2. Summary of significant accounting policies (continued)

2.12 Financial instruments — initial recognition and subsequent measurement (continued)

a) Financial assets (continued)

ii) Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held-for-trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held-for-trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Authority that are not designated as hedging instruments in hedge relationships as defined by MFRS 139. Derivatives, including separated embedded derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value recognised in finance income or finance costs in the profit or loss.

The Group and the Authority have not designated any financial assets at fair value through profit or loss during the years ended 31 December 2013 and 2012.

Loans and receivables

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.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Authority has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortised cost using the effective interest method, 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.

The Group and the Authority has not designated any Held-to-maturity investments during the years ended 31 December 2013 and 2012.

2. Summary of significant accounting policies (continued)

2.12 Financial instruments — initial recognition and subsequent measurement (continued)

a) Financial assets (continued)

ii) Subsequent measurement (continued)

Available-for-sale financial investments

Available-for-sale financial investments include equity and debt securities. Equity investments classified as available-for-sale are those, neither classified as held-for-trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised, at which time, the cumulative gain or loss is recognised in other operating income, or determined to be impaired, at which time the cumulative loss is reclassified to the profit or loss in finance costs and removed from the available-for-sale reserve. Interest income on available-for-sale debt securities is calculated using the effective interest method and is recognised in profit or loss.

The Group and the Authority do not have any available-for-sale financial investments during the years ended 31 December 2013 and 2012.

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.

2. Summary of significant accounting policies (continued)

2.12 Financial instruments — initial recognition and subsequent measurement (continued)

b) 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.

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 recognized 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.

2. Summary of significant accounting policies (continued)

2.12 Financial instruments — initial recognition and subsequent measurement (continued)

c) 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, bank overdrafts, loans and borrowings and financial guarantee contracts.

ii) Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held-for-trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Authority that are not designated as hedging instruments in hedge relationships as defined by MFRS 139. Separated embedded derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held-for-trading are recognised in the profit or loss.

The Group and the Authority has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

2. Summary of significant accounting policies (continued)

2.12 Financial instruments — initial recognition and subsequent measurement

c) Financial liabilities (continued)

ii) Subsequent measurement (continued)

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.

Financial guarantee contracts

Financial guarantee contracts issued by the Authority are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

The Group and the Authority does not have any financial guarantee contracts during the years ended 31 December 2013 and 2012.

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.

d) 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. Summary of significant accounting policies (continued)

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 balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 18.

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

– In the principal market for the asset or liability, or

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

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

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized 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. Summary of significant accounting policies (continued)

2.15 Cash and short-term deposits

Cash and short-term deposits in the statements of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

For the purpose of the statements of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above.

2.16 Provisions

General

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

2.17 Employee benefits

Defined contribution plans

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

Liability for other long term employee benefits

The Group's net obligation in respect of other long term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value and the fair value of any related assets is deducted. The discount rate is the market yield at the reporting date on high quality corporate bonds or government bonds.

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.

3.1 Key sources of estimation uncertainty

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

a) Impairment of fees and other receivables

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

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

b) Deferred tax assets

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

c) Long term employee benefits

The cost of defined benefit pension plans and other post-employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of corporate bonds or government bonds in their respective currencies with at least an AA rating or above, and extrapolated maturity corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality. Those having excessive credit spreads are removed from the analysis of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds.

The mortality rate is based on publicly available mortality tables for the specific countries. Future salary increases and pension increases are based on expected future inflation rates for the respective countries.

4. Revenue

	Group		Authority	
	2013 RM	**2012 RM**	**2013 RM**	**2012 RM**
Fee income	**39,907,617**	28,763,423	**39,907,617**	28,763,423
Other fees	**1,776,947**	1,371,396	**–**	–
	41,684,564	30,134,819	**39,907,617**	28,763,423

5. Income from other investments

	Group		Authority	
	2013 RM	**2012 RM**	**2013 RM**	**2012 RM**
Interest received from:				
Fixed deposits	**1,080,376**	1,003,909	**1,067,165**	809,346
Money at call	**23,473**	59,760	**23,473**	59,760
	1,103,849	1,063,669	**1,090,638**	869,106

6. Other income/(expenses)

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

	Group		Authority	
	2013 RM	2012 RM	2013 RM	2012 RM
Other income:				
Interest income from staff loans:				
– Key management personnel	**24,466**	25,338	**24,466**	25,338
– Others	**153,644**	175,916	**153,644**	175,916
Rental income	**115,031**	94,847	**82,750**	83,914
Miscellaneous income	**451,504**	497,546	**105,485**	286,650
Gain on disposal of property, plant and equipment	**66,054**	35,543	**46,264**	31,466
Gain on Currency Exchange	**4,163**	–	**4,163**	–
Reversal of allowance for impairment loss on other receivables	**21,051**	8,648	**–**	–
Allowance for impairment loss on investment in subsidiary written back	**–**	–	**–**	899,999

	Group		Authority	
	2013 RM	2012 RM	2013 RM	2012 RM
Other operating expenses:				
Project expenditure incurred under the Tenth Malaysia Plan government grant*	**(17,015,837)**	(14,880,872)	**(16,332,572)**	(13,805,455)
Audit fees				
– current year	**(57,980)**	(57,600)	**(22,180)**	(22,000)
– over provision in prior year	**–**	1,669	**–**	1,669
Rental expenses	**(1,940,455)**	(1,549,423)	**(1,504,806)**	(1,085,472)
Fees and trade receivable written off	**(1,396,693)**	(35,100)	**(1,244,900)**	(35,100)
Amount owing by subsidiary companies written off	**–**	–	**(13,013)**	(1,812,333)
Property, plant and equipment written off	**(582,943)**	(98,915)	**(10,047)**	(7,338)
Contributions to Labuan FSA Staff Welfare Fund	**(400,000)**	(350,000)	**(400,000)**	(350,000)
Lease of machinery and equipment	**(53,280)**	(157,742)	**(53,280)**	(65,280)
Tuition fees paid to a subsidiary	**–**	–	**(391,491)**	(349,754)
Allowance for impairment loss on fees receivables	**(806,912)**	(1,473,105)	**(749,573)**	(1,409,500)
Allowance for impairment loss on other receivables written back	**–**	19,641	**–**	19,641
Bad debts written back on other receivables	**–**	(19,641)	**–**	(19,641)

6. Other income/(expenses) (continued)

* These included the following expenditures:

	Group		Authority	
	2013 RM	2012 RM	2013 RM	2012 RM
Expenses for Information Technology System upgrade	–	(237,037)	–	(237,037)
Infrastructure for school building	(1,912,178)	(2,047,587)	(1,912,178)	(2,047,587)
Management fees	(1,348,500)	(1,328,100)	–	–
Operational expenses	(3,285,149)	(862,085)	–	–
Promotional and marketing expenses	(4,052,995)	(2,259,455)	–	–
Research and development expenses	–	(17,412)	–	(17,412)
Tenth Malaysia Plan expenses paid to subsidiaries	–	–	(14,127,370)	(11,257,782)
Office rental – Kuala Lumpur	–	(224,806)	–	(224,806)
Global Takaful Group	(293,024)	(40,953)	(293,024)	(40,953)

7. Staff costs

	Group		Authority	
	2013 RM	2012 RM	2013 RM	2012 RM
Staff costs*	25,794,323	24,155,017	17,630,539	16,753,986

* These included the following staff costs:

	Group		Authority	
	2013 RM	2012 RM	2013 RM	2012 RM
Members' remuneration:				
– Executive	1,169,238	1,154,077	1,169,238	1,154,077
– Non-executive	153,500	157,500	128,500	109,000
Other key management personnel compensation:				
– Short term employee benefits	3,185,685	3,164,541	2,585,685	2,727,041
Employees Provident Fund	2,828,677	2,656,189	2,160,707	2,110,811

8. Income tax expense

	Group		Authority	
	2013 RM	2012 RM	2013 RM	2012 RM
Statement of comprehensive income:				
Malaysian income tax:				
Current tax	**2,642**	3,042	**–**	–
Underprovision of income tax in prior year	**–**	1,898	**–**	–
Tax expense for the year	**2,642**	4,940	**–**	–

Group

Domestic current income tax is calculated at the statutory tax rate of 25% (2012: 25%) of the estimated assessable profit for the year. The statutory tax rate will be reduced to 24% from the current year's rate of 25%, effective year of assessment 2016.

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.

Subsidiary

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.

8. Income tax expense (continued)

Reconciliation between tax expense and accounting surplus

The reconciliation between tax expense and the product of accounting surplus multiplied by the applicable corporate tax rate for the years ended 31 December 2013 and 2012 are as follows:

	Group		Authority	
	2013 RM	**2012 RM**	**2013 RM**	**2012 RM**
Surplus before tax	**11,154,571**	2,530,231	**11,598,458**	2,429,312
Taxation at Malaysian statutory tax rate of 25% (2012: 25%)	**2,788,643**	632,558	**2,899,615**	607,328
Effect of tax rate of 20%	**(661)**	–	**–**	–
Effect of income not subject to tax	**(3,804,624)**	(364,733)	**(2,899,615)**	(607,328)
Effect of expenses not deductible for tax purposes	**918,813**	21,321	**–**	–
Utilisation of previously unrecognised tax losses	**(41,737)**	(286,104)	**–**	–
Under provision of income tax expense in prior years	**–**	1,898	**–**	–
Deferred tax assets not recognised	**142,208**	–	**–**	–
Tax expense for the year	**2,642**	4,940	**–**	–

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

	Group	
	2013 RM	**2012 RM**
Provisions	**390,901**	593,400
Unutilised tax losses	**1,951,960**	2,194,761
Accelerated capital allowances	**61,780**	61,024
	2,404,641	2,849,185

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

9. Property, plant and equipment

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 2012	442,000	688,000	1,476,881	3,097,006	13,435,734	–	19,139,621
Additions	–	58,300,000	87,779	172,512	262,408	–	58,822,699
Disposals	–	–	(107,680)	(107,131)	(1,690)	–	(216,501)
Write off			(117,473)	(121,071)	(14,476)	–	(253,020)
At 31 December 2012/ 1 January 2013	442,000	58,988,000	1,339,507	3,041,316	13,681,976	–	77,492,799
Additions	–	–		362,344	609,581	3,126,562	4,098,487
Disposals	–	–	(139,552)	–	(79,959)	–	(219,511)
Write off				(318,158)	(274,832)	–	(592,990)
At 31 December 2013	442,000	58,988,000	1,199,955	3,085,502	13,936,766	3,126,562	80,778,785
Accumulated depreciation							
At 1 January 2012	6,736	189,703	1,111,086	2,828,116	10,612,073	–	14,747,714
Charge for the year	518	551,942	135,358	183,000	1,838,379	–	2,709,197
Disposals	–	–	(107,679)	(107,107)	(1,689)	–	(216,475)
Write off	–	–	(29,288)	(110,343)	(14,474)	–	(154,105)
At 31 December 2012/ 1 January 2013	7,254	741,645	1,109,477	2,793,666	12,434,289	–	17,086,331
Charge for the year	518	1,179,750	85,695	172,581	796,029	–	2,234,573
Disposals	–	–	(139,551)	–	(19,790)	–	(159,341)
Write off	–	–	–	(317,356)	(265,587)	–	(582,943)
At 31 December 2013	7,772	1,921,395	1,055,621	2,648,891	12,944,941	–	18,578,620
Carrying amounts							
At 31 December 2012	434,746	58,246,355	230,030	247,650	1,247,687	-	60,406,468
At 31 December 2013	434,228	57,066,605	144,334	436,611	991,825	3,126,562	62,200,165

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 2012	442,000	688,000	654,106	2,680,383	5,228,576	–	9,693,065
Additions	–	58,300,000	87,779	116,924	136,776	–	58,641,479
Disposals	–	–	(107,680)	(107,131)	(1,690)	–	(216,501)
Write off	–	–	–	(111,982)	(14,476)	–	(126,458)
At 31 December 2012/1 January 2013	442,000	58,988,000	634,205	2,578,194	5,349,186	–	67,991,585
Additions	–	–	–	336,101	540,320	3,126,562	4,002,983
Disposals	–	–	(139,552)	–	–	–	(139,552)
Write off	–	–	–	(318,158)	(274,832)	–	(592,990)
At 31 December 2013	442,000	58,988,000	494,653	2,596,137	5,614,674	3,126,562	71,262,026
Accumulated depreciation							
At 1 January 2012	6,736	189,703	650,439	2,480,115	4,673,729	–	8,000,722
Charge for the year	518	551,942	15,478	132,098	472,028	–	1,172,064
Disposals	–	–	(107,679)	(107,107)	(1,689)	–	(216,475)
Write off				(104,645)	(14,474)		(119,119)
At 31 December 2012/ 1 January 2013	7,254	741,645	558,238	2,400,461	5,129,594		8,837,192
Charge for the year	518	1,179,750	21,945	129,625	131,507	–	1,463,345
Disposals	–	–	(139,551)	–	–	–	(139,551)
Write off				(317,356)	(265,587)		(582,943)
At 31 December 2013	7,772	1,921,395	440,632	2,212,730	4,995,514		9,578,043
Carrying amounts							
At 31 December 2012	434,746	58,246,355	75,967	177,733	219,592	–	59,154,393
At 31 December 2013	434,228	57,066,605	54,021	383,407	619,160	3,126,562	61,683,983

10. Investments in subsidiaries

	Authority 2013 RM	Authority 2012 RM
Unquoted shares, at cost	**900,000**	900,000

Name	Country of incorporation	Principal activities	Proportion (%) of ownership interest 2013	Proportion (%) of ownership interest 2012
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	Marketing and promoting Labuan International Business and Financial Centre	**100**	100

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

11. Fees and other receivables

	Group		Authority	
	2013 RM	2012 RM	2013 RM	2012 RM
Current				
Fees and trade receivables	**14,961,337**	8,686,303	**14,581,033**	8,113,077
Less: Allowance for impairment	**(2,024,230)**	(1,273,607)	**(1,928,354)**	(1,156,680)
Fees and trade receivables, net	**12,937,107**	7,412,696	**12,652,679**	6,956,397
Other receivables:				
Amount due from subsidiary	**–**	–	**4,002,928**	4,004,428
Staff housing loans	**421,670**	477,974	**421,670**	477,974
Staff vehicle loans	**313,842**	255,648	**313,842**	255,648
Staff advances/sundry debtors	**1,945,906**	1,352,934	**1,564,106**	920,839
Refundable deposits	**677,064**	596,392	**403,299**	248,540
Interest receivable	**604,607**	621,101	**604,607**	621,101
Prepaid expenses	**111,003**	7,315	**3,200**	3,200
Others	**223,511**	186,462	**–**	
	4,297,603	3,497,826	**7,313,652**	6,531,730
Less: Allowance for impairment	**(390,416)**	(178,317)	**(390,416)**	(178,317)
	3,907,187	3,319,509	**6,923,236**	6,353,413
	16,844,294	10,732,205	**19,575,915**	13,309,810
Non-current				
Other receivables:				
Staff housing loans	**6,048,055**	7,441,146	**6,048,055**	7,441,146
Staff vehicle loans	**1,005,335**	1,136,993	**1,005,335**	1,136,993
	7,053,390	8,578,139	**7,053,390**	8,578,139
Total fees and other receivables (current and non-current)	**23,897,684**	19,310,344	**26,629,305**	21,887,949
Add: Cash and bank balances (note 12)	**48,203,462**	39,481,786	**45,456,005**	32,168,163
Less: Prepayments	**(111,003)**	(7,315)	**(3,200)**	(3,200)
Total loans and receivables	**71,990,143**	58,784,815	**72,082,110**	54,052,912

11. Fees and other receivables (continued)

a) Fees and trade receivables

Aging analysis of fees and trade receivables

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

	Group	
	2013 RM	2012 RM
Neither past due nor impaired	**12,652,679**	6,956,397
1 to 90 days past due not impaired	**–**	89,563
More than 91 days past due not impaired	**284,428**	366,736
	284,428	456,299
Impaired	**2,024,230**	1,273,607
	14,961,337	8,686,303

	Authority	
	2013 RM	2012 RM
Neither past due nor impaired	**12,652,679**	6,956,397
Impaired	**1,928,354**	1,156,680
	14,581,033	8,113,077

Receivables that are neither past due nor impaired

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

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

Receivables that are past due but not impaired

The Group has fees and trade receivables amounting to RM284,428 (2012: RM456,299) that are past due at the reporting date but not impaired.

11. Fees and other receivables (continued)

a) Fees and trade receivables (continued)

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	
	2013 RM	**2012 RM**	**2013 RM**	**2012 RM**	**2013 RM**	**2012 RM**
Group						
Trade receivables – nominal amounts	**767,929**	415,517	**1,256,301**	858,090	**2,024,230**	1,273,607
Less: Allowance for impairment	**(767,929)**	(415,517)	**(1,256,301)**	(858,090)	**(2,024,230)**	(1,273,607)
	–	–	**–**	–	**–**	–
Authority						
Trade receivables – nominal amounts	**709,054**	376,980	**1,219,300**	779,700	**1,928,354**	1,156,680
Less: Allowance for impairment	**(709,054)**	(376,980)	**(1,219,300)**	(779,700)	**(1,928,354)**	(1,156,680)
	–	–	**–**	–	**–**	–

Movement in allowance account

	Group		Authority	
	2013 RM	**2012 RM**	**2013 RM**	**2012 RM**
At 1 January	**1,273,607**	1,004,337	**1,156,680**	945,180
Net charged/(reversal) for the year	**750,623**	269,270	**771,674**	211,500
At 31 December	**2,024,230**	1,273,607	**1,928,354**	1,156,680

Fees and trade receivables that are individually determined to be impaired at the reporting date relate to debtors that are in significant financial difficulties and 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 (2012: 30 years and 9 year respectively). The interest charged on these loan ranges from 2% to 3% (2012: 2% to 3%) per annum.

c) Amount due from subsidiary

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

12. Cash and bank balances

	Group		Authority	
	2013	**2012**	**2013**	**2012**
	RM	**RM**	**RM**	**RM**
Cash on hand and at banks	**6,210,331**	7,314,624	**4,671,299**	701,001
Money at call with licensed banks	**19,421,427**	–	**19,421,427**	–
Fixed deposits with licensed banks	**22,571,704**	32,167,162	**21,363,279**	31,467,162
Cash and bank balances	**48,203,462**	39,481,786	**45,456,005**	32,168,163

Cash at banks earns interest at floating rates based on daily bank deposit rates. Money at call with licensed banks is made for varying periods of one days depending on the immediate cash requirement of the Group and of the Authority. The weighted average effective interest rates as at 31 December 2013 for the Group and the Authority were 3.04% (2012: 3.44%) per annum.

For the purpose of statements of cash flows, cash and cash equivalents comprised the following at the reporting date:

	Group		Authority	
	2013	**2012**	**2013**	**2012**
	RM	**RM**	**RM**	**RM**
Cash and bank balances	**48,203,462**	39,481,786	**45,456,005**	32,168,163
Less: Fixed deposits with licensed banks	**(22,571,704)**	(32,167,162)	**(21,363,279)**	(31,467,162)
Cash and cash equivalents	**25,631,758**	7,314,624	**24,092,726**	701,001

Cash held in trust

The Authority received US$6,519,874 in trust for a Labuan company as stakeholder pursuant to a Court order dated 22 October 2013. The sum of cash was placed with a licensed bank and earns interest of 0.15% per annum.

As at reporting date the balance of US$6,520,172 (inclusive of US$299 interest earned) was not reflected as cash and bank balances of the Authority and of the Group.

13. Deferred income

a) Grant related to income

During the year, the Group and the Authority received a government grant of RM18.83 million (2012: RM20.63 million) from the Ministry of Finance for the purpose of projects to be undertaken by the Authority under the Tenth Malaysia Plan.

The government grant received 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.

	Group		Authority	
	2013 RM	**2012 RM**	**2013 RM**	**2012 RM**
At 1 January	**11,135,431**	5,385,988	**8,373,143**	1,548,283
Received during the financial year	**18,830,000**	20,630,316	**18,830,000**	20,630,316
Less: Recognised in profit or loss	**(17,015,837)**	(14,880,873)	**(16,332,572)**	(13,805,456)
At 31 December	**12,949,594**	11,135,431	**10,870,571**	8,373,143

b) Grand related to assets

The grant is recognised in the statement of comprehensive income over the estimated useful lives of the building.

	Group		Authority	
	2013 RM	**2012 RM**	**2013 RM**	**2012 RM**
Cost:				
At 1 January	**58,300,000**	–	**58,300,000**	–
Received during the financial year	**–**	58,300,000	**–**	58,300,000
At 31 December	**58,300,000**	58,300,000	**58,300,000**	58,300,000
Accumulated amortisation:				
At 1 January	**(538,064)**		**(538,064)**	
Amortisation	**(1,166,000)**	(538,064)	**(1,166,000)**	(538,064)
At 31 December	**(1,704,064)**	(538,064)	**(1,704,064)**	(538,064)
Net carrying amount:				
Current	**1,166,000**	1,166,000	**1,166,000**	1,166,000
Non-current	**55,429,936**	56,595,936	**55,429,936**	56,595,936
	56,595,936	57,761,936	**56,595,936**	57,761,936

The remaining maturities of the grants as at 31 December 2013 are as follows:

	Group		Authority	
	2013 RM	**2012 RM**	**2013 RM**	**2012 RM**
Within 12 months	**14,115,495**	12,403,431	**12,036,471**	9,539,143
After 12 months	**55,429,936**	56,595,936	**55,429,936**	56,595,936

14. Other payables

	Group		Authority	
	2013 RM	2012 RM	2013 RM	2012 RM
Current				
Amount due to subsidiary	**–**	–	**4,742,957**	300,157
Fees received in advance	**7,266,797**	4,120,501	**7,266,797**	4,120,501
Refundable deposits	**900,000**	900,000	**900,000**	900,000
Accruals	**2,554,108**	885,026	**435,781**	42,384
Provisions	**369,637**	475,221	**369,637**	475,221
Others	**3,028,570**	3,987,343	**2,279,163**	2,079,170
Total other payables	**14,119,112**	10,368,091	**15,994,335**	7,917,433
Add: Government loans (note 15)	**11,500,000**	12,000,000	**11,500,000**	12,000,000
Total financial liabilities carried at amortised cost	**25,619,112**	22,368,091	**27,494,335**	19,917,433

a) Amount due to subsidiary

The amount due to 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) Other payables

These comprise amounts outstanding for ongoing costs.

15. 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:

	Group and the Authority	
	2013 RM	2012 RM
Within 12 months	**1,500,000**	500,000
After 12 months	**10,000,000**	11,500,000

16. Employee benefits

Movements in the liability for other long term employee benefits:

	Group and the Authority	
	2013	2012
	RM	RM
At 1 January	**471,000**	417,000
Recognised in profit or loss	**52,000**	54,000
At 31 December	**523,000**	471,000

Assumptions

Principal assumptions at the reporting date:

	Group and the Authority	
	2013	2012
	%	%
Discount rate at 31 December	**3.48**	3.42
Future salary increases	**5.00**	5.00

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

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

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

17. 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 Authority and related parties took place at terms agreed between the parties during the financial year:

	Authority	
	2013 RM	**2012 RM**
Tuition fees paid to a subsidiary	**391,491**	349,754
Project expenditure incurred under the Tenth Malaysia Plan under government grant to subsidiary	**14,127,370**	13,305,369

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

b) Transactions with key management personnel

	Group and the Authority	
	2013 RM	**2012 RM**
Key management personnel		
– Staff housing loans	**962,274**	1,056,123
– Staff vehicle loans	**172,664**	227,773
	1,134,938	1,283,896

18. Fair value of financial instruments

a. Fair value of financial instrument by classes that are not carried at fair value and whose carrying amounts are not reasonable approximation of fair value

		Group		Authority	
	Note	**Carrying amount RM**	**Fair value RM**	**Carrying amount RM**	**Fair value RM**
31 December 2013					
Financial asset:					
Other receivables (non-current)	11	**7,053,390**	**7,020,770**	**7,053,390**	**7,020,770**
Financial liability:					
Government loans	15	**10,000,000**	**10,000,000**	**10,000,000**	**10,000,000**
31 December 2012					
Financial asset:					
Other receivables (non-current)	11	8,578,139	8,538,467	8,578,139	8,538,467
Financial liability:					
Government loans	15	11,500,000	11,500,000	11,500,000	11,500,000

18. Fair value of financial instruments (continued)

b. Determination of fair value

Financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximate of fair value

The following are classes of financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value:

	Note
Financial assets:	
Fees and other receivables – current	11
Cash and bank balances	12
Financial liabilities:	
Other payables	14
Government loans – current	15

The fair values of these financial assets and liabilities approximately their carrying amounts largely due to the short-term maturities.

19. Financial risk management objectives and policies

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.

Information regarding credit enhancements for fees and trade receivables is disclosed in Note 11(a).

b) Liquidity risk

The Authority practices 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.

19. Financial risk management objectives and policies (continued)

b) Liquidity risk (continued)

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.

31 December 2013	On demand or within one year RM	One to five years RM	Over five years RM	Total RM
Group				
Financial assets:				
Fees and other receivables	16,733,291	2,468,687	4,584,703	23,786,681
Cash and bank balances	48,204,442	–	–	48,204,442
	64,937,733	2,468,687	4,584,703	71,991,123
Financial liabilities:				
Government loans	1,500,000	8,000,000	2,000,000	11,500,000
Other payables	14,119,112	–	–	14,119,112
	15,619,112	8,000,000	2,000,000	25,619,112
Net undiscounted financial assets/ (liabilities)	**49,318,621**	**(5,531,313)**	**2,584,703**	**46,327,011**
Authority				
Financial assets:				
Fees and other receivables	19,572,715	2,468,687	4,584,703	26,626,105
Cash and bank balances	45,456,005	–	–	45,456,005
	65,028,720	2,468,687	4,584,703	72,082,110
Financial liabilities:				
Government loans	1,500,000	8,000,000	2,000,000	11,500,000
Other payables	15,994,335	–	–	15,994,335
	17,494,335	8,000,000	2,000,000	27,494,335
Net undiscounted financial assets/ (liabilities)	**47,534,385**	**(5,531,313)**	**2,584,703**	**44,587,775**

19. Financial risk management objectives and policies (continued)

b) Liquidity risk (continued)

Analysis of financial instruments by remaining contractual maturities (continued)

31 December 2012	On demand or within one year RM	One to five years RM	Over five years RM	Total RM
Group				
Financial assets:				
Fees and other receivables	10,724,887	2,750,869	5,827,273	19,303,029
Cash and bank balances	39,481,786	–	–	39,481,786
	50,206,673	2,750,869	5,827,273	58,784,815
Financial liabilities:				
Government loans	500,000	6,000,000	5,500,000	12,000,000
Other payables	10,368,091	–	–	10,368,091
	10,868,091	6,000,000	5,500,000	22,368,091
Net undiscounted financial assets/ (liabilities)	**39,338,582**	**(3,249,131)**	**327,273**	**36,416,724**
Authority				
Financial assets:				
Fees and other receivables	13,306,607	2,750,869	5,827,273	21,884,749
Cash and bank balances	32,168,163	–	–	32,168,163
	45,474,770	2,750,869	5,827,273	54,052,912
Financial liabilities:				
Government loans	500,000	6,000,000	5,500,000	12,000,000
Other payables	7,917,433	–	–	7,917,433
	8,417,433	6,000,000	5,500,000	19,917,433
Net undiscounted financial assets/ (liabilities)	**37,057,337**	**(3,249,131)**	**327,273**	**34,135,479**

20. Authorisation of financial statements for issue

The financial statements were authorised for issue by the Members of the Authority on 29 April 2014.

Appendices

Listing of Labuan Associations

ASSOCIATION OF LABUAN BANKS
Level 8(D), Main Office Tower
Financial Park Labuan
Jalan Merdeka
87000 FT Labuan, Malaysia
Tel : 087-452778
Fax : 087-452779
Email : admin@alb-labuan.com
Chairman : Mr. Jubely Pa
Secretary : Ms Clara Lim Ai Cheng

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
Tel : 087-410745
Fax : 087-419755
Email : cck@noblehouse-labuan.com
Chairman : Datuk Chin Chee Kee
Secretary : Mr. Moritz Gubler

LABUAN INTERNATIONAL INSURANCE ASSOCIATION
c/o Brighton Management Limited
Brighton Place
Ground Floor, Shop Lot No: U0215
Jalan Bahasa, P.O.Box 80431
87014 FT Labuan, Malaysia
Tel : 087-442899
Fax : 087-451899
Email : secretariat@liia-labuan.org
Chairman : Dato' Ahmad Farouk Faizi
Secretary : Ms. Annie Undikai

LABUAN INVESTMENT BANKS GROUP
c/o IBH Investment Bank Limited
7-05, 7th floor, Menara Hap Seng,
Jalan P. Ramlee
50250 Kuala Lumpur
Tel : 03-2072 0730
Fax : 03-2072 0732
Email : howard@ibhinvestmentbank.com
Chairman : Dato' Choo Kah Hoe
Secretary : Ms. Christabel Koh

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

Type of Companies/Type of Fees	Processing/Lodgment/ Registration Fees		Annual Fees	
	RM	USD	RM	USD
A) Labuan Company				
i) Labuan Company				
a) Paid – up Capital of RM0 – MYR50,000	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

Type of Companies/Type of Fees	Processing/Lodgment/ Registration Fees		Annual Fees/ License Fees	
	RM	USD	RM	USD
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

Type of Companies/Type of Fees	Processing/Lodgment/ Registration Fees		Annual Fees	
	RM	USD	RM	USD
B) Service Providers				
a) Approved auditor	150	45	3,000	1,000
b) Approved liquidator	1,050	315	*1,000	*350
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 Bank	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
b) 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	
	RM	USD	RM	USD
H) Labuan Financial Business				
i) Leasing				
a) Single transaction with a Malaysian resident	1,000	350	60,000	20,000
b) Subsequent transaction with a Malaysian resident	1,000	350	20,000	6,000
c) Leasing business/subsequent transaction transacted with non-Malaysian resident	1,000	350	Nil	Nil
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

The exchange rate for USD/RM is 1:3.1 and may change subject to the fluctuations of the exchange rate.

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