

LABUAN : **Connecting**
Asia's Economies



CONNECTING ASIA'S ECONOMIES

The growing pace of Asia's economies coupled with the unique business features provided through Labuan IBFC have attracted multinational corporations across the globe onto its shores. Located in the growth centre of the Asia Pacific region, Labuan IBFC is well positioned as a gateway for connecting investment activities in the region, especially through its fiscal incentives and other value-added propositions.

As the global investing communities continue to focus their attention towards Asia, Labuan FSA, as the regulatory authority for the IBFC, remains vigilant of the challenges the 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 wide international and regional linkages.

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CORPORATE VALUES

INTEGRITY, COMMITMENT & PROFESSIONALISM

OPEN & HONEST COMMUNICATION

TEAMWORK

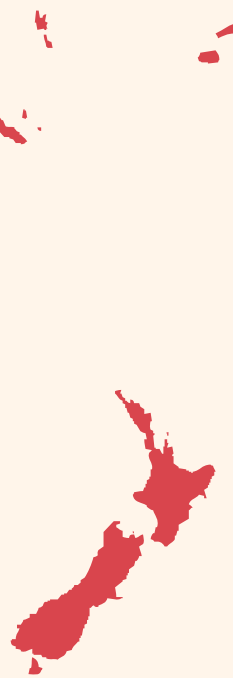
BUSINESS & STAKEHOLDER ORIENTED

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.



**LISTING OF FINANCIAL
INSTRUMENTS**

**OTHER LABUAN
FINANCIAL
BUSINESS**

**OUR
BUSINESS**

THE DIVERSE SELECTION OF LABUAN IBFC'S FINANCIAL PRODUCTS AND SERVICES BRINGS TO INVESTORS A WEALTH OF BUSINESS OPPORTUNITIES, COVERING THE AREAS OF BANKING, INSURANCE, TRUST COMPANY BUSINESS, CAPITAL MARKET, WEALTH MANAGEMENT AND OTHER LABUAN FINANCIAL BUSINESSES.



**WEALTH
MANAGEMENT**

**ISLAMIC
FINANCE**

BANKING

INSURANCE



TAN SRI DATO' SRI DR

**ZETI
AKHTAR
AZIZ**

CHAIRMAN

CHAIRMAN'S STATEMENT

In 2014, the global economic and financial environment experienced continued challenges emanating from increased volatility in the international financial markets and a sharp decline in global oil prices, prompting significant shifts in global liquidity. Global economic growth has been sustained, with economic performance being uneven among the major economies and some emerging market economies recording more modest growth. Despite the more challenging global environment, the ASEAN economies continue to demonstrate the ability to withstand the more volatile international financial markets and the ability to remain one of the fastest-growing and most dynamic regions in the world. The ASEAN economies have benefitted from the economic restructuring initiatives and financial sector reform measures taken by respective national governments as well as capacity building initiatives to promote self-sustained economic growth. The International Monetary Fund (IMF) estimates economic growth in the region to be sustained at an average of 5.4% over the next six years to reach USD3.7 trillion by 2020, four times its size a decade ago.

In this environment, the Labuan International Business and Financial Centre (Labuan IBFC) has benefitted from being centrally located in the

fast growing Asia Pacific region and is strategically well positioned to tap into the growing wealth creation within the ASEAN region. With its focus on becoming a wealth management centre, the Labuan IBFC's comprehensive range of wealth management instruments for investment and protection has continued to draw regional high net worth individuals to set up Labuan foundations with 75.0% of the foundations originating from Asia. Additionally, the unique business propositions offered by the Labuan IBFC have continued to attract multinational corporations from across the globe to its shores. These factors have generated increased business activities and have enhanced the performance of the financial services industry in the Labuan IBFC. Positive results have been recorded across all key sectors in 2014.

The Labuan Financial Services Authority (Labuan FSA), as the regulatory authority for the Labuan IBFC, has taken significant steps to further strengthen the regulatory and supervisory framework for financial entities in Labuan in line with global standards. This includes strengthening prudential standards with a focus on corporate governance and risk management, enhancing transparency and advancing arrangements for the more effective exchange of information

Chairman's Statement

Throughout the journey, the Labuan FSA has remained focused on its vision and strategic priorities. The core values that embody the Labuan FSA as an organisation of integrity and professionalism will continue to be upheld and strengthened over time.

to support supervision, risk assessments and international cooperation. Standards on anti-money laundering and counter financing of terrorism also continue to be raised. This has been reinforced by stronger prosecution and enforcement frameworks.

The Labuan IBFC continues to build on its cross-border cooperation with other regulatory bodies given the greater international financial linkages across financial centres in the current global financial system. During the year, the Labuan FSA entered into Memoranda of Understanding on Co-operation and Mutual Assistance with the Jersey Financial Services Commission, Financial Supervisory Commission of Taiwan and Financial Supervisory Commission of Gibraltar. This further expands the framework of cooperation with other foreign regulatory authorities covering research and development, capacity building, enforcement, regulation and mutual exchange of information as well as supervisory and investigation assistance. The continued deepening of such cooperation represents an important focus of Labuan FSA's regulatory and supervisory activities to promote and maintain confidence in Labuan as a strong and sound international business and financial centre.

During the year, Malaysia, including the Labuan IBFC, was assessed favourably by the Global Forum on Transparency and Exchange of Information for Tax Purposes Phase 2 Peer Review. The overall rating of "Largely Compliant" places Malaysia and the Labuan IBFC among the ranks of other major financial centres in the region. In signifying the commitment towards international collaboration in tax evasion and preserving the integrity of the Labuan IBFC, Malaysia will also adopt the global standard on automatic exchange of information (AEOI) for tax purposes by 2018, following the completion of the necessary legislative procedures.

The year 2015 will hold special significance for the Labuan FSA as it celebrates the 25th anniversary of the Labuan IBFC. Since its establishment 25 years ago, the Labuan IBFC has grown to become one of the important financial centres in the region connecting trade and investments. It is now home to 11,630 companies, 57 international banks, 209 insurance companies, 359 leasing companies, 130 foundations and 9 fund management companies. There are currently 35 financial instruments totalling US\$23.9 billion listed on the Labuan International Financial Exchange.

The journey has been challenging yet rewarding, culminating in the transformation of Labuan to become an international business and financial centre, with a strategic focus on regional business and wealth management. This transformation also reflects the much broader and larger role that the Labuan FSA has taken on since assuming regulatory responsibility for the Labuan IBFC in 1996. Among the key developments in this period that have supported the growth of regional and global businesses located in Labuan were the modernisation of the legislative framework, the design of appropriate tax structures, expanding the scope of business activities, enhancements to key business processes to improve efficiency, the strengthening of organisational and governance structures, and significant investments in human capital.

Throughout the journey, the Labuan FSA has remained focused on its vision and strategic priorities. The core values that embody the Labuan FSA as an organisation of integrity and professionalism will continue to be upheld and strengthened over time. In preserving the Labuan IBFC as a reputable and credible business and financial centre which is able to sustain the trust and confidence of investors, the Labuan FSA will also continue to

provide a conducive business environment that is supported by a sound and effective regulatory and supervisory regime.

Recognising the critical role of human intellectual capital, the Labuan FSA continues to place strong emphasis on human capital development as an important driver in enhancing the competitiveness and dynamism of the financial sector in the Labuan IBFC. In particular, the Labuan FSA continues to prioritise investments in building a team of highly competent and professional staff, focusing on the implementation of technical and certification programmes for its supervisors in addition to leadership development. At the industry level, the Labuan FSA will continue to cooperate with the industry associations to enhance the competency and professionalism of the financial industry workforce where a short term external capacity building programme is being developed to strengthen the capacity and quality of the Labuan service providers.

Looking ahead, 2015 will be a challenging year for financial centres. Nonetheless, the year will also see the opening up of new opportunities, particularly with the realisation of the ASEAN Economic Community (AEC), which will catalyse greater regional trade and investment in the region. Given the immense funding requirements of ASEAN, particularly for large investment projects and infrastructure development, greater financial integration will facilitate channelling a part of the region's surplus funds towards productive investment opportunities in the region. As a well regulated and vibrant international business and financial centre with a wide range of conventional and Islamic financial products and services, the Labuan

IBFC possesses great potential to be a regional centre serving the financial needs of ASEAN and the greater Asia Pacific region.

The Labuan FSA is confident that with the various strategic initiatives and reforms undertaken, the Labuan IBFC is well positioned to provide further business opportunities not only to Malaysian entities but also to those from other parts of the world, especially from the Asian region. With this in view, the Labuan FSA remains focused on meeting the objectives outlined in the Financial Sector Blueprint for the development of the Labuan IBFC.

In recognition of the progress that has been achieved in developing the Labuan IBFC, I would like to acknowledge, on behalf of the Labuan FSA, the contribution of the management and the staff of the Labuan FSA in developing and safeguarding the stability of the Labuan IBFC through the years. I wish to take this opportunity to record my particular gratitude to Dato' Mohd Naim Daruwish for his contribution as an Authority member of the Labuan FSA.

I would also like to acknowledge the valuable contributions and continued support of the members of the International Advisory Panel, the Shariah Supervisory Council, the Financial Stability Committee, government departments and agencies in the development of the Labuan IBFC.

DIRECTOR GENERAL'S

REPORT



Datuk Ahmad Hizzad Baharuddin

Labuan IBFC will continue to provide the synergies for cooperation and financial linkages in the region, particularly amongst the ASEAN countries. This will form the strategic focus of Labuan FSA to continue building on the foundations and momentum of its current progress to accomplish greater achievements ahead.

The Labuan International Business and Financial Centre (Labuan IBFC) continued to achieve commendable growth in 2014 despite the year marked with mixed economic recovery, and heightened global financial market volatility. The achievement reaffirms the position of Labuan IBFC as a preferred centre with conducive legal and regulatory standards in place, preserving financial soundness and growth of the centre.

Since its establishment in 1990, Labuan IBFC had evolved and grown over more than two decades in tandem with the increase of cross-border economic activities in Asia. In particular, the robust economic and financial linkages of ASEAN, has elevated the position of Labuan IBFC in emerging into an important gateway for trade and investment into the region. Pivotal to the growth of the financial industry in Labuan is the core foundation of the centre's financial stability, which is an important prerequisite for businesses to undertake economic activities in the

IBFC. Given this priority, Labuan FSA continued to intensify efforts over the course of 2014 in implementing and executing key strategic initiatives towards strengthening the centre's supervisory and regulatory framework consistent with global standards while ensuring the policies continue to support business expansion.

Achievements in the area of policy development were most noted, in the upscaling of regulatory framework to strengthen capital and financial foundations of the Labuan insurance and banking sectors. Several guidelines, comprising new and enhancements, were rolled out throughout the year, amongst others, included guidelines on investment management for Labuan insurance and takaful business, which aimed to ensure the investment framework and practices of the Labuan insurers are operationally sound and effective. To promote harmonised accounting practices of internationally accepted standards, the financial reporting

standards for Labuan entities was introduced to improve the comparability of financial reporting and bridge the gaps in the reporting standards.

As external operating environment and financial system become more complex, having an effective corporate governance for proper functioning of Labuan entities to operate, is critical. The year under review saw important development in strengthening of corporate governance framework in the Labuan IBFC through enhancement of the fit and proper requirements, independence of the board of directors, higher level of integrity and transparency as well as raising disclosure requirements by the Labuan entities. Additionally, expanded efforts were undertaken to finalise corporate governance framework for the market conduct of Labuan trust companies as well as developing conceptual plans to further enhance the internal audit requirements for banks and insurers operating in the Labuan IBFC.

Director General's Report

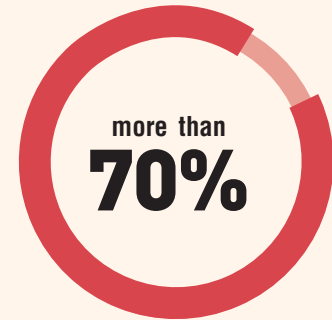
In the year under review, Labuan FSA continued to engage its stakeholders through its consultative approach, to seek views on pertinent policies impacting the financial industry in Labuan. A consultative document on insurance capital adequacy framework was released for comments and feedback from the industry while a conceptual plan for banking capital adequacy framework was also formulated, which will serve to lay the ground for transition of the Labuan banks to meeting higher capital standards.

While focusing on strengthening the regulatory framework, the Authority continued to fortify its supervisory oversight and strengthen its market surveillance capabilities in response to the increased sophistication and complexity of the changing financial landscape globally. Labuan FSA had been more vigilant against potential abuses and maintained a close watch of any non-compliances and violations of Labuan IBFC laws. Stern enforcement actions, including supervisory letters and directives were taken against non-compliance institutions. In 2014, Labuan FSA had revoked one investment banking licence and five insurance and insurance-related licences. Greater collaboration and cooperation with other regulators and enforcement authorities engaged in coordinated efforts through joint inspections, thematic examinations and information sharing were significantly noted. These collective actions were taken to enhance the ability in managing potential risks and vulnerabilities confronting the Labuan IBFC. Apart from respective efforts at national level, regional and international efforts to strengthen cross-border supervision and information exchange had also been escalated through establishment of a wider cooperative framework agreements.

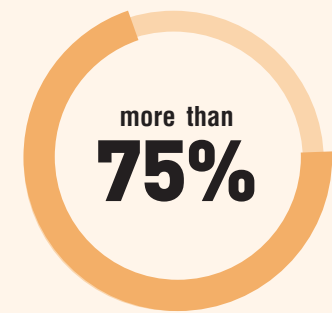
In relation to combating of money laundering and terrorism financing (ML/CFT), Labuan FSA remained vigilant whilst continuing to enhance its approaches in regulating and supervising the Labuan financial institutions and in understanding their connectedness and interdependencies in the financial system. This measure was to ensure regulatory effectiveness in protecting the Labuan IBFC financial system from potential money laundering and terrorism financing activities. To stay forefront of cooperation and collaboration with international and domestic enforcement agencies, notable strong actions were taken by the Authority on the financial institutions that failed to comply and implement the guidelines that relate to anti money laundering and counter terrorism financing.

To strengthen this area, the Malaysian authorities decided for Malaysia to be one of the first few countries to be assessed by the Asia Pacific Group (APG) Mutual Evaluation assessors based on new methodologies undertaken in 2014. Elevating efforts were noted in the conduct of comprehensive compliance programmes for the industry including briefing on the new standards and assessment methodology adopted by the APG. Focus was also retained on enhancing business operational due diligence process, which has long been an integral component of the risk management control. The enhanced due diligence reinforced Labuan IBFC's aim to pre-emptively mitigate any potential risks while forming a part of Labuan FSA's regulatory obligation for a wider "Know Your Customer" requirements.

In 2014, in meeting the international transparency and cooperation initiatives, Labuan IBFC also achieved a milestone in its assessment by The



the companies originated from Asia



the total loans and advances of USD32.0 billion contributed by borrowers from ASEAN countries

Global Forum on Transparency and Exchange of Information in which Malaysia (including Labuan IBFC) was accorded a rating of "Largely Compliant" on the implementation of internationally agreed standards and best practice on taxation, particularly on effective exchange of information.

Headways had also been made in improving Labuan IBFC's ability to compete effectively through creation of more facilitative business guidelines to enable further expansion of business in the region. Key priority was given to area on business intermediation where a review and update of guidelines on the establishment of Labuan service providers were made. The effort was aimed to strengthen the capabilities and to ensure the highest standards of services offered in the centre.



To further develop the Labuan capital market activities, the guidelines on establishment of Labuan fund manager was revised to give greater flexibility on the applicant's eligibility criteria, and at the same time expand the list of recognised countries where the fund managers originated from. To further facilitate the demand for a wider and greater spectrum of investors' needs, it was reinforced that Labuan entities are now eligible to open central depository system account with Bursa Malaysia Depository Sdn Bhd. This provides an avenue for Labuan entities to have the access to a wider cross-border equity investment in Malaysia.

Given Malaysia's focus to becoming a centre for Islamic finance, market development initiative was also embarked on to enhance Labuan IBFC Islamic finance business through issuance of sharia resolution on Labuan captive takaful. In addition, a framework for Labuan international waqf foundation was developed aimed

to leverage on the vast untapped Islamic wealth management sector. Labuan FSA had also supported international efforts in strengthening of international Islamic financial landscape which encompassed development of a global standard on collateralised murabahah agreement through the Bahrain-based International Islamic Finance Market (IIFM), in which Labuan FSA is a founding member.

The varied policies and initiatives implemented in 2014 continued to yield positive results in the business performance of Labuan IBFC industry amid a global challenging environment. The presence of top international and domestic financial institutions as well as professional service providers in the IBFC had supported the expansion of the Labuan financial services. The centre witnessed positive upward trend in company incorporation. The registrar of company recorded a 12.3% increase in company incorporation, bringing the total Labuan entities to 11,630

comprising licensed financial institutions and other registered Labuan entities. These entities represent a wide and varied global presence, of which the majority originated from Asia. This development reflects the strategic focus of Labuan IBFC to serve as a facilitative platform for trade and investment emerging from this fast expanding region.

The Labuan trust companies business continued to grow with several trust companies focus on providing advisory services for wealth preservation besides rendering corporate secretarial and administrative services for the Labuan entities. In the reporting year, the 39 Labuan trust companies reported a significant increase in its aggregate operating income to USD24.2 million from USD21.7 million of 2013.

Director General's Report

The Labuan international banking sector of 55 operating financial institutions remained sound and stable. It continued to register strong loan growth with lending activities remained focused on financing, insurance and business services as well as loans for financing of transportation, communication, mining and energy sectors, which accounted for about 50% of the total loans of USD32.0 billion at end December 2014. The sector also sustained good asset quality with the industry's gross non-performing loan and net non-performing loan remained low at 1.5% and below 1.5% respectively. The increasing interest and growing preference in ethical financial solution globally are creating more opportunity for the growth of Islamic finance in Labuan. The total Islamic financing increased by 28.1% to USD993.3 million compared to USD775.6 million of the year before.

For the Labuan insurance sector, it remained resilient against the backdrop of global challenging conditions and a persistently low interest rate environment. The sector's solvency ratio stood at 5.7 times above the regulatory requirements. Over the past five years, the sector registered a steady growth trend at an average rate of 5.6% in the number of approved Labuan insurance and insurance-related entities except for 2014, a slight decline of 1.9%. The decrease was due to revocation and surrendering of licences, bringing the total number of Labuan insurance and insurance-related entities to 209. The year under review recorded moderation in the total gross premium growth by 11.9% to USD1.4 billion compared to 6.2% in 2013. Nonetheless, the underwriting margin for the overall industry improved to USD285.0 million in comparison with USD276.5 million of the year before, with a lower claim

ratio. The investment-linked products business registered a significant increase in premiums from USD3.7 million to USD6.4 million while improvement in the profitability continued in 2014 where the industry recorded a profit before tax of USD328.3 million.

The Labuan wealth management sector fared well during the year, posted a 40% increase in the number of Labuan foundations registered to 130 with majority originating from Asia. This achievement bodes well with the enactment of legislation on wealth management preservation vehicles in Labuan IBFC, particularly the Labuan foundations, to cater for this growing needs of the high net worth individuals in the region. As the growth in wealth in Asia has surpassed the rest of the world, the positive outlook in the region will continue to present tremendous growth opportunity for the Labuan wealth management sector.

The year also recorded expansion in the leasing sector, delivering a strong performance with total assets leased rose by 19.4% to USD45.5 billion. The growth driver included the continued use of Labuan IBFC as the leasing hub to service the oil and gas industry and aviation sector in the region. Going forward, the leasing business from oil and gas industry is expected to moderate due to soft oil prices. However, with global air travel booming, it is expected that the continued growth in demand for aviation leasing business remains.

Labuan's strategic location and proximity to major shipping routes and offshore oil and gas fields has continued to attract international trading companies setting up Labuan International Commodity Trading Company (LITC) for trading of petroleum, petroleum-related products

and other commodities. The Labuan commodity trading sector maintained its growth trajectory for the fourth consecutive years since it was first introduced in 2011. During the reporting year, the number of LITC grew by 70.0% to 39 from 23 of the preceding year with more than 80% of the companies originated from Asia.

Looking ahead to 2015, the global economy will continue to experience moderate growth potential with the emerging economies facing a slow pace in growth. In this challenging environment, continuous focus by regulatory authorities worldwide to implement new regulatory standards and wide-ranging policies is expected to further shore up economic recovery and safeguard stability in the global financial system. For Labuan IBFC, it will continue to provide the synergies for cooperation and financial linkages in the region, particularly amongst the ASEAN countries. This will form the strategic focus of Labuan FSA to continue building on the foundations and momentum of its current progress to accomplish greater achievements ahead.

For the financial position as at 31 December 2014, the Authority recorded a significant increase in operating revenue of RM52.7 million as compared to RM39.9 million in 2013, while its total reserves also increased to RM52.4 million.

To conclude my report, I would like to extend my appreciation and gratitude to the members of the Authority for their strong support rendered to the management team throughout the year. I would also like to thank the staff of Labuan FSA for their strong commitment and tremendous contributions in 2014.

CORPORATE INFORMATION

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Corporate Information

Labuan Financial Services Authority (Labuan FSA), 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.

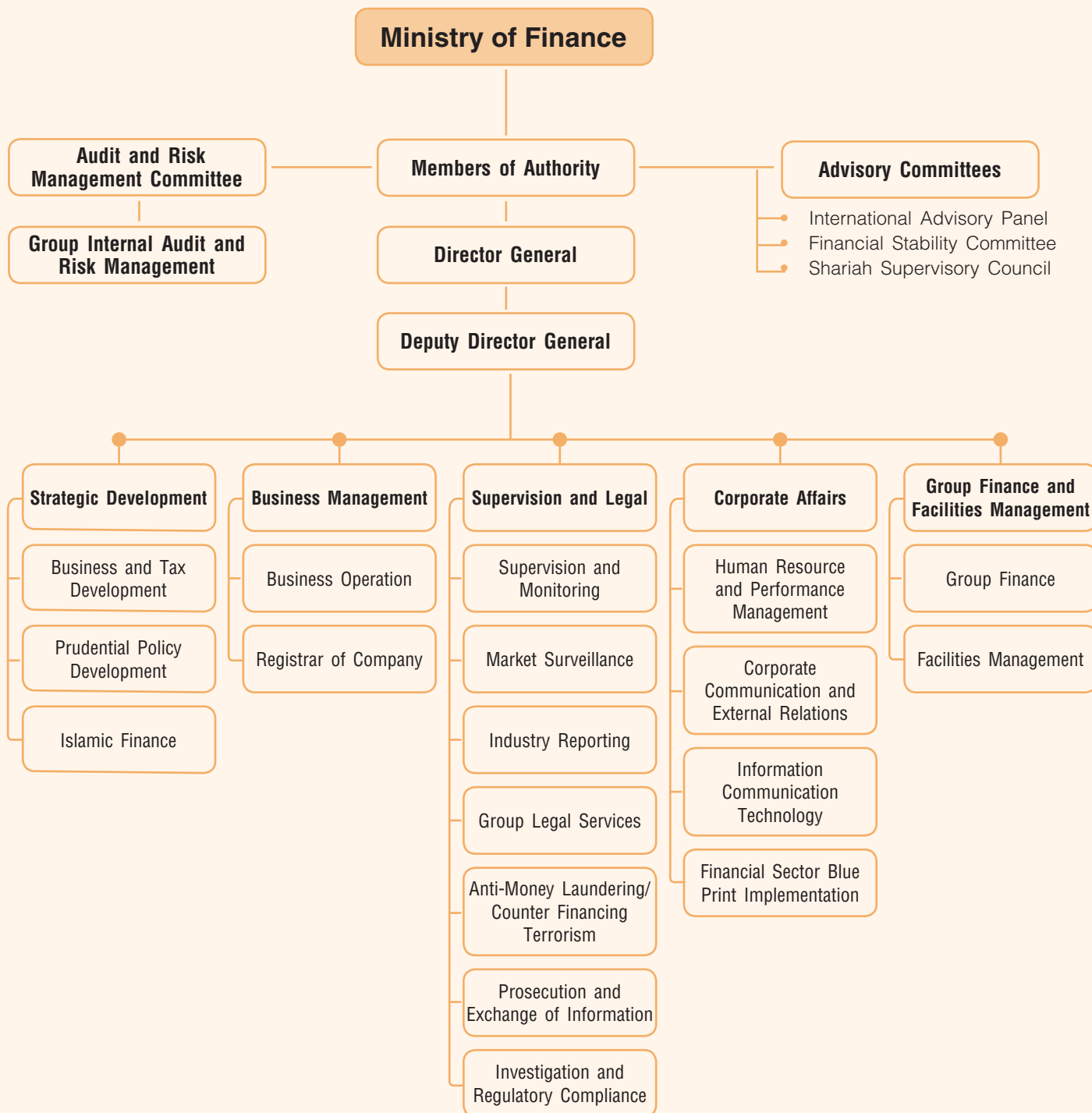
FUNCTIONS OF LABUAN FSA

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
- 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;
- 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 six core areas, namely, the Group Internal Audit and Risk Management, Strategic Development, Business Management, Supervision and Legal, Corporate Affairs, Group Finance and Facilities Management. The structure enables Labuan FSA to effectively regulate and supervise the international financial institutions in Labuan IBFC.



Corporate Information

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.



100%

**Labuanfsa
Incorporated
Sdn. Bhd.**

(established on 1 December 1999)



100%

Labuan IBFC Inc. Sdn. Bhd.
(established on 14 May 2008)



100%

Pristine Era Sdn. Bhd.
(established on 7 September 1995)

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 of GIICS are to promote 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 act 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)*

Corporate Information

EVENT HIGHLIGHTS 2014

16 January

Labuan FSA signed the Corporate Integrity Pledge with Malaysian Anti-Corruption Commission to enhance corporate governance, accountability and transparency in all aspects of its conduct of business in the Labuan International Financial Centre.

27 January

Labuan FSA conducted a briefing on Personal Data Protection Act (PDPA) to Labuan industry players.

11 March

Briefing on "Labuan IBFC: Business Opportunities" to the Financial Planning Standard Board, Indonesia in conjunction with their visit to Labuan FSA.

15 April

Labuan FSA in collaboration with Perbadanan Insurans Deposit Malaysia organised a briefing on "Financial Consumer Protection" to enhance the level of financial literacy among members in the Labuan industry players.

30 April

The Director General of Labuan FSA delivered a paper on "The Role of Wealth Distribution in Islamic Wealth Management – The case of Labuan Islamic Trust and Foundation" at the BNP Paribas public lecture.

6 May

Labuan FSA in collaboration with Central Bank of Malaysia organised a talk on "Malaysia Financial Liberalisation – Impact to Labuan IBFC" to Labuan industry players.

12 June

Launching of Labuan FSA's Annual Report 2013 by Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz, Chairman of Labuan FSA.

19 June

Briefing to foreign ambassadors and high commissioners in Malaysia on the latest developments of Labuan IBFC in conjunction with the release of Labuan FSA's Annual Report 2013.

23-24 June

Labuan FSA and the Malaysian Current Law Journal co-organised a conference on "Understanding and Practising Good Corporate Governance" geared to enhance knowledge and understanding of directors' legal responsibilities and liabilities.

26 June

Briefing to Labuan Government agencies and corporates on the latest developments of Labuan IBFC in conjunction with the release of Labuan FSA's Annual Report 2013.

12 August

Visit to Labuan FSA by H.E Gerardo Prato, Ambassador of Uruguay.

28-29 August

Labuan FSA in collaboration with Royal Malaysian Customs Department organised a Mini Lecture Series on: "Impact of GST to Labuan industry players".

29 August

Labuan FSA and Financial Supervisory Commission of Gibraltar signed a MoU to strengthen and mutually assist in areas of exchange of information, on site supervision, enforcement and research.

10 September

Labuan FSA in collaboration with Asian Institute of Chartered Bankers organised the conference on "Combating Financial Fraud Conference" for Labuan industry players.

12 September

Labuan FSA in collaboration with Credit Counselling and Debt Management Agency (AKPK) organised an education talk on Financial Management to Labuan communities as well industry players.

22 September

Labuan FSA and Jersey Financial Services Commission signed a MoU concerning collaborative efforts and cooperation in consolidated supervision, enforcement and exchange of information and on site supervision.

26 September

Labuan FSA organised the Labuan International Finance Lecturer Series titled "Good Corporate Governance: wither without it", delivered by Mr. Jean Pierre Sabourin, CEO of PIDM.

26 September

Labuan Industry Annual Dinner 2014 hosted by Association of Labuan Banks.

18 October

Labuan FSA organised Labuan FSA Day 2014 – A Corporate Social Responsibility initiative aims to foster closer ties with the Labuan communities.

5 November

Labuan FSA and Financial Supervisory Commission (FSC), Taiwan signed a MoU on supervisory cooperation and mutual assistance in the fields of banking, insurance, securities and futures.

13 November

Labuan FSA in collaboration with the Securities Commission Malaysia conducted an education talk on smart investing to members of Labuan community.

LEADERSHIP

- 24** Members of the Authority
- 30** The Shariah Supervisory Council
- 32** The International Advisory Panel
- 34** The Financial Stability Committee
- 36** Management of Labuan FSA
- 38** Management of Pristine Era Sdn. Bhd.
- 38** Management of Labuan IBFC Inc. Sdn. Bhd.



Connecting through

RELIABILITY



Our distinctive products and services are always of the highest quality and consistently gain leverage for our customers. We continuously meet the highest standards of quality and observe an unswerving code of ethics and industry best practices as we get ahead by ensuring reliability to our most valued entity; you.

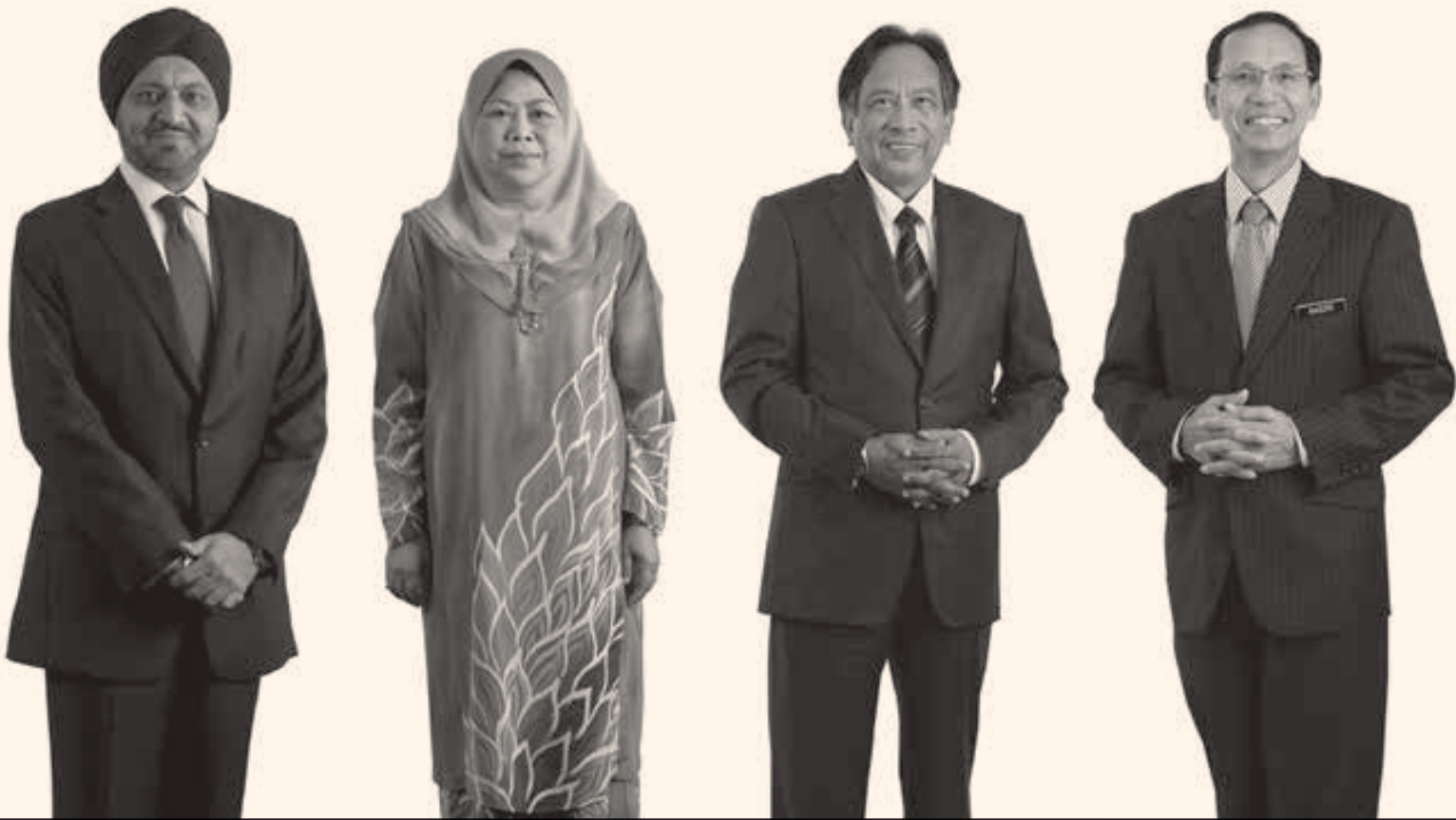


LEADERSH

MEMBERS OF THE AUTHORITY

from left to right:

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



IP

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.

Leadership

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 an important role in successfully managing the repair and resolution of the financial system during the Asian financial crisis and the consequent strong recovery of the Malaysian economy. In the decade that followed, she also had an important role in the reform and transformation of the Malaysian financial system, including overseeing the modernisation and enactment of ten major pieces of legislation for the financial sector. This period also saw the progressive liberalisation of the Malaysian financial system.

In the Asian region, Dr. Zeti has been actively involved in strengthening cooperation and financial integration. In 2006, she chaired the Executives' Meeting of East Asia-Pacific Central Banks Taskforce on "Regional Cooperation among Central Banks in Asia" that prepared the report for the future direction of central bank financial cooperation in the region, which continues today. A founding member of the Bank for International Settlements (BIS) Asian Consultative Group, she was also the first co-chair of the Financial Stability Board Regional Consultative Group for Asia. Dr. Zeti also participates extensively in international fora in many parts of the world, including acting as the voice of emerging economies in highlighting

their role in the global economy. Dr. Zeti was a member of the Commission of Experts of the President of the United Nations General Assembly on Reforms of the International Monetary and Financial System in 2009, a high-level taskforce established to examine reforms following the global financial crisis. She is currently the chair of the BIS Central Bank Governance Group, where she has been a member since 2001.

Dr. Zeti has had an influential role in the global development of Islamic finance, in particular in the establishment of the Islamic Financial Services Board and the International Islamic Liquidity Management Corporation. She headed a taskforce that prepared a report identifying the building blocks that would further strengthen the institutional arrangements for financial stability in the Islamic financial system. Dr. Zeti also had a significant role in the development of talent in the Islamic financial services industry, including the establishment of the International Centre for Education in Islamic Finance, the first global university dedicated to Islamic finance.

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

Datuk Ranjit Ajit Singh is the Executive Chairman of the Securities Commission (SC). He was previously the Managing Director of the SC and has over 20 years' experience in the field of finance and securities market regulation and has spearheaded many key initiatives in the development and reform of Malaysia's capital market.

Datuk Ranjit was appointed the Vice-Chairman of the Board of the International Organisation of Securities Commissions (IOSCO), the global body of capital market regulators and was elected as the Chairman of IOSCO's Growth and Emerging Markets Committee (GEM). Datuk Ranjit is also Chairman of the ASEAN Capital Markets Forum (ACMF), a body tasked to spearhead market integration efforts within the ASEAN region.

Datuk Ranjit chairs the Securities Industry Development Corporation (SIDC), the Malaysian Venture Capital Development Council (MVCDC) and the Capital Market Development Fund (CMDf). He is also the Vice-Chairman of the Asian Institute of Finance and a member of the Board of Financial Reporting Foundation and the Malaysian Institute of Integrity (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 also conferred the degree of Doctor of Laws honoris causa by Monash University Melbourne. He is a fellow of CPA Australia and has worked in academia, consulting and accounting in Australia and Malaysia.



DATUK
RANJIT
AJIT
SINGH



DATUK
OH
CHONG
PENG

Datuk Oh is the Chairman of the Alliance Financial Group and Non-Executive Director of the various Board of public listed companies such as British American Tobacco (Malaysia) Berhad, Malayan Flour Mills Berhad, Dialog Group Berhad, Kumpulan Europlus Berhad 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.

Leadership

MEMBERS OF THE AUTHORITY



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 as the 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 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.

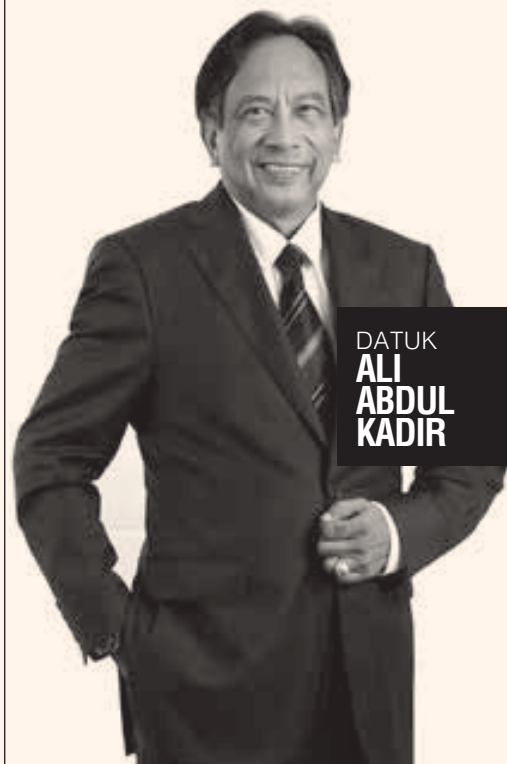
Datuk Ali is currently the Chairman of Jobstreet Corporation Berhad, Privasia Technology Berhad, and the Financial Reporting Foundation. He is a Board Member of Glomac Berhad.

Datuk Ali was appointed as the Chairman of the SC of Malaysia on 1 March 1999 and served in that capacity until 29 February 2004. He also chaired the Capital Market Advisory Council, and was a member of the Foreign Investment Committee, 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 and the Islamic Capital Market Working Group, trustee of AAOIFI and Force of Nature Aid Foundation, and Advisor to the Sri Lanka Securities & Exchange Commission.

Prior to his appointment to the SC, 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, chairing both its Executive Committee and Insolvency Practices Committee and co-chairing the Company Law Forum. 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.

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



Dato' Mohd Nadzri bin Osman is the Chief Executive Officer of Labuan Corporation since 1 September 2013. He started off his career in government with Ministry of Transport in 1984 and has since held various positions under the Ministry of Federal Territories and Urban Wellbeing from 2005. Prior to joining Labuan Corporation, Dato' Mohd Nadzri had also served in various Ministries such as Ministry of Finance, Ministry of Natural Resources and Environment, Ministry of Housing and Local Government.

Dato' Mohd Nadzri holds a Masters Degree of Science (MSc) in Human Resources Development from University Putra Malaysia, a Bachelor of Arts (Honours) and Diploma in Public Administration from the University of Malaya and INTAN, Malaysia respectively.



Dato' Siti Halimah Ismail 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, the Inland Revenue Board and PadiBeras Negara.

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

Datuk 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. He is also a Board Member of the International Islamic Financial Market in Bahrain.

Prior to his appointment in Labuan FSA, Datuk 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. He holds a Masters Degree in Business Administration from St. Louis University, St. Louis, Missouri, United States of America.



Leadership

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.



top from left to right:

Datuk Dr. Mohd Daud Bakar (*Chairman*), Dr. Mohamed Ali Elgari Bineid,
Dr. Engku Rabiah Adawiah binti Engku Ali

not pictured:

Mr Sheikh Nizam Yaquby, Associate Professor Dr. Mohamed Akram Laldin,
Associate Professor Dr. Syed Musa Syed Jaafar Al-Habshi

Leadership

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





from left to right:

Mr. Michael Troth, Datuk Wira Jalilah Baba,
Mr. Mark Lea, Mr. Frank McInerney, Datuk Shireen Ann
Zaharah Muhiudeen, Dato' Mohammad Faiz Azmi

not pictured

Datuk George Ratilal, Baron Frederik Van Tuyll

Leadership



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:

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



MANAGEMENT OF

from left to right:

Datuk Ahmad Hizzad Baharuddin (*Director General*), Mr. Danial Mah Abdullah, Mr. Iskandar Mohd Nuli, Mr. Mohd Rizlan Mokhtar, Mr. Azuddin Jasin, Mrs. Yon Zahimah Ibrahim, Mr. Syahrul Imran Mahadzir, Mr. Wan Ahmad Sanusi Mahmood, Mr. Jimmy Chen



LABUAN FSA

Leadership



MANAGEMENT OF PRISTINE ERA SDN. BHD.

from left to right:

Mr. Wan Ahmad Sanusi Mahmood,
Mrs. Raini Abd Moin, Mrs. Zainab Batin



MANAGEMENT OF LABUAN IBFC INC. SDN. BHD.

from left to right:

Mr. Saiful Bahari Baharom, Mrs. Farah Jaafar Crosby, Mrs. Shamillia Sivathambu

STATEMENT OF CORPORATE GOVERNANCE

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- 47** Enterprise Risk Management
- 49** Transparency





Connecting through
TRUST



Our philosophy is such that we consistently strive to improve ourselves each time we are confronted with a new obstacle. Our yearning for achievement and our craving for success has been our guiding light through numerous obstacles and has constantly steered us in a forward-moving direction that is built on dedication and reinforced by trust.

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 the 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

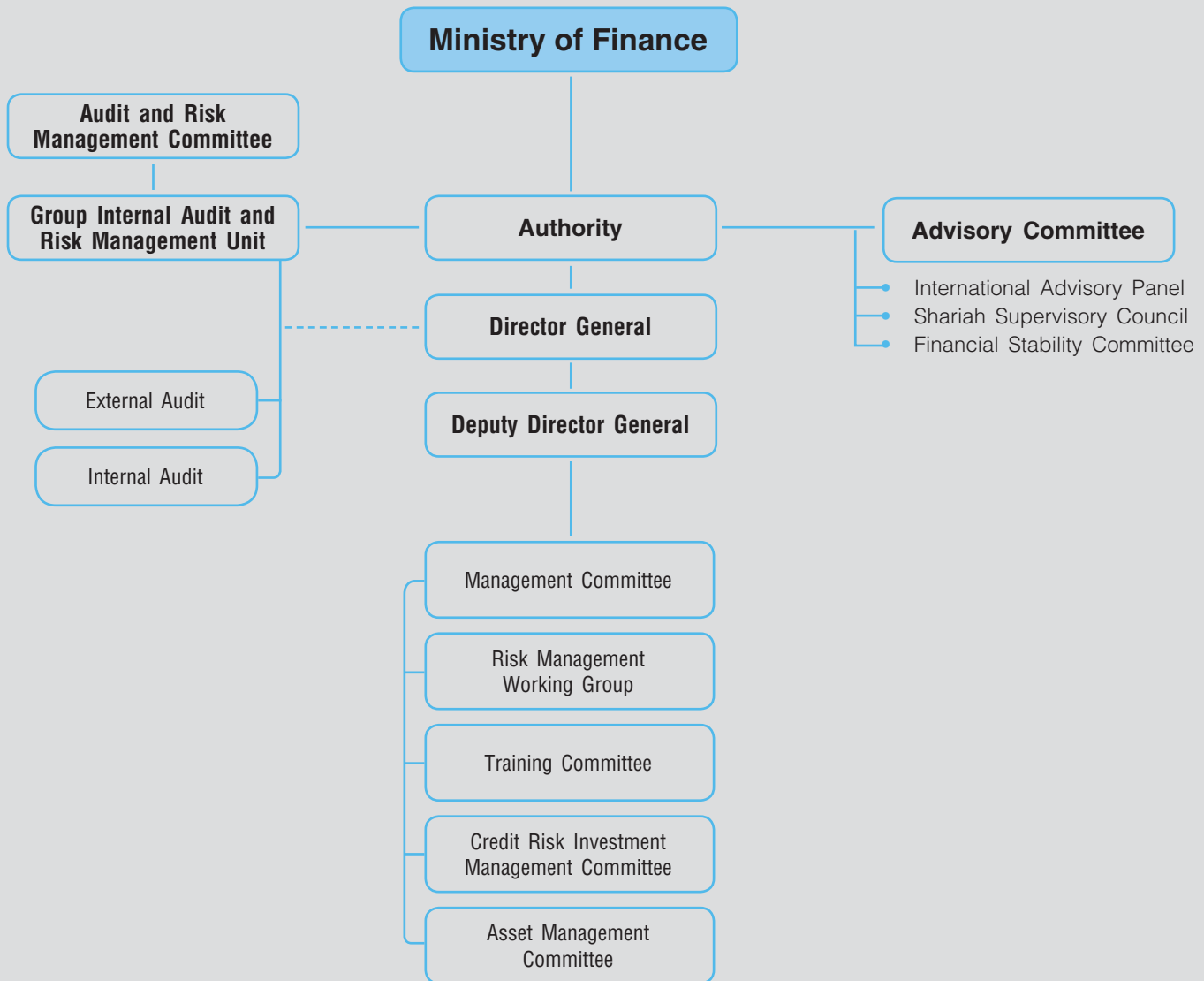
review and approval of business policies and guidelines. It also advises the management to ensure that the internal resources are utilised in the most economical and efficient manner. The Authority is committed to ensure that the principles and spirit of the Malaysian Code of Corporate Governance as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

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 and enforceable and consistent with the law.

Statement of Corporate Governance

GOVERNANCE FRAMEWORK



The Authority convened six meetings in 2014 and the members' attendance record is as follows:

Authority Members	Attendance
Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz (<i>Chairman</i>)	6/6
Datuk Ahmad Hizzad Baharuddin	6/6
Datuk Ranjit Ajit Singh	4/6
Datuk Oh Chong Peng	4/6
Dato' Mohammed Azlan Hashim	3/6
Datuk Ali Abdul Kadir	6/6
Dato' Siti Halimah Ismail	4/6
Dato' Mohd Nadzri bin Osman	4/6
Dato' Mohd Naim Daruwish (<i>retired on 16 September 2014</i>)	2/4

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 six meetings including one special meeting in 2014 and the attendance record of the members is as follow:

Audit Committee	Attendance
Datuk Oh Chong Peng (<i>Chairman</i>)	7/7
Dato' Mohammed Azlan Hashim	7/7
Datuk Ali Abdul Kadir	6/7
Dato' Mohd Nadzri bin Osman	6/7
Dato' Siti Halimah Ismail	2/7

The ARMC, a subset of the Authority, assists the Authority in fulfilling its oversight responsibilities to ensure a sound system of internal controls, risk management and corporate governance and aimed at safeguarding 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 2014 and provide 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 2014 budget proposal;
- Reviewed and advised on the status of risk issues and its management as they relate to the strategic, financial, operational, legal and reputational risks of Labuan FSA;
- Reviewed and advised the management on the Business Continuity Plan and its implementation; and
- Reviewed the development and activities of the Group Internal Audit (GIA) and Integrity Unit.

Statement of Corporate Governance

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.

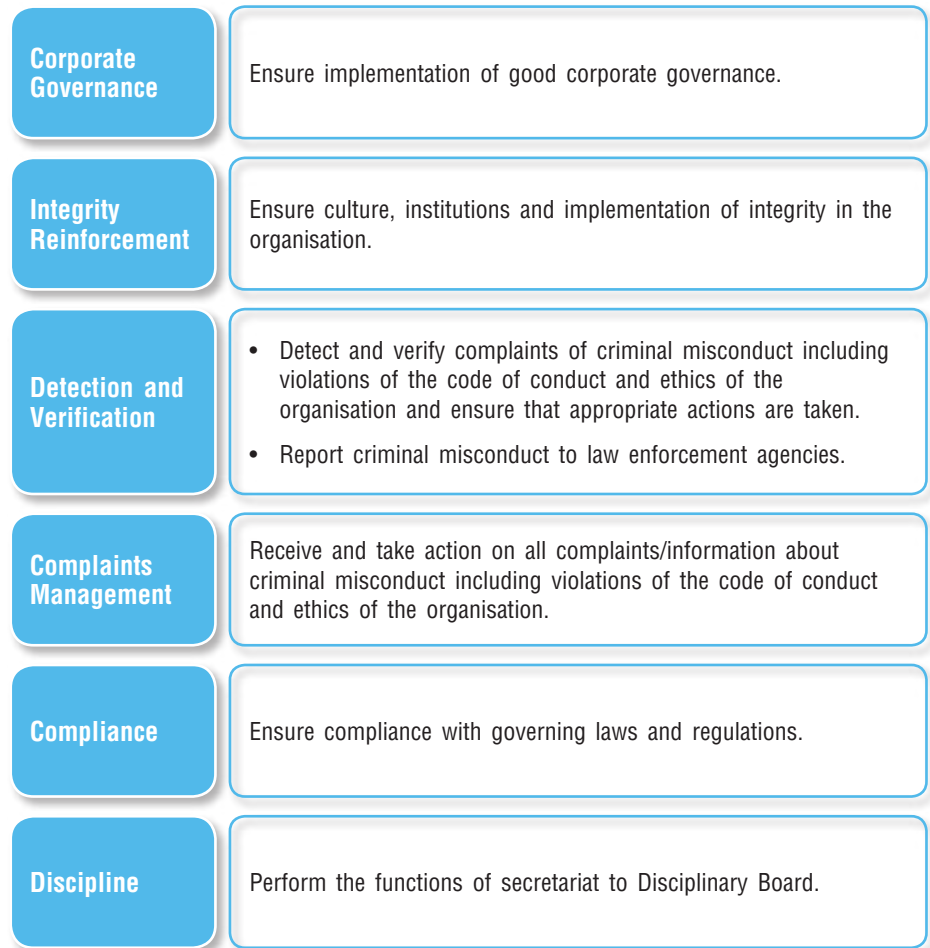
The Authority had instituted an enabling environment to support its operations together with a team of competent and professional staff, an effective set of internal controls and business risk management framework to ensure the stability of the financial and business system.

Since the implementation of the integrity pact for procurement in 2013, the Authority continued to enforce the practice throughout 2014 as part of its efforts to support the Malaysian Government and the Malaysian Anti-Corruption Commission (MACC) in combating corruption. Moreover, all staff of Labuan FSA had pledged to comply with the Regulations of Discipline under the Discipline and Surcharge Act 2000. Such action 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. In addition, the Integrity Unit in Labuan FSA was established in tandem with the

aspiration of the Government to ensure the employees of government agencies practise strong work culture and moral standards. Labuan FSA signed the Corporate Integrity Pledge with the MACC in January 2014.

The Integrity Unit is responsible for discharging six core functions as follows:

Diagram 1: Responsibilities of Integrity Unit



To further create awareness on integrity among the staff of Labuan FSA at the organisation level, an Integrity Awareness Programme co-organised with the Malaysian Institute of Corporate Governance was held internally during the year. Similar engagement programme will continuously be conducted to reinforce organisational integrity.

ORGANISATION COMPLIANCE

The GIA of Labuan FSA practised a risk-based methodology of auditing particularly on vulnerable and strategic risks. This is in line with the enterprise wide risk management approach whereby priorities were given to identified vulnerable risks consistent with high risk areas recognised by the management. During the year under review, the GIA performed eight audit reviews on identified high risk areas within Labuan FSA to ensure that the risk management, internal control and governance processes continued to remain effective and relevant. Another seven significant high risks areas had been identified and approved to be audited in 2015.

Recognising the need to instil clear accountability in every line of its significant activities, Labuan FSA continued to review the procedure manuals of many functions under its purview, aimed at enhancing efficient and effective key controls, simplify procedures and strengthen internal systems that support governance.

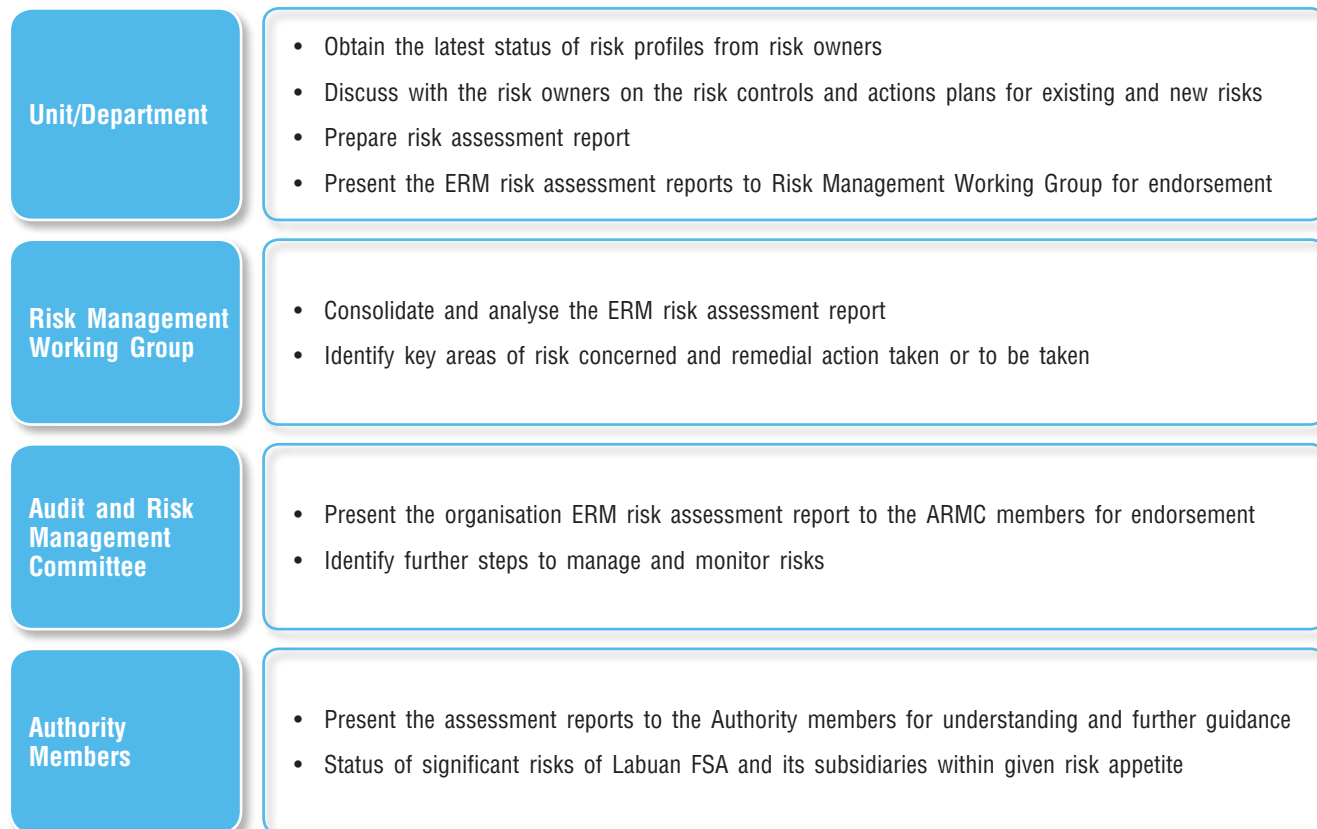
ENTERPRISE RISK MANAGEMENT

Labuan FSA has established policy and framework for the oversight and management of enterprise risks and has adopted a formal Risk Management Policy. In this respect, an Enterprise Risk Management (ERM) framework has been implemented to facilitate the effective identification, assessment, evaluation, monitoring, reporting and communicating the key risks under Labuan FSA and its subsidiaries. The ERM framework outlines the risk management governance and structure, processes, accountabilities as well as responsibilities throughout Labuan FSA.

The ERM process includes 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.

Statement of Corporate Governance

Diagram 1: Key actions under ERM process



The inculcation of a strong risk culture and understanding across Labuan FSA and its subsidiaries is vital. The linkage of the organisations' corporate goals to the key risks, controls and action plans indicates an active top down approach for effective management of risks at enterprise level. Risk Management Unit has undertaken several initiatives to promote sound risk management practices across the organisation through periodic issuance of risk management bilingual newsletters as well as engagement sessions with the risk owners.

Significant Risks Affecting Labuan FSA

The ERM provides a framework for managing risks, which involves identifying circumstances affecting the organisation's goals, assessing them in terms of likelihood and magnitude of impact and determining mitigation plans and monitoring progress. For the year 2014, the key risks and a brief description of the initiatives to mitigate these risks are as follows:

Regulatory

Labuan FSA is currently enhancing its regulatory and supervisory functions as a result of the assessments undertaken by the international bodies such as International Monetary Fund, Asia Pacific Group on Money Laundering and Peer Tax Review by OECD. In this respect, several prudential and business guidelines have been revised and issued during the year under review. Similarly, the supervisory and anti-money laundering frameworks are being reviewed by the respective departments in Labuan FSA.

Human Resource

In order to provide a holistic approach in managing human capital risks in Labuan FSA, a 3-year manpower plan is currently being developed to map the career advancement of individual staff, which includes, define and align job accountabilities and responsibilities towards meeting the strategic goals and objectives of the organisation. In addition, talent attraction, management and retention strategies are also being developed through the Succession Planning Program and Revised Employees' Terms and Conditions. On-going programmes such as knowledge development training and recruiting management trainee are consistently carried out by Human Resource and Performance Management Unit to address the risks on managing the human capital within Labuan FSA.

Document Management

Regular reminders and ad hoc inspections are among the initiatives performed by the Record Management Unit to ensure all information in the form of hardcopy/softcopy are being managed according to the legal requirements; where a Centralised Filing System has been developed.

Business Continuity Plan

The framework of the Business Continuity Plan (BCP) provides the necessary processes to ensure that Labuan FSA is able to maintain or recover its critical services when faced with adverse events such as natural disasters, technological failures, human errors or damage to its offices. The objective of the BCP include ensuring continuity of the critical services to the

stakeholders, minimising financial loss and mitigating negative effects on the strategic plan, reputation and operations of Labuan FSA.

Whistle Blowing

A Guidelines on Whistle Blowing (Guidelines) was issued 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 is to maintain a high standard of corporate governance and business integrity, in order for Labuan FSA and its subsidiaries to serve its stakeholders effectively. The Guidelines provide effective measures to protect any person who reports any wrong doing without fear of reprisal, victimisation, harassment, subsequent discrimination or disadvantage.

TRANSPARENCY

Transparency is the means of holding the organisation accountable to its mandated roles and objectives. The effective manner in which transparency is exhibited to 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 wide range and relevant information. The collaborative working and disclosure of information to relevant stakeholders are important to avoid conflict of interest that may compromise the transparency, accountability and the integrity of the organisation. Development and continuous review of operational policies and procedures including internal controls constitute an important aspect of governance within Labuan FSA. This would ensure that operating procedures are effective, in line with current requirements and promote high level of transparency.

Statement of Corporate Governance

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 maintain 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.

Meeting with Industries	Date	Total number of meetings
Association of Labuan Banks	27 March 2014 16 October 2014	2
Association of Labuan Trust Companies	17 April 2014	1
Labuan International Insurance Association	21 February 2014 22 May 2014 25 September 2014	3
Labuan Investment Banks Group	24 March 2014 24 November 2014	2

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 memorandum of understanding 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

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- 83** Box Article – Corporate Action Plan



Connecting through
SECURITY



Our missions are amongst the things that have kept us firm-footed and underpin our true identity as well as the values we stand for. We go through great lengths to ensure our unity and togetherness is in congruence, as we reach out to our clients, associates and business partners, generating value and significance that exudes a sense of familiarity and security.

PART 01

MARKET DEVELOPMENT



Industry Performance of Labuan IBFC

Part 01 – Market Development

LABUAN BANKS

Against the macro backdrop of a gradual global economic recovery, the global banking activities continued to expand in 2014, particularly into Asia depicting the sector's integral role in supporting the economies world-wide. For the Asian region, loan volume grew albeit at a moderated pace partly due to continued tightening of credit standards by the banks in tandem with the loan demands. The deposit growth had contracted in most Asian economies as consumers' preference shifted towards alternative investment placements which offer better yields. In terms of asset quality, a slight deterioration was observed in the Asian banking sector which can be attributed to declining debt service capacity of the borrowing consumers amidst the modest economic growth in some parts of the region. With the increasing connectivity of the global banking system, the exposure of Asia's banking sector to funding and liquidity risk may even be exacerbated if left unchecked.

Strong capital buffer is evidenced in Asia, reflecting the high resilience of the regional banking system to withstand any potential shocks. Regional regulatory authorities also took cognisance of the evolving financial landscape by responding with appropriate policies to strengthen the safety and stability of the banking institutions under their purview. Such measures include instituting major reforms to address distressed institutions, and enhancing the requirements for sound underwriting standards as well as for more robust stress testing exercises.

Riding on the back of the positive outlook of the region's economic fundamentals, the Labuan banking sector continued to exhibit stable and encouraging growth of offshore borrowing. With the high confidence level of the Labuan entities and investors on the centre's integrity and financial stability, the favourable trend is expected to continue in the future years.

Banking Policy Developments

Revised Guidelines on Minimum Audit Standards for Internal Auditors of Labuan Banks

In line with Labuan FSA's continuous efforts to enhance the corporate governance of banking institutions, the Guidelines on Minimum Audit Standards for Internal Auditors of Labuan Banks ("the Guidelines") was updated to ensure its comprehensiveness and relevancy. The revised Guidelines provided clarifications which were issued in separate circulars in the past relating to audit programmes and the expected roles and responsibilities of the banking institutions' internal auditors. In addition, clarifications on the submission of audit reports to and the internal audit interface with Labuan FSA were also included into the said Guidelines.

Banking Supervisory Oversight

In preparation for the Mutual Evaluation Exercise (MEE) by the Asia/Pacific Group (APG) on Malaysia, Labuan FSA in collaboration with Bank Negara Malaysia (BNM) had conducted joint thematic examinations in 2014 on ten Labuan Banks focusing on Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT). The main objective of the onsite reviews was to assess the sufficiency of the Labuan banks' AML/CFT measures focusing on their governance, internal controls, customer due diligence and risk profiling, and suspicious transaction reporting. Based on the conducted review, areas for improvements identified were mainly related to the adequacy of banks' board oversight, governance, policies and procedures; as well as the effectiveness of their internal audit and compliance functions, and customer due diligence filtering.

Various enforcement actions were taken by Labuan FSA in addressing non-compliance issues identified for few Labuan banks with more severe non-compliances. These included issuance of supervisory letters, directives as well as notices for revocation of licence. In addition, one investment bank's licence was revoked due to its non-compliance with the regulatory requirements relating to business conduct.

Industry Performance of Labuan IBFC

Part 01 – Market Development

LABUAN INSURANCE

The general (re)insurance business in Asia continued to show strong growth though at a moderated rate. In tandem with the regional impressive business growth, which continued to outpace that of the advanced economies, the number of reinsurers seeking expansion in the region had also risen. This reflects the encouraging business potential that the Asian (re)insurance market can offer.

Against this positive outlook, market challenges remained particularly for reinsurance players in Asia. Consistent with declining global reinsurance rates, the region experienced a softening of the market. This may be attributed to, among others, absence of major loss events during the year as well as lesser reinsurance demands in the direct market due to abundant capital. This trend is expected to persist in 2015 for all classes of business aside from the aviation sector which experienced major losses during the year. Notwithstanding this, the underwriting results of the general reinsurers remained favourable as the catastrophic losses continued to run below the average mark. On Labuan IBFC's front, the (re)insurance market experienced a moderated top line premiums compared to the previous year mainly due to the softening market. It was further contributed by business contraction by certain players in the market.

On the regulatory front, authorities in the region continued to play a proactive role in ensuring that their licensees remained sound and resilient in the face of regional business challenges. Regulatory improvements include strengthening of capital standards and higher reserving

requirements including buffers for catastrophic losses. Similar prudential upscaling is also being emulated in the Labuan IBFC.

Insurance Policy Developments

Consultation Paper and Response on Insurance Capital Adequacy Framework (ICAF)

Taking cognisance of the recommendations by the International Monetary Fund's Financial Sector Assessment Programme (FSAP) undertaken in 2012; as well as lessons learnt from the ongoing supervisory actions against Labuan licensees, Labuan FSA has begun efforts to institute the needed regulatory enhancements, particularly on the capital requirements for Labuan (re)insurers and (re)takaful operators. In this regard, Labuan FSA issued the Consultation Paper on ICAF (the CP) in January 2014 which formed part of the Authority's initiatives to be transparent and collaborative with wider stakeholders, prior to developing a set of guidelines. The CP, the first of its kind issued by the Authority, is a policy intention document which outlined the roadmap and approach to be adopted in developing the Labuan insurance and takaful capital standards over the next few years. The CP provided:

(i) the key rationale for enhancing the existing solvency regime comprising the Financial Sector Blueprint 2011-2020 and FSAP's recommendations;

(ii) the risk-based approach for insurance/takaful liability reserving and capital requirements that would appropriately reflect the insurers' and takaful operators' risks profiles;

(iii) the two-phase implementation plan comprised Phase I requirements on asset and liability valuation (including reserving requirements) which would then be followed by capital requirements under the Phase II. The phased approach is segregated between the conventional and the takaful sector to facilitate better adoption of the requirements taking into account the sectoral differences i.e. initial rollout for insurance sector and followed by the takaful sector; and

(iv) general policies envisaged within the Phase I and Phase II rollout.

Based on the industry's feedback received on the CP, Labuan FSA had issued its response which took into consideration key comments as well as recommendations made by the players.

Guidelines on Investment Management for Labuan Insurance and Takaful Business

The Guidelines on Investment Management for Labuan Insurance and Takaful Business was issued in February 2014 as a precursor to the aforementioned Insurance Capital Adequacy Framework. It is intended to promote sound investment governance amongst Labuan (re)insurers/(re)takaful

operators (thereafter referred to as “insurers”). The Guidelines provides principle-based requirements to ensure insurers have in place:

- (i) a formal overarching internal policy that includes determination of investment objectives, strategic asset allocation and investment limits; and
- (ii) a robust risk management framework that continuously assess the appropriateness of the insurers’ investment policy and to ensure that the investment risk exposures are managed soundly.

Circular on Fraud Prevention Measures for Labuan Insurers and Insurance-Related Companies

As part of governance enhancements for the insurance sector, Labuan FSA had issued the revised Circular on Fraud Prevention Measures for Labuan Insurers and Insurance-Related Companies in January 2014. The revised Circular was issued to emphasise Labuan FSA’s expectation on all Labuan (re)insurers’ and insurance licensees’ responsibilities to address fraud risks by instituting appropriate preventive measures.

Shariah Resolution on Labuan Captive Takaful

The shariah resolution on Labuan Captive Takaful was issued to the industry in December 2014. The Shariah Supervisory Council of Labuan FSA resolved that the Labuan captive takafuls’ operational business model is permissible on the basis of Shariah contract of tabarru’. In relation to any

retakaful arrangements of captive takafuls, priority shall be given to retakaful operators or retakaful windows of reinsurers which have the capacity to absorb the risks and has the financial strength to meet the future obligation of such cessions. However, in the event where such retakaful arrangement could not be secured, captive takafuls may obtain conventional reinsurance cover. However, this flexibility would be subjected to periodic reviews by Internal Shariah Advisory Board of the captive takafuls in the event that retakaful covers are available for its future underwriting years.

Insurance Supervisory Oversight

During the year, supervisory activities for Labuan insurance sector were focused on off-site surveillance and on-site examinations, particularly on a large reinsurer. Based on the offsite monitoring undertaken, several non-compliances were detected in relation to, among others, failures to comply with regulatory requirements. During the year, a reinsurer was placed under

close monitoring and had its business restricted with a further five insurance brokers subjected to similar business restriction enforcement action due to failure to meet the minimum capital requirement. Two insurance brokers were investigated, of which one was fined for breaches of guidelines’ requirements.

In the preparation for the Asia/Pacific Group’s MEE on AML/CFT, the National Risk Assessment had rated the sector as low risk. Notwithstanding this, Labuan FSA continued to monitor industry’s compliance with the AML/ CFT requirements largely through the work of internal audit function of the insurance companies.

The Shariah Supervisory Council of Labuan FSA resolved that the Labuan captive takafuls’ operational business model is permissible on the basis of Shariah contract of tabarru’.

Industry Performance of Labuan IBFC

Part 01 – Market Development

WEALTH MANAGEMENT

Global wealth continued to expand with the higher number of High Net Worth Individuals (HNWIs) within Asia Pacific, supported by the improving economic performance and robust equity prices. In line with the encouraging trend, the emerging markets are expected to contribute a higher share of the global wealth with the largest slice dominated by China. The growth is partly contributed by the increasing number of middle class population. This pattern is expected to improve in view of the demographic growth with anticipated tripling of the global population by 2020. In terms of wealth placements, internationally-affiliated private banks seemed to be the preferred institutions for investors seeking for higher investment returns. This development augurs well for Asia Pacific to attract more international players into the region and evolve the region to become the global wealth management hub.

In Asia, the regulators are setting out standards promulgating anti-money laundering measures, tax transparency and intergovernmental cooperation to ensure legitimate business transactions including those related to wealth management. The same regulatory

requisites such as legal certainty, up-to-date corporate laws, and commercially-viable requirements are the key considerations for offshore centres to be the preferred choice for wealth management activities. The recent years witnessed a growing interest on offshore wealth management from a diverse range of clients with varying needs and expectations. With the continuous promotion of the wealth management opportunities and investment vehicles available in Labuan IBFC, the centre has set its target to become a regional premiere in this area.

Wealth Management Policy Developments

Guidelines on the Establishment of Labuan Fund Manager

The Guidelines on the Establishment of Labuan Fund Manager was reviewed and issued in February 2014. The revised Guidelines clarifies on the permitted activities that can be undertaken by a licensed Labuan fund

manager as well as instituting measures for the protection of investors' interests. In addition, the revised Guidelines accords greater flexibility with the relaxation of the eligibility criteria of the applicants and the expanded list of recognised countries which includes member countries of the International Organisation of Securities Commission (IOSCO).

Supervisory Oversight on Capital Market Intermediaries

The activities undertaken by the capital market intermediaries, comprising fund managers and securities licensees during the year remained limited and did not pose significant financial stability concern to Labuan IBFC. The intermediaries' business activities and performance were monitored through statistical analysis and audited financial statements. In addition, supervisory engagements were held with identified intermediaries to discuss on any prudential concerns and improvements needed to ensure their business operations are in line with regulatory requirements.

LABUAN TRUST COMPANIES

The trust and corporate services providers continued to play a key role in facilitating investors to incorporate or register their establishments in international financial centres worldwide. The trust companies provide a diverse range of trust and corporate services to an international client base covering

private client, corporate and institutional businesses. In carrying out their fiduciary services, the trust companies also serve as a promotional agent in attracting viable prospects; as well as filtering gateway to ensure genuine and credible business propositions are set up in the centres.

Similarly, Labuan trust companies have complemented Labuan IBFC's promotional activities and contributed towards enhancing the attractiveness of Labuan IBFC as an international business base within the region. This is evident with the double-digit growth recorded for the number of

incorporations and registrations by investors of geographical diversities for 2014.

Trust Company Supervisory Oversight

Similar to banking supervision, Labuan FSA-BNM joint thematic examinations on AML/CFT were undertaken on 14 trust companies during the year. The thematic examination was to assess the adequacy and effectiveness of the trust companies' framework and measures in addressing the money laundering and terrorism financing

risks. Based on the thematic examinations conducted, it was noted that improvements were needed for the board and senior management oversight; compliance and internal audit functions; as well as adequacy of policies and procedures regarding AML/CFT. Arising from the result of the examinations, Labuan FSA took enforcement actions on these companies with actions ranging from issuance of Directive Order or Notice of Revocation of Licence depending on the overall result of the examination and severity of impact of the weaknesses to the effectiveness of the trust companies in combating money laundering and terrorist financing.

OTHER LABUAN BUSINESS

Labuan Leasing

The year under review saw Labuan IBFC continued attracting more leasing players across the globe. Oil and gas (O&G) remained as the preferred leasing activities which contributed towards the economic growth of the centre. In view of the centre's strategic location, Labuan leasing business continued to complement the O&G activities in the region through the provision of offshore support vessels and other lease assets. Buoyed by the higher growth of crude oil production in South East Asia, Labuan IBFC is well on its way towards becoming the regional O&G commercial centre.

Labuan International Commodity Trading Company

Since the introduction of Labuan International Commodity Trading Company (LITC) licence in 2011 as part of the Global Incentives for Trading Programme (GIFT), the business line has now grown to a sizable number of 39 LITCs in operation. In tandem with the centre's O&G focus, many of the LITCs are involved in the storage, refining and trading petroleum and petroleum-related products. As Malaysia paves its way to become a global trading centre for this commodity, LITC shall continue to serve as Labuan IBFC's flagship offering in attracting O&G ventures into the region.

Policy Developments

Clarification Note on the Licensing Requirements for Labuan International Commodity Trading Company under the Global Incentives for Trading (GIFT) Programme

A clarification note was issued in June 2014 with regard to licensing requirements for commodity trading undertaken under the GIFT programme. The Authority clarified that Labuan companies which undertake commodity trading in petroleum, petroleum-related, LNG and coal; would need to apply for a license. However, in respect of companies which trade other commodities, a license is only required for those which are established from 1 January 2013 and onwards.

Industry Performance of Labuan IBFC

Part 01 – Market Development

OTHER LABUAN BUSINESS

General Policy Developments

Revised Guidelines on the Establishment of Marketing Office in Kuala Lumpur and Iskandar Malaysia

In March 2014, Labuan FSA has issued the revised Guidelines to allow Labuan Companies to establish a marketing office in Iskandar Malaysia, including Johor Bahru. The market presence in Iskandar Malaysia is part of the intended cooperation between Labuan FSA and Iskandar Regional Development Authority (IRDA) as envisaged under the Memorandum of Understanding signed in August 2013.

Circular on the Opening of Central Depository System Account by Labuan Entities

A circular was issued in November 2014 to provide clarification that Labuan foundations or Labuan Islamic foundations (Labuan foundations) be allowed to open a Central Depository System (CDS) account with Bursa Malaysia Depository Sdn Bhd. In addition, the following Labuan entities which fall within the meaning of “corporation” under Section 4 of Companies Act 1965 are currently eligible to apply for CDS account with Bursa Depository:

- (a) Labuan Companies;
- (b) Labuan Trusts*;
- (c) Labuan Islamic Trusts*;
- (d) Labuan Limited Partnerships and Limited Liability Partnerships; and

- (e) Labuan Islamic Limited Partnerships and Limited Liability Partnerships.

* Undertaken by the Labuan Trust Company as the trustee.

Revised Guidelines on Fit and Proper Person Requirements

Labuan FSA had revised the Guidelines on Fit and Proper Person Requirements (Revised Guidelines) in February 2014. The revised Guidelines provided further clarity on Labuan FSA’s expectations on the suitability of relevant persons involved in the management of Labuan financial institutions. In addition, the role of the Board of Directors in overseeing the implementation of internal policies and procedures on fit and proper by their institutions is also clarified.

Revised Circular on Financial Reporting Standards for Labuan Financial Institutions (FRS Circular) and Directive on Financial Reporting Standards for Labuan Financial Institutions

The Revised Circular on Financial Reporting Standards for Labuan Financial Institutions (FRS Circular) and Directive on Financial Reporting Standards for Labuan Financial Institutions were issued in March 2014. The revised circular were mainly intended to reflect consequential changes arising from the Labuan revised legislations in 2010. The Directive is a key clarification to foster

greater harmonisation of the Financial Reporting Standards (FRSs) as follows:

- (i) In respect of banks, (re)insurers/ takaful operators, fund managers and public funds, the FRS harmonisation requires these institutions to adopt any of the four mainstreams FRSs (i.e. the Malaysian FRS, IFRS, UK GAAP or US GAAP); and
- (ii) For other institutions, greater flexibility was accorded whereby they are allowed to adopt other identical FRSs including accounting standards for smaller entities.

To allow sufficient transitory period, compliance with the Directive is required for the financial year beginning 1 January 2016. The FRS harmonisation move will pave the way for streamlined financial foundation for Labuan FSA’s future policies especially on the capital enhancement initiatives for the financial institutions.

Anti-Money Laundering/ Combating the Financing of Terrorism (AML/CFT)

Labuan FSA continued with its high supervisory vigilance as regards the money laundering and terrorism financing (ML/TF) risks in the Labuan IBFC. Various initiatives undertaken in 2014 ranges from supervisory onsite

assessments and clarifications on regulatory expectations to communication sessions with the various Labuan institutions to continuously instill awareness of their responsibilities as well as the required internal controls to address ML/TF risks.

For 2014, there is a cohesive supervisory efforts between Labuan FSA and Bank Negara Malaysia to jointly undertake AML/CFT thematic examinations on the Labuan banks and trust companies. The objective of the focused examinations was to assess the institutions' level of compliance with AML/CFT's regulatory requirements and its adequacy as well as the effectiveness of the required internal controls and practices amongst the institutions.

Subsequent to the issuance of the revised AML/CFT Guidelines at the end of 2013, Labuan FSA has issued circulars on Beneficial Ownership of an Entity Incorporated/Registered in Labuan IBFC and Management Information System - Information on Beneficial Ownership and Politically Exposed Persons (PEPs), applicable to Labuan trust companies. In the essence to enhance transparency, the information of private companies incorporated in Labuan and its trust companies has been made available on Labuan IBFC website.

The importance of AML/CFT requirements have always been emphasised by Labuan FSA in its periodic engagement sessions with the institutions. This include quarterly bilateral meetings with the Labuan industry associations for the banking,

insurance and trust company sectors. In addition, continuous outreach programmes were also organised by Labuan FSA in promulgating the AML/CFT understanding and awareness amongst Labuan institutions and entities. Throughout 2014, engagement sessions with compliance officers of the Labuan institutions were carried out with the emphasis on the understanding of the AML/CFT Guidelines issued by Labuan FSA and the preparation for the Mutual Evaluation Exercise (MEE) 2014 in which the centre was involved in.

Aside from the mainstream sectors, Labuan FSA has also been working towards raising the same level of awareness on AML/CFT in emerging Labuan sectors such as in the area of wealth management. In this regard, focus was accorded to Non-Profit Organisations (NPOs) such as the Labuan charitable foundations, aside from briefings, dialogue sessions were also conducted with the founders and officers of the institutions so as to inculcate better understanding on their AML/CFT obligations. In a larger scale, Labuan FSA has also collaborated with Company Commission of Malaysia and Registrar of Societies in organising National Seminar on Anti-Money Laundering and Counter Terrorism Financing 2014 for NPOs within the nation.

The 2014 is also regarded as year of key milestones for Malaysia on AML/CFT front. In October 2014, Malaysia was granted the status of observer to the Financial Action Task Force (FATF) while in November 2014, the country had undergone through the MEE by the AsiaPacific Group on Money

Laundering (APG). The latter was deemed critical as it is the first exercise for Malaysia to be assessed based on a new methodology which focused both on the nation's compliance to the FATF recommendations as well as the nation's effectiveness in its implementation.

The MEE entailed APG onsite assessment on Labuan IBFC comprising meetings, interviews and engagement sessions with Labuan FSA as well as selected Labuan institutions and entities from the different sectors. Preliminary focus areas of the MEE which are relevant for the centre include information sharing capabilities and supervisory activities. Labuan FSA will continue to work together with the members of National Coordinating Committee to Counter Money Laundering (NCC) particularly Financial Intelligence and Enforcement Department, Bank Negara Malaysia in addressing the ML/TF treats and vulnerabilities.

PART 02

SECTOR
DEVELOPMENT



Industry Performance of Labuan IBFC

Part 02 – Sector Development

LABUAN BANKS

In 2014, two banks originating from Asia and Middle East were approved. In the same year, one investment bank licence was revoked due to non-compliances with legal requirements and Labuan FSA's directives and guidelines and three Malaysian-based banks surrendered their licences due to rationalisations exercise undertaken by their groups. This brought the total number of banks to 57 as at 31 December 2014 (2013: 59), comprising 43 banks and 14 investment banks. Out of the total 57 banks, 34 banks were branches and

the remaining 23 were subsidiaries. As regard to the Islamic banking sector, there were three Islamic banks, two Islamic investment banks and 10 Islamic windows of conventional banks approved in Labuan.

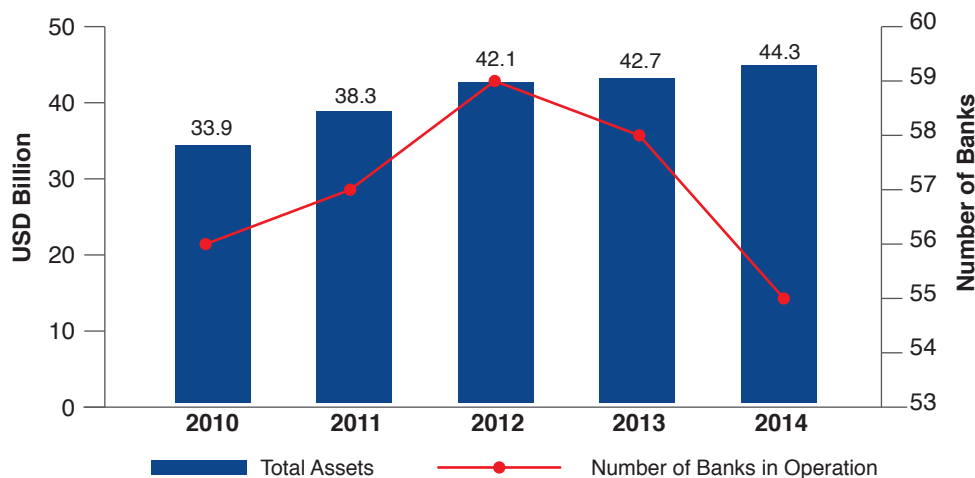
Despite the reduction in the total number of operating banks, the total assets of the Labuan banks continued to grow by 3.7% to USD44.3 billion (2013: USD42.7 billion), mainly driven by strong lending activities of Malaysian-owned commercial banks. The total loans outstanding increased

by 15.5% to USD32.0 billion in 2014 (2013: USD27.7 billion). The exposure to non-residents made up 55.2% (2013: 60.2%) of the overall total loans outstanding. Loan and advances were mainly funded by the head offices or interbank borrowings which accounted for 70.1% of the total source of funds. The sustained positive loan growth is in tandem with the increasing Asian cross border lending activities, supported by the expanded economic activities in the region.

Table 1: Total Assets and Number of Operating Labuan Banks

Year	2010	2011	2012	2013	2014	2014 Change (%)
Number of Banks in Operation	56	57	59	58	55	(5.2)
Total Assets	USD Million					
	33,909.1	38,343.6	42,113.3	42,690.1	44,270.5	3.7

Chart 1: Total Assets and Number of Banks in Operation



Industry Performance of Labuan IBFC

Part 02 – Sector Development

LABUAN BANKS

Table 2: Sources and Uses of Funds

	2010	2011	2012	2013	2014	2014	
	USD Million					Change (%)	Share (%)
Sources:							
Deposits	11,240.7	9,468.7	10,406.9	10,743.6	9,137.2	(15.0)	20.6
Amount due to financial Institution/Interbank borrowing	19,521.6	25,138.9	27,322.2	27,820.1	31,020.1	11.5	70.1
Others	3,146.9	3,736.0	4,384.2	4,126.3	4,113.1	(0.3)	9.3
Total	33,909.1	38,343.6	42,113.3	42,690.1	44,270.5	3.7	100.0
Uses:							
Cash and Short-term Funds	2,217.4	1,781.6	1,598.7	1,192.3	1,922.1	61.2	4.3
Balances due from Head Office and Branches Outside Malaysia	7,145.2	6,999.0	7,884.9	7,428.8	3,432.0	(53.8)	7.8
Investments	2,435.2	3,002.0	4,100.7	4,430.1	4,118.5	(7.0)	9.3
Loans and Advances	19,914.4	24,686.8	26,203.7	27,742.4	31,971.0	15.2	72.2
Fixed Assets	7.0	6.2	7.7	7.5	4.1	(45.9)	0.0
Others	2,189.8	1,868.0	2,317.6	1,889.0	2,822.9	49.4	6.4
Total	33,909.1	38,343.6	42,113.3	42,690.1	44,270.5	3.7	100.0

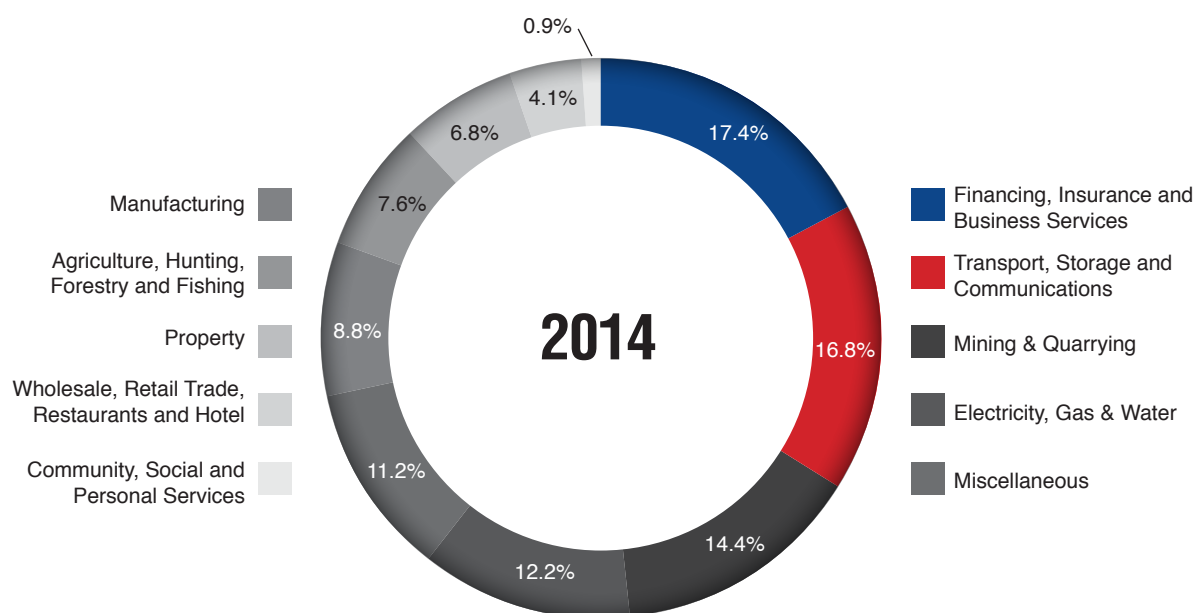
Note: Figures may not necessarily add up due to rounding

Financing, insurance and business services sector; as well as the transport, storage and communications sector remained as the two major business lines funded by the Labuan banks over the last five years.

Table 3: Direction of Lending by Sectors

Loans by Sectors	2010	2011	2012	2013	2014
	USD Million				
Agriculture, Hunting, Forestry and Fishing	951.0	1,670.0	2,333.8	2,321.0	2,417.4
Mining and Quarrying	458.4	2,379.7	3,058.7	4,455.8	4,590.5
Manufacturing	1,971.1	2,514.4	2,168.1	2,400.2	2,817.0
Electricity, Gas and Water	2,711.5	1,665.5	1,997.4	1,925.7	3,894.2
Property of which:					
Real Estate	321.3	1,016.5	1,519.5	1,639.2	1,728.3
Construction	476.3	642.6	642.2	765.6	445.2
Housing	178.5	134.9	113.5	89.5	1.1
Wholesale and Retail Trade and Restaurants and Hotels	205.0	363.0	845.0	843.4	1,312.5
Transport, Storage and Communications	3,946.9	5,055.3	4,480.0	5,107.1	5,357.9
Financing, Insurance and Business Services	5,681.1	6,089.5	5,651.6	5,115.8	5,547.0
Other Services	85.9	113.8	87.8	134.6	280.2
Miscellaneous	2,927.4	3,041.7	3,306.1	2,944.5	3,579.5
Total	19,914.4	24,686.8	26,203.8	27,742.4	31,971.0

Chart 2: Direction of Lending by Sectors



Credit risk exposures from lending activities remained low and stable supported by the continual debt servicing capacity of the borrowers. The ratio of gross non-performing loans (NPL) of the Labuan banks remained at 1.5% in 2014 (2013: 1.5%).

The total deposits decreased by 15.0% to USD9.1 billion (2013: USD10.7 billion). Majority of the depositors were non-residents, which accounted for 69.8% or USD6.4 billion in 2014 (2013: 63.9%). Total deposits accepted by the Labuan banks declined as depositors' preference shifted towards alternative investment placements which offer better yields.

Table 4: Deposits and Loans Outstanding of Non-Bank Customers

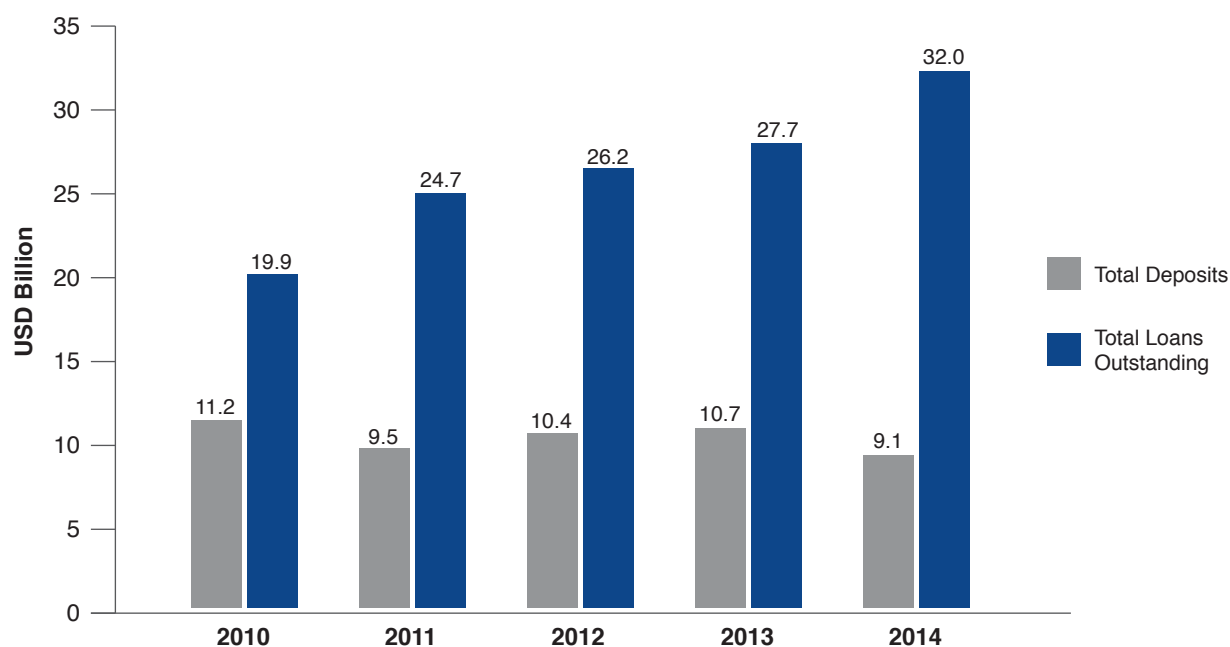
	2010	2011	2012	2013	2014	2014 Change (%)
	USD Million					
Total Deposits	11,240.7	9,468.7	10,406.9	10,743.6	9,137.2	(15.0)
Residents	4,614.4	2,932.2	4,159.1	3,883.4	2,758.4	(29.0)
% share	41.1	31.0	40.0	36.1	30.2	–
Non-Residents	6,626.3	6,536.6	6,247.8	6,860.3	6,378.9	(7.0)
% share	58.9	69.0	60.0	63.9	69.8	–
Total Loans Outstanding	19,914.4	24,686.8	26,203.8	27,742.4	31,971.0	15.5
Residents	5,883.3	8,938.7	10,327.9	11,050.6	14,315.2	29.5
% share	29.5	36.2	39.4	39.8	44.8	–
Non-Residents	14,031.1	15,748.1	15,875.8	16,691.7	17,655.8	5.8
% share	70.5	63.8	60.6	60.2	55.2	–

Industry Performance of Labuan IBFC

Part 02 – Sector Development

LABUAN BANKS

Chart 3: Deposits and Loans Outstanding



With regard to the Islamic banking business, the total Islamic market share had showed a stable growth since 2010. The Islamic banking assets stood at USD1.4 billion in 2014 or 3.2% of the industry's total assets (2013: USD1.5 billion) while the total Islamic financing increased by 28.1% to USD993.3 million (2013:

USD775.6 million) which accounted for 3.1% of the total loans of the industry. Exposure to non-residents made up 55.4% of the overall total Islamic financing (2013: 69.5%). The total Islamic deposits in the Labuan Islamic banks (including the conventional banks with Islamic windows) accounted for 1.8% or

USD162.8 million (2013: 2.1% or USD222.7 million) against the total deposits of the industry. Non-residents remained as the majority customers that dominated the 94.4% of the total Islamic deposits of USD153.7 million (2013: 96.2%).

Table 5: Islamic Business Assets, Financing and Deposits

Year (USD Million)	2010	2011	2012	2013	2014	2014 Change (%)
Total Islamic Deposits	402.9	179.6	169.0	222.7	162.8	(26.9)
Market share (%)	3.6	1.9	1.6	2.1	1.8	
Total Islamic Financing	187.9	294.6	528.5	775.6	993.3	28.1
Market share (%)	0.9	1.2	2.0	2.8	3.1	
Total Islamic Assets	1,294.4	1,161.9	1,526.3	1,470.6	1,408.8	(4.2)
Market share (%)	3.8	3.0	3.6	3.4	3.2	

Overall the Labuan banking sector remained strong with good quality of assets, sufficient liquidity and adequately capitalised. In terms of capital buffer, the industry continued to strengthen its financial resilience as reflected by the increasing risk-weighted capital ratio (RWCR) since 2010. In fact, the year under

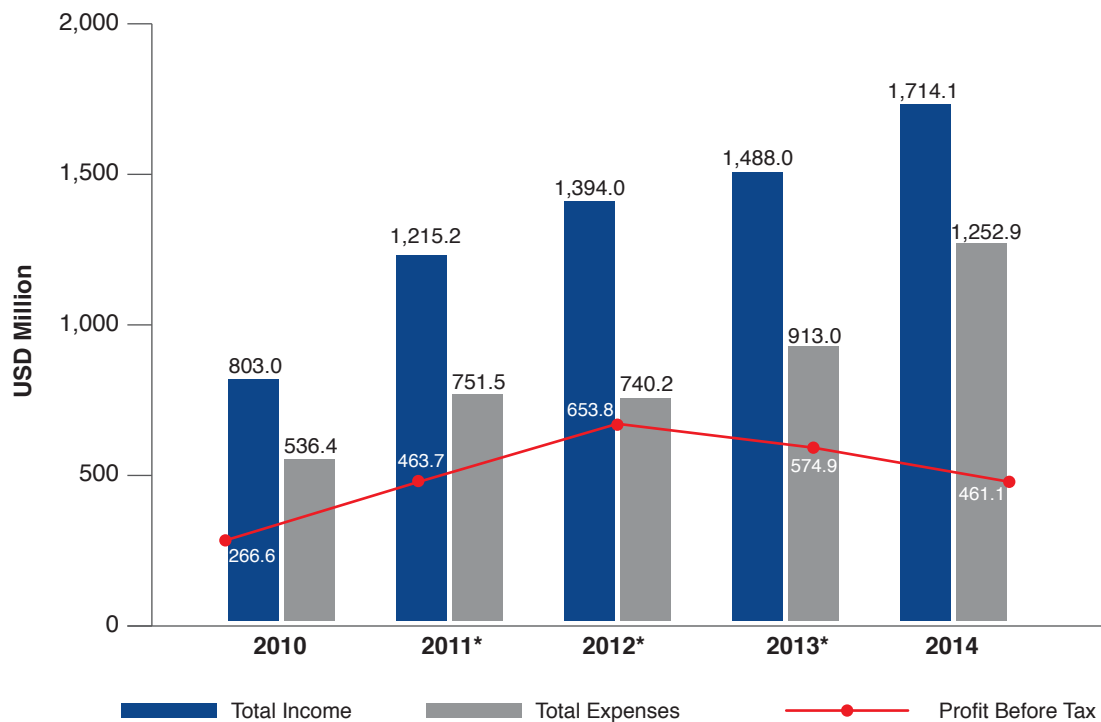
review showed significant increase in the industry's capital buffer as Labuan bank subsidiaries reduced their exposures on riskier activities in the back of market uncertainties. The income of the Labuan banks continued to expand strongly, nevertheless, the profit before tax deteriorated due to higher expenses

incurred for non-interest activities, which resulted the pre-tax profit of the Labuan banks declined by 19.8% to USD461.1 million (2013: USD574.9 million).

Table 6: Key Data

Year (USD Million)	2010	2011	2012	2013	2014	2014 Change (%)
Pre-Tax Profit (Loss)	536.4	463.7	653.8	574.9	461.1	(19.8)
Shareholders' Funds	2,026.7	2,277.7	2,505.4	2,743.9	2,509.5	(8.5)
Total Assets	33,909.1	38,343.6	42,113.3	42,690.1	44,270.5	3.7
RWCR (%)	22.7	23.8	21.0	23.1	31.6	36.8
Gross NPL Ratio (%)	2.2	1.5	1.3	1.5	1.5	0.0

Chart 4: Profit Before Tax



* Restated

Industry Performance of Labuan IBFC

Part 02 – Sector Development

LABUAN INSURANCE

In 2014, 18 new insurance and insurance-related entities were approved and one existing captive insurer was given permission to be converted to a general insurer. The 18 new insurance and insurance-related entities comprising one reinsurer, four captive insurers/takaful, five brokers, two underwriting managers and five cells established under the Protected Cell Company (PCC) structure to carry on captive insurance business. Since the introduction of PCC structure in 2010, it has become a viable option to corporate entities to self-manage its own risk in a cost efficient manner.

For the year under review, the licences of five insurance and insurance-related entities were revoked due to non-compliances with legal requirements. In addition, eight entities had surrendered their licences due to strategic and business decisions while three others licences had been regarded as null and void due to their inability to satisfy the licensing conditions. As a result, the total number of Labuan insurance and insurance-related companies as at 31 December 2014 declined to 209 (2013: 213), which included takaful and retakaful licensees. Currently, the (re)takaful sector comprised one takaful entity, seven retakaful entities, one captive takaful entity, 16 (re) insurance windows and 14 retakaful broking windows.

Attesting to the Labuan IBFC's international stature, for the past five years showed Labuan IBFC has become the choice for the (re) insurance and (re)takaful presence for international insurance groups hailing from the Europe, Middle East, America and Asia. 2014 also witnessed the establishment of the first captive

takaful in Labuan IBFC, which is wholly-owned by a Sri Lankan company. With the growing (re)insurance brand names within the sector, Labuan IBFC is set on the firm path towards becoming an international (re)insurance and (re)takaful centre in the near future. Over the last five years, the number of approved Labuan insurance and insurance-related entities has trended upward and increased steadily with an annual average of 5.6%.

Table 1: Number and Type of Insurance and Insurance-Related Licences

Type of Licence	2010	2011	2012	2013	2014
Life	2	3	4	5	5
General	7	9	11	14	13
Composite	2	2	2	2	2
Reinsurance	34	38	41	46	46
Captive	34	34	41	41	40
Insurance Manager	6	6	5	4	3
Underwriting Manager	17	19	21	20	21
Broker	67	70	78	81	79
Total	169	181	203	213	209

Chart 1: Number of Labuan Insurance Entities

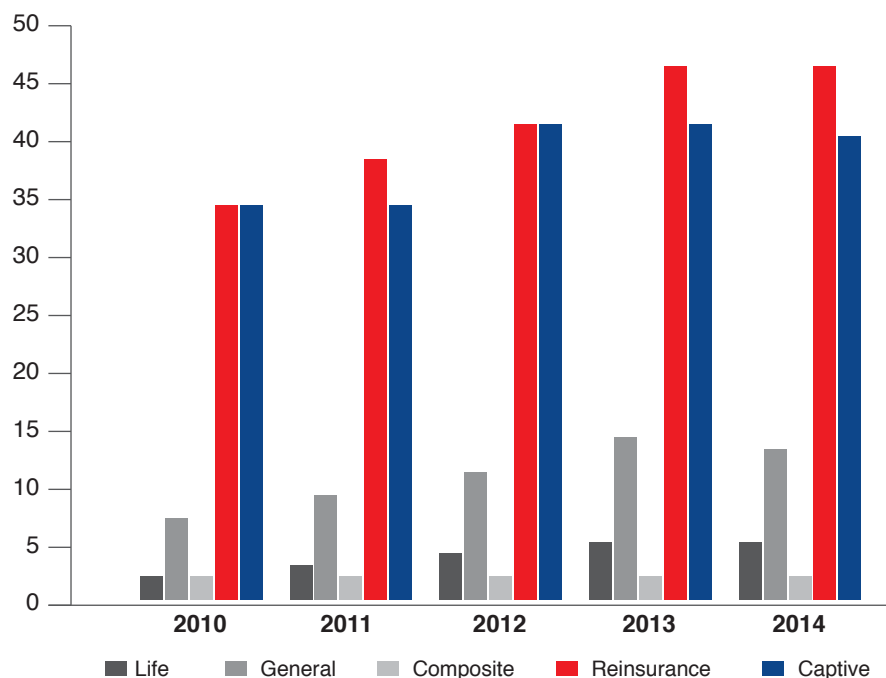
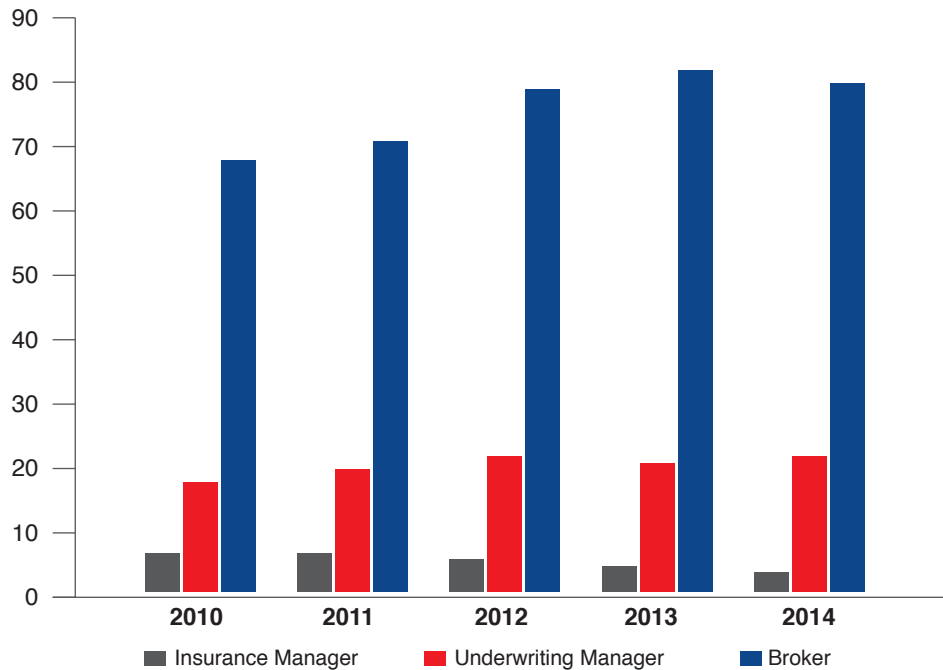


Chart 2: Number of Labuan Insurance-Related Entities

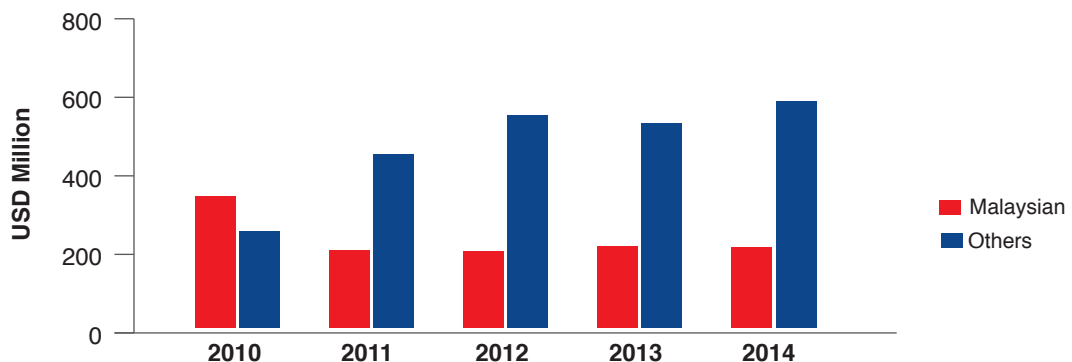


In terms of capitalisation of the Labuan insurance industry, the total capitalisation of the industry had increased by 7.5% to USD783.3 million (2013: USD728.9 million). The total shareholdings of Labuan insurance industry was still dominated by foreign shareholdings which accounted for 73.6% (2013: 71.6%).

Table 2: Total Capitalisation

Held By	2010		2011		2012		2013*		2014	
	USD'000	Share (%)	USD'000	Share (%)	USD'000	Share (%)	USD'000	Share (%)	USD'000	Share (%)
Malaysian	335,290	54.8	197,099	30.8	196,907	26.6	207,296	28.4	206,928	26.4
Others	276,577	45.2	443,753	69.2	542,132	73.4	521,597	71.6	576,353	73.6
Total	611,867	100.0	640,852	100.0	739,039	100.0	728,893	100.0	783,281	100.0

Chart 3: Total Capitalisation



* Restated

Industry Performance of Labuan IBFC

Part 02 – Sector Development

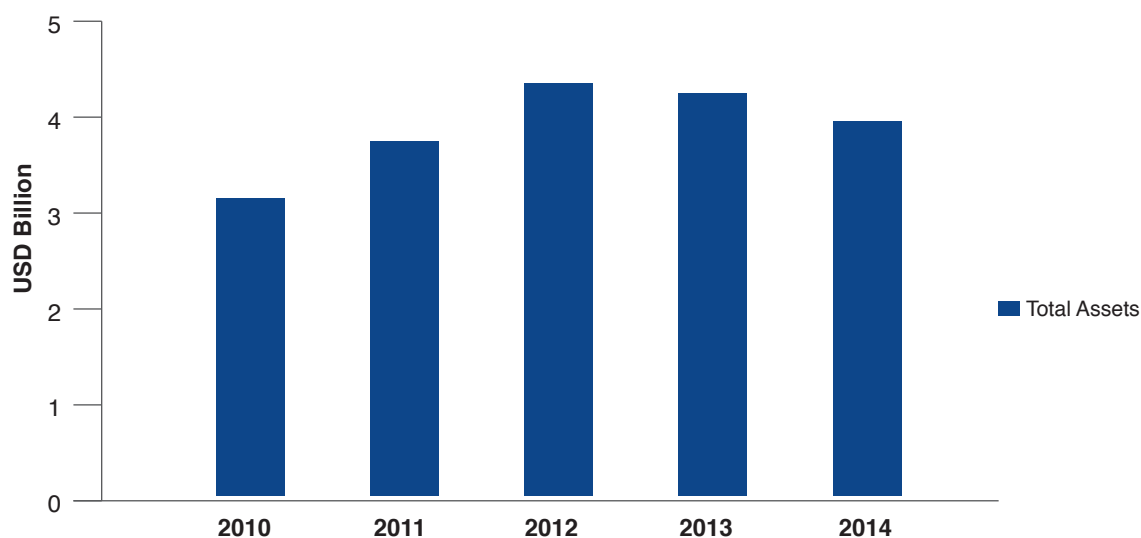
LABUAN INSURANCE

As at end 2014, the total assets declined by 9.1% to USD3.9 billion (2013: USD4.3 billion) due to reduction of allocation in fixed deposits and money market instruments. Nevertheless, fixed deposits and money market instruments remained as the largest portion of total assets component representing 28.9% or USD1.1 billion. Similarly as previous year, the composition of assets allocation by the Labuan insurers reflected prudent and risk aversion among the Labuan insurers.

Table 3 : Total Assets

Assets	2010		2011*		2012*		2013*		2014	
	USD'000	share (%)	USD'000	share (%)	USD'000	share (%)	USD'000	share (%)	USD'000	share (%)
Fixed Assets	18,062	0.6	36,631	1.0	53,090	1.2	59,341	1.4	55,234	1.4
Due from Ceding/ Related Companies	596,502	19.4	579,227	15.9	625,022	14.3	689,579	16.0	465,273	11.9
Fixed Deposits/ Money Market	1,152,947	37.5	1,198,300	32.9	1,530,408	35.0	1,431,654	33.2	1,131,312	28.9
Cash and Bank Balances	315,115	10.3	378,356	10.4	496,891	11.4	468,324	10.9	573,555	14.7
Investments	236,430	7.7	632,740	17.3	694,363	15.9	777,020	18.0	784,809	20.0
Others	752,921	24.5	820,494	22.5	972,592	22.2	881,297	20.5	903,029	23.1
Total	3,071,977	100.0	3,645,749	100.0	4,372,366	100.0	4,307,214	100.0	3,913,211	100.0

Chart 4: Total Assets



* Restated

The gross premiums written by the Labuan general insurers and reinsurers also trended downward since 2013. As at 31 December 2014, the total of gross premiums were further reduced by 11.9% to USD1.4 billion (2013: USD1.6 billion). The non-resident business contributed a higher share of 50.6% (2013: 52.7%) as compared to resident business. This reflected the centre's continuous endeavour to promote its out-out (re)insurance business. The fire sector continued to be a key insurance class, contributing the highest market share of 36.8% or USD524.7 million of the total gross premiums (2013: 36.0%). The total gross contribution generated by Labuan takaful and retakaful operators (including takaful and retakaful windows) recorded a total of USD38.0 million (2013: USD136.9 million).

Table 4: Distribution of Gross Premiums

Year	Total		Fire	Marine	Engineering	Motor	Other Classes	Total
	Malaysian	Others						
	USD'000							
2010	567,332	637,418	513,190	145,773	235,628	95,916	214,243	1,204,750
2011*	807,687	767,298	561,476	204,623	310,398	190,954	307,534	1,574,985
2012*	801,300	937,229	671,552	200,582	309,263	164,136	392,996	1,738,529
2013*	766,913	853,184	582,483	159,978	392,782	110,595	374,260	1,620,098
2014	704,872	722,279	524,717	142,558	263,173	131,872	364,830	1,427,150
	change (%)							
2010	30.5	(6.7)	(8.5)	(1.3)	30.1	162.2	11.8	7.8
2011	42.4	20.4	9.4	40.4	31.7	99.1	43.5	30.7
2012	(0.8)	22.1	19.6	(2.0)	(0.4)	(14.0)	27.8	10.4
2013	(4.3)	(9.0)	(13.3)	(20.2)	27.0	(32.6)	(4.8)	(6.8)
2014	(8.1)	(15.3)	(9.9)	(10.9)	(33.0)	19.2	(2.5)	(11.9)
	share (%)							
2010	47.1	52.9	42.6	12.1	19.5	8.0	17.8	100.0
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	9.5	22.6	100.0
2013	47.3	52.7	36.0	9.9	24.2	6.8	23.1	100.0
2014	49.4	50.6	36.8	10.0	18.4	9.2	25.6	100.0

* Restated

The overall net retention ratio for the industry was slightly higher at 67.4% (2013: 65.4%) mainly due to increase in retention in fire sector. Nevertheless, the motor sector maintained the highest net retention of 96.5% for the year 2014, similar to the prior years.

Table 5: Net Retention Ratio (%)

Year	Malaysian	Others	Fire	Marine	Engineering	Motor	Other Classes	Total
2010	68.1	77.9	79.8	69.8	50.3	97.5	74.6	73.3
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*	53.4	76.3	68.6	68.6	42.3	97.3	73.9	65.4
2014	57.8	76.8	70.6	61.3	43.9	96.5	71.7	67.4

* Restated

Industry Performance of Labuan IBFC

Part 02 – Sector Development

LABUAN INSURANCE

In tandem with the declining trend of total assets and total gross premiums, the sector's earned premium income for 2014 also registered a decline of 8.0%. The ratio of net claims incurred decreased from 47.3% in 2013 to 45.5% in 2014. The underwriting margin improved at 28.5% (2013: 25.5%) due to the lower claims incurred during the year. Consequently, the pre-tax profitability has inflated by 24.1% to USD328.3 million (2013: USD264.5 million) depicting the better quality of risks underwritten by the players.

Table 6: Underwriting Experience

Year	Earned Premium Income	Net Claims Incurred		Commission		Management Expenses		Underwriting Margin	
	USD'000	USD'000	Ratio (%)	USD'000	Ratio (%)	USD'000	Ratio (%)	USD'000	Ratio (%)
2010	767,307	392,332	51.1	183,939	24.0	37,587	4.9	153,449	20.0
2011*	1,114,904	758,212	68.0	286,253	25.7	43,721	3.9	26,717	2.4
2012*	1,262,813	719,461	57.0	302,481	24.0	48,193	3.8	192,678	15.3
2013*	1,085,450	513,125	47.3	234,944	21.6	60,928	5.6	276,454	25.5
2014	998,856	454,554	45.5	191,550	19.2	67,771	6.8	284,981	28.5

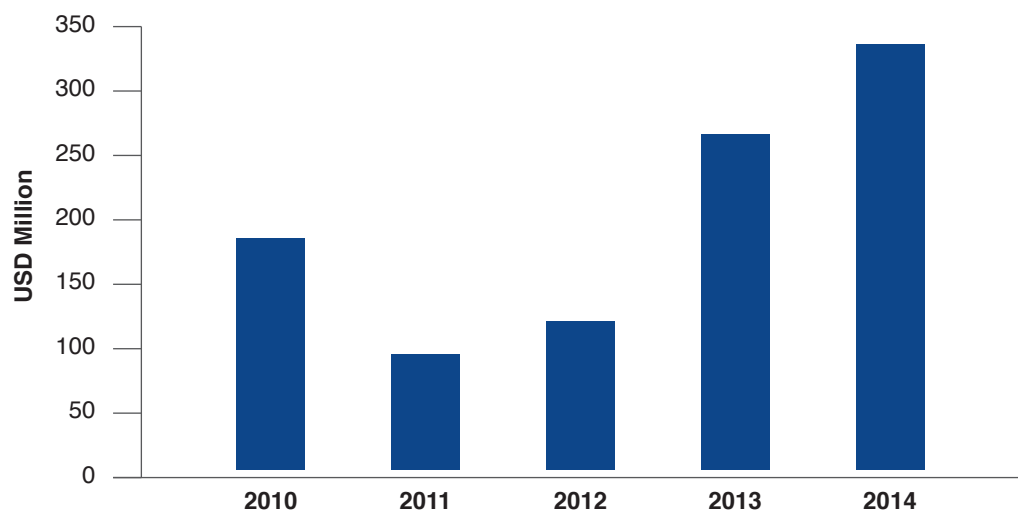
* Restated

Table 7: Profit Before Tax

	2010	2011*	2012*	2013*	2014	2011*	2012*	2013*	2014
	USD'000					Change (%)			
Total PBT	188,199	96,096	121,732	264,507	328,254	(48.9)	26.7	117.3	24.1

* Restated

Chart 5: Profit Before Tax



* Restated

The year under review revealed a slight decrease in investment-linked products underwritten with a total of 189 new policies issued during the year (2013: 195). Nonetheless, in terms of value, USD6.4 million worth of premiums was written compared to USD3.7 million recorded in year 2013. Consequently, the total sum insured also increased to USD319.0 million in 2014 from USD5.3 million in 2013, reflecting greater penetration into the high net worth individuals in the market.

Table 8: Statistics on Investment-Linked Policies

Year		New Policies			Policies in Force		
		Malaysian	Others	Total	Malaysian	Others	Total
2010	No. of Policies	174	12	186	870	58	928
		USD'000					
	Sum Insured	3,371	654	4,025	18,385	1,107	19,492
	Single Premiums	1,730	450	2,180	16,848	991	17,839
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
2014	No. of Policies	187	2	189	786	49	835
		USD'000					
	Sum Insured	318,436	519	318,955	341,533	2,185	343,718
	Single Premiums	5,859	533	6,392	17,585	1,513	19,098

In terms of captive insurance business, the gross premiums for 2014 were USD339.3 million, a decrease of 21.9% compared to USD434.4 million in 2013. The decrease was mainly due to reduction of risk underwritten in engineering, the largest sector for captives, by almost half at USD164.4 million (2013: USD274.7 million).

For Labuan insurance brokers, the total premium processed by the Labuan insurance brokers declined by 3.5% to USD936.6 million (2013: USD970.9 million), of which, 86.5% (2013: 87.4%) was derived from general business. The general premiums was mainly brokered from the international market with 44.5% of the total placement. For the life insurance business, almost all of the total life premium was derived from direct business placed with overseas insurers. In terms of brokerage fees, the general business contributed 82.8%, consistent with the higher proportion of general insurance premiums processed during the year.

Industry Performance of Labuan IBFC

Part 02 – Sector Development

LABUAN INSURANCE

Table 9: Distribution of Gross Premiums for Captive Business

Year	Malaysian	Others	Fire	Marine	Engineering	Motors	Other Classes	Total
	USD'000							
2010	177,403	54,437	15,112	21,198	152,112	–	43,418	231,840
2011*	259,231	54,038	21,136	19,652	196,514	488	75,479	313,269
2012	231,603	95,464	34,173	24,210	185,088	–	83,595	327,066
2013*	287,804	146,551	36,497	21,171	274,718	36	101,934	434,356
2014	204,036	135,278	38,305	22,929	164,350	631	113,100	339,315
	Change (%)							
2010	41.7	7.5	(18.6)	41.2	41.3	–	25.5	31.9
2011	46.1	(0.7)	39.9	(7.3)	29.2	–	73.8	35.1
2012	(10.7)	76.7	61.7	23.2	(5.8)	(100.0)	10.8	4.4
2013	24.3	53.5	6.8	(12.6)	48.4	0.0	21.9	32.8
2014	(29.1)	(7.7)	5.0	8.3	(40.2)	1,648.0	11.0	(21.9)
	Share (%)							
2010	76.5	23.5	6.5	9.2	65.6	0.0	18.7	100.0
2011	82.8	17.2	6.7	6.3	62.7	0.2	24.1	100.0
2012	70.8	29.2	10.4	7.4	56.6	0.0	25.6	100.0
2013	66.3	33.7	8.4	4.9	63.2	0.0	23.5	100.0
2014	60.1	39.9	11.3	6.8	48.4	0.2	33.3	100.0

* Restated

Table 10: Premiums Placement by Insurance Brokers

Year	2010	2011*	2012*	2013*	2014	Yearly Change	Market Share
General Business	USD'000					%	
Labuan	83,436	140,074	133,609	137,975	110,905	(19.6)	11.8
Malaysia	221,306	294,452	323,055	317,077	338,687	6.8	36.2
Others	218,168	331,864	344,227	393,605	360,240	(8.5)	38.5
Sub Total	522,909	766,390	800,890	848,657	809,832	(4.6)	86.5
Life Business	USD'000					%	
Labuan	795	1,403	2,309	4,901	1,595	(67.5)	0.2
Malaysia	–	–	741	–	–	–	–
Others	111,533	129,086	114,726	117,328	125,192	6.7	13.4
Sub Total	112,328	130,489	117,776	122,229	126,787	3.7	13.5
Grand Total	635,237	896,879	918,666	970,886	936,619	(3.5)	100.0

Table 11: Brokerage Fee Earned by Insurance Brokers

Year	2010	2011*	2012*	2013*	2014	Yearly Change	Market Share
General Business	USD'000					%	
Labuan	3,885	5,945	6,062	6,629	5,508	(16.9)	8.3
Malaysia	8,279	12,362	14,028	12,709	13,118	3.2	19.8
Others	21,474	51,391	37,809	45,020	36,173	(19.7)	54.7
Sub Total	33,639	69,697	57,899	64,357	54,799	(14.9)	82.8
Life Business	USD'000					%	
Labuan	22	146	473	324	135	(58.3)	0.2
Malaysia	–	–	16	–	2	–	0.0
Others	10,284	12,356	10,188	10,465	11,221	7.2	17.0
Sub Total	10,306	12,502	10,678	10,789	11,358	5.3	17.2
Grand Total	43,944	82,199	68,577	75,147	66,156	(12.0)	100.0

* Restated

Industry Performance of Labuan IBFC

Part 02 – Sector Development

CAPITAL MARKET

There had been a continuing growth of the capital market sector over the past five years in terms of fund size. For the private fund sector, the growth of fund size was supported by an increase in the number of new private funds registered in Labuan IBFC. In 2014, there were two new funds registered, bringing the total number of private funds registered to 61 in 2014 (2013: 59). Total cumulative fund size stood at USD12.2 billion as at 31 December 2014. (2013: USD12.0 billion) and there was no registered public fund in 2014.

For the year under review, one fund manager's licence was issued bringing the total number of fund managers to nine as at 31 December 2014 (2013: 8).

Table 1: Mutual Funds – Cumulative Approved Fund Size

Year USD Million	2010	2011	2012	2013	2014	2014 Change %
Private Fund	9,553	9,369	10,974	12,048	12,153	0.9
Public Fund	130	130	100	0	0	0.0
Cumulative Approved Fund Size	9,683	9,499	11,074	12,048	12,153	0.9

Chart 1: Mutual Funds – Approved Fund Size (Cumulative)

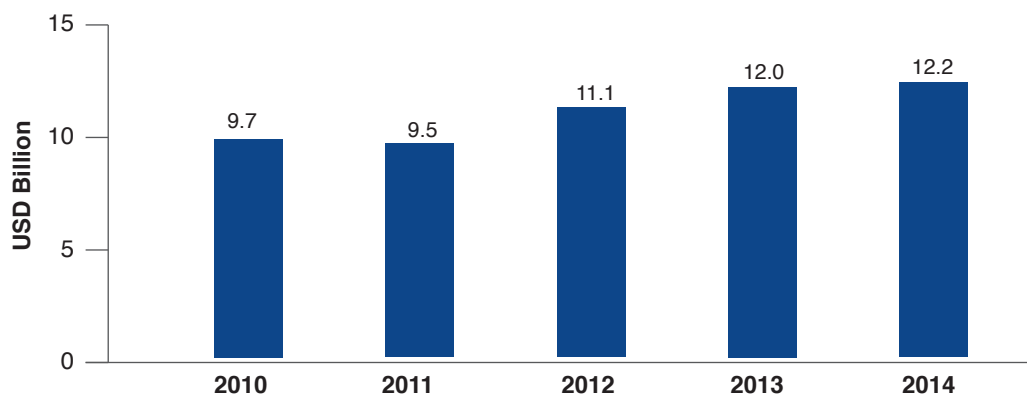


Table 2: Number of Approved Fund Management Companies

Year	2010	2011	2012	2013	2014	2014 Change (%)
Fund Manager	17	11	12	8	9	12.5
Private Fund	42	45	51	59	61	3.4
Public Fund	2	2	1	0	0	0
Total	44	47	52	59	61	3.4

LABUAN INTERNATIONAL FINANCIAL EXCHANGE

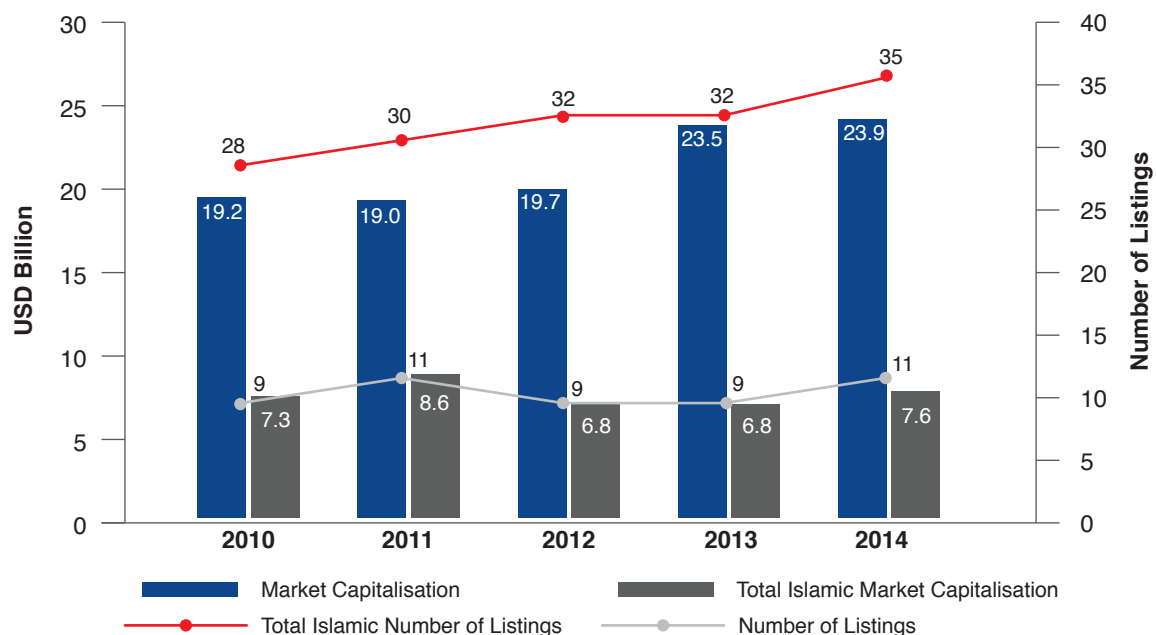
In 2014, seven new instruments were listed at the Labuan International Financial Exchange (LFX) while four others were de-listed. As at 31 December 2014, there was a total of 35 active listings (2013: 32). The market capitalisation of LFX increased by 1.8% to USD23.9 billion (2013: USD23.5 billion) with Islamic instruments contributing 31.8% or USD7.6 billion of the total market capitalisation. (2013: 28.9% or USD6.8 billion).

In 2014, Islamic market instruments listed on the LFX had registered an increase of 11.8% from 2013 with a total Islamic market capitalisation and total number of listing amounting to USD7.6 billion and 11 listings, respectively.

Table 1: Number of Listings and Market Capitalisation vs Islamic Market Capitalisation and Total Number of Listings (Cumulative)

Year	2010	2011	2012	2013	2014	2014 Change (%)
Market Capitalisation (USD Billion)	19.2	19.0	19.7	23.5	23.9	1.8
Number of Listings	28	30	32	32	35	9.4
Total Islamic Market Capitalisation (USD Billion)	7.3	8.6	6.8	6.8	7.6	11.8
Total Number of Listings	9	11	9	9	11	22.2
Market Share (%)	38.0	45.3	34.5	28.9	31.8	

Chart 1: Number of Listings and Market Capitalisation



Industry Performance of Labuan IBFC

Part 02 – Sector Development

LABUAN INTERNATIONAL COMMODITY TRADING COMPANY

There has been a steady growth in the number of Labuan International Commodity Trading Company (LITC) since its introduction in 2011. As at 31 December 2014, 39 LITC companies were approved and out of this total, 25 LITC companies

were involved in petroleum and petroleum-related products while the remaining were involved in various lines in relation to agricultural produce, base mineral and chemical products; and refined raw materials. About 82.0% of LITC companies originated

from Southeast Asia while the balance from Middle East, Europe and China. With the increasing oil and gas regional activities coupled with business flexibilities offered in the Labuan IBFC, it is expected that there will be greater number of LITC applicants.

LABUAN LEASING

The leasing sector continued to be the highest growth sector and attract new players from across the globe to conduct leasing business in Labuan IBFC. A total of 51 new companies were approved during the year to carry out leasing business, while four leasing companies ceased their operations due to completion of leasing arrangements, bringing the total number of leasing companies to 359 (2013: 312). In line

with the gradual increase of leasing companies, the assets leased in 2014 also grew by 19.5% to USD45.5 billion (2013: USD38.1 billion).

In terms of geographical distribution, the leasing companies originated from the Southeast Asia and the Pacific region continued to dominate the market share of the industry over the last five years, followed by the Americas and the Caribbean region,

Europe, the Far East as well as Middle East and Africa region. Majority of the leasing companies were involved in the oil and gas and the aviation sectors, representing 64.1% and 27.3% of the total, respectively. With the constant growth in the oil and gas business activities in the region, the demand for oil and gas leasing vessels and support equipment is expected to continue expanding in year ahead.

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

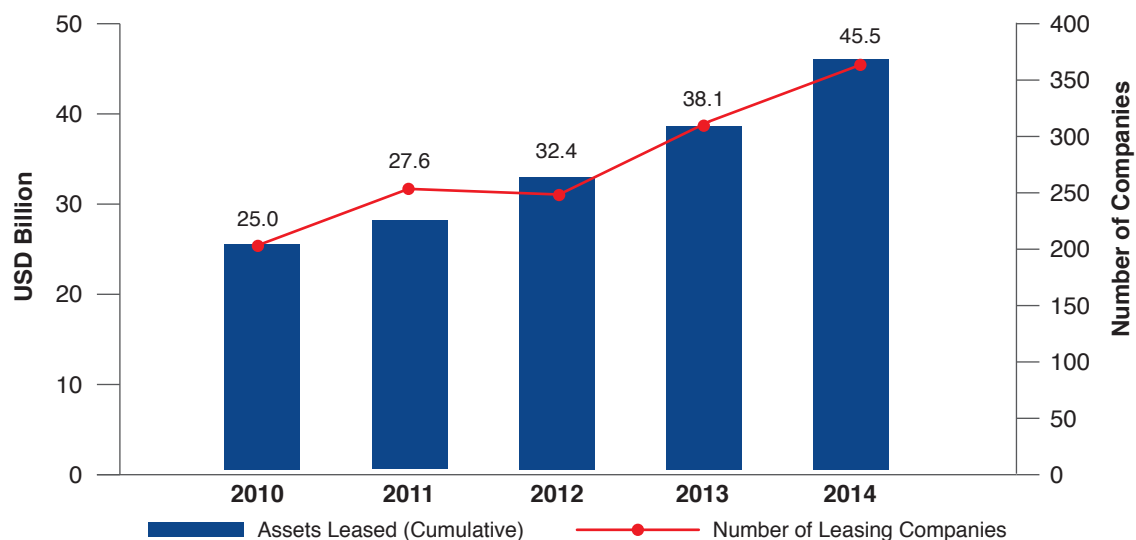
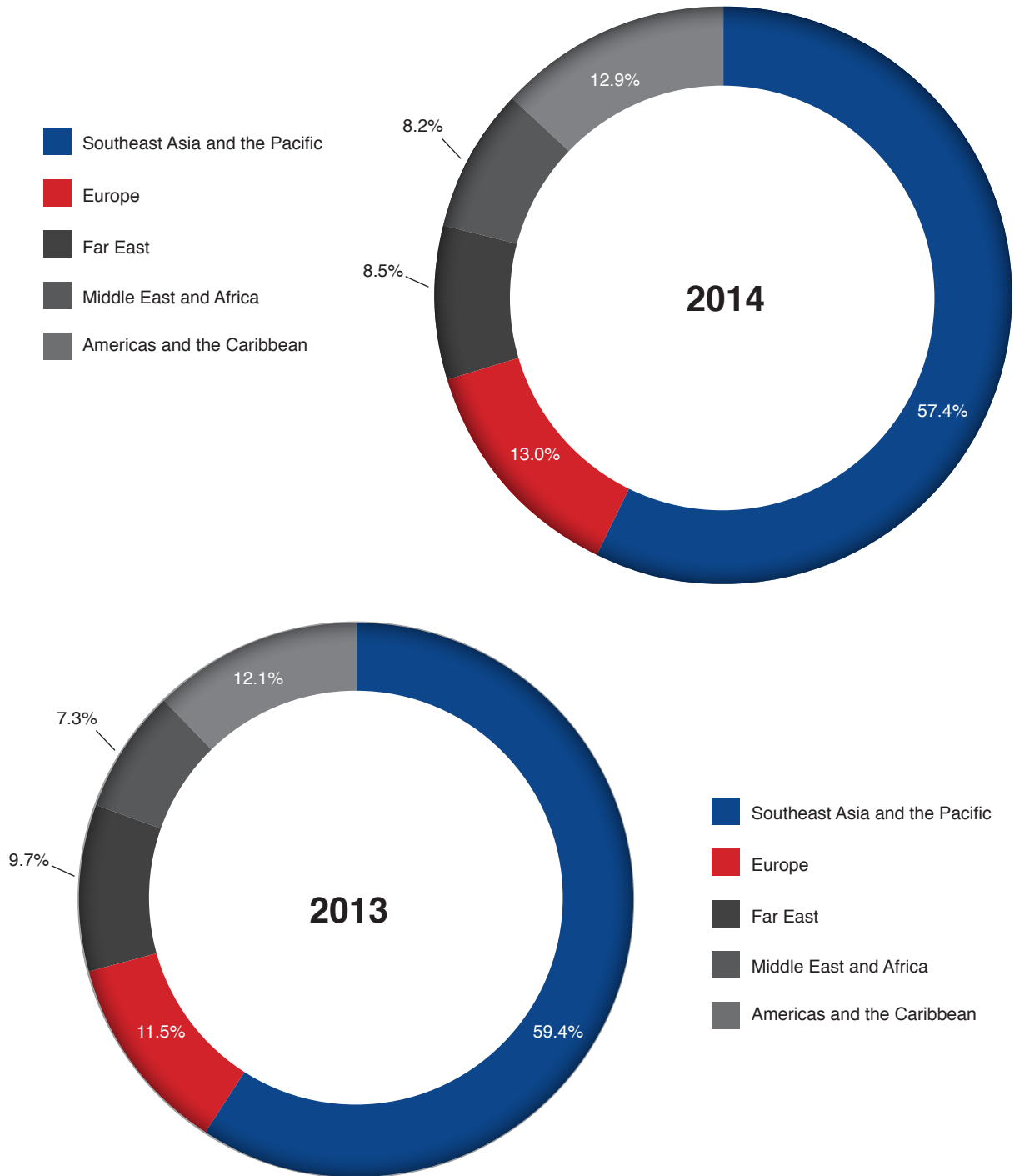


Chart 2: Breakdown of Origin by Region



Industry Performance of Labuan IBFC

Part 02 – Sector Development

LABUAN TRUST COMPANIES

Three trust companies were approved in 2014 comprising two full-fledged trust companies and one managed trust company, bringing the total number of trust companies to 39 as of 31 December 2014 (2013: 37), of which about 80.0% were Malaysian-owned.

In terms of financial performance, as at 31 December 2014, the total operating income of the trust company business increased by 11.2% to USD24.2 million (2013: USD21.7 million). The total operating income derived mainly from secretarial fees (62.1%) and the remaining were from trustee, accounting, administrative and

other service fees. In tandem with the growth in the number of trust companies and new registration of companies and other licensed entities over the last 10 years, the total operating income also increased favourably by an average of 16.5%, or USD20.0 million per year. The increase clearly depicts the strong and stable financial momentum that trust companies are riding on as the sector grows.

The Labuan trust company business showed an increase in manpower to a total of 485 staffs as at 31 December 2014 (2013: 477 staffs) and the number of approved trust officers also

showed a positive growth at 91 (2013: 90). The increase in number of trust officers reflects the sector's response to the increased demand of the international market in terms of Labuan IBFC's products and services and the higher number of Labuan companies incorporated for the past five years. With the higher demands for trust company services, Labuan FSA has continuously strengthen the approval process of trust officers by assessing the level of skills, competency and capability of the candidates. This is to ensure trust officers will always reflect high integrity standards and commendable professionalism level in carrying out their fiduciary duties.

Chart 1: Key Data – Labuan Trust Companies

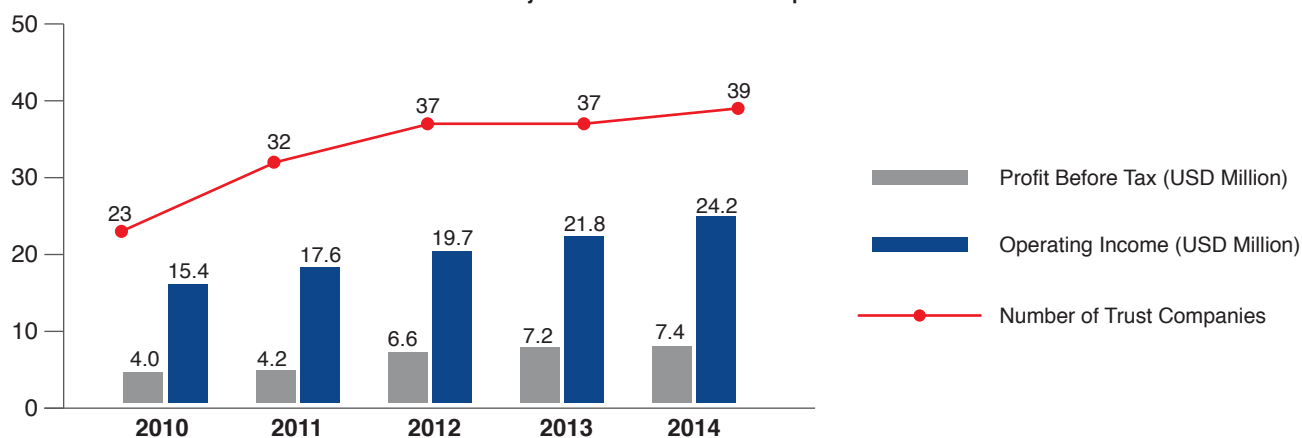
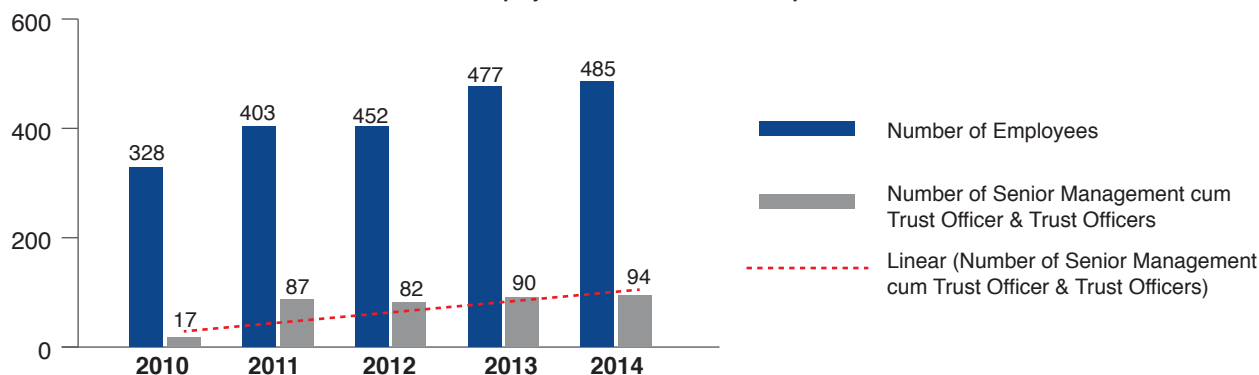


Chart 2: Employment – Labuan Trust Companies



LABUAN COMPANIES

Labuan IBFC remained an attractive location for new companies arising from the diverse types of Labuan entities available for registration. In 2014, a total of 1,278 new companies were incorporated as compared to 865 new companies incorporated in the previous year. With the substantial double-digit growth of 47.7%, the total number of Labuan companies registered in Labuan IBFC had increased to 11,630 (2013: 10,352).

The Labuan companies registered in Labuan IBFC originated from more than 100 countries. In term of regional segregation, 57.4% (2013: 59.4%) of the operating Labuan companies originated from South East Asia and Asia Pacific region, mainly from Malaysia, Indonesia, Singapore, Australia and Thailand. This was followed by Europe with 12.9% (2013: 12.1%), which originated mainly from United Kingdom, Netherlands and Germany. Labuan companies from the Far East region contributed 13.0% (2013: 11.5%) of the total aggregate and these companies were predominantly from Hong Kong, Taiwan, South Korea, Japan and The People's Republic of China. The remainder Labuan companies were from the regions of Americas, and the Middle East & Africa with 8.5% and 8.2% each (2013: 9.7% and 7.3%, respectively).

Chart 1: Number of Registered and Operating Labuan Companies

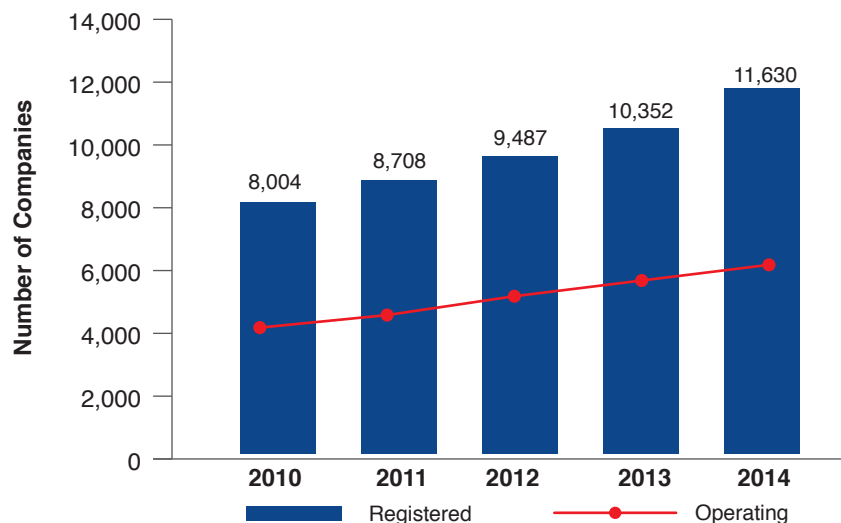
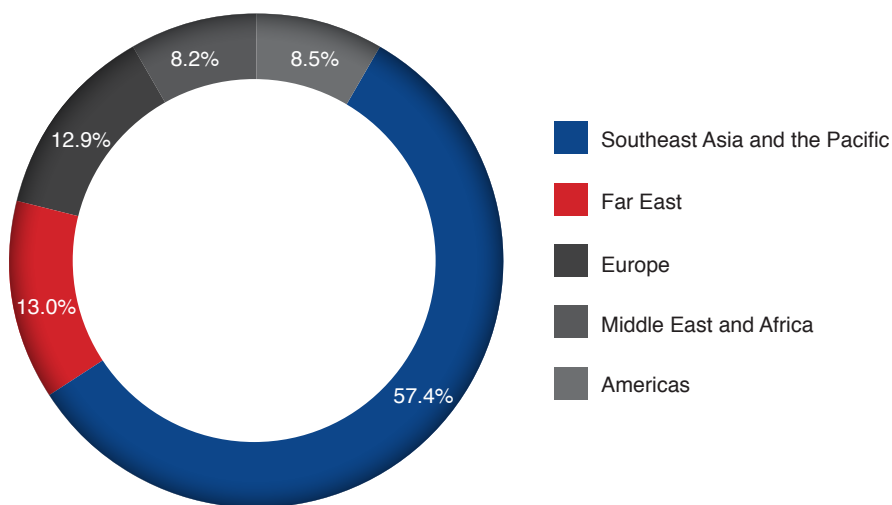


Chart 2: Operating Labuan Companies by Region As at 31 December 2014



Industry Performance of Labuan IBFC

Part 02 – Sector Development

LABUAN FOUNDATIONS

Labuan foundation is another area of growth for the Labuan IBFC. Since the introduction of the Labuan Foundations Act 2010, there was a total of 130 registered foundations in Labuan IBFC. For the year 2014, a total of 37 new Labuan foundations were registered, an increase of 39.8% (2013: 93). The composition of Labuan foundations consisted of 122 conventional and eight Islamic foundation. Labuan foundations can either be for the purpose of charitable or non-charitable pursuits. Labuan charitable foundations are set up for various non-profit or philanthropic goals which include relief of poverty, advancement of education and other socio-economic purposes for the betterment of the community, whilst the non-charitable foundations are geared for wealth management or estate planning. As at 31 December 2014, there were 18 active charitable foundations while 84 others were set up for non-charitable purposes.

In terms of geographical distribution, the Labuan foundations registered in Labuan IBFC originated mainly from Asia and Pacific region with 73.1% (2013: 66.0%), Middle East and Africa 12.3% (2013: 17.0%), Europe 8.5% (2013: 10.0%), America 4.6% (2013: 1.0%) and Far East region 1.5% (2013: 6.0%).

Chart 1: Growth in Number of Labuan Foundations

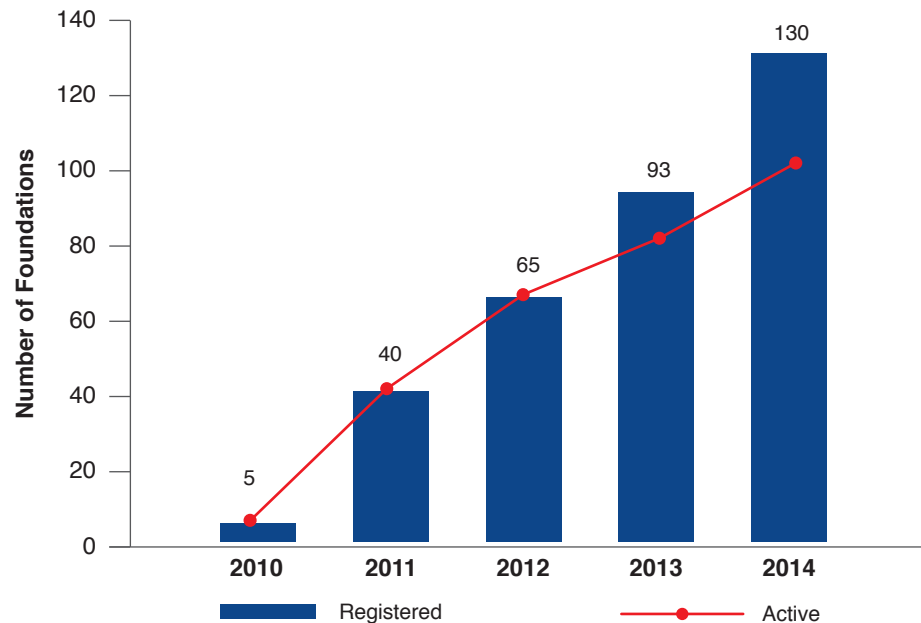
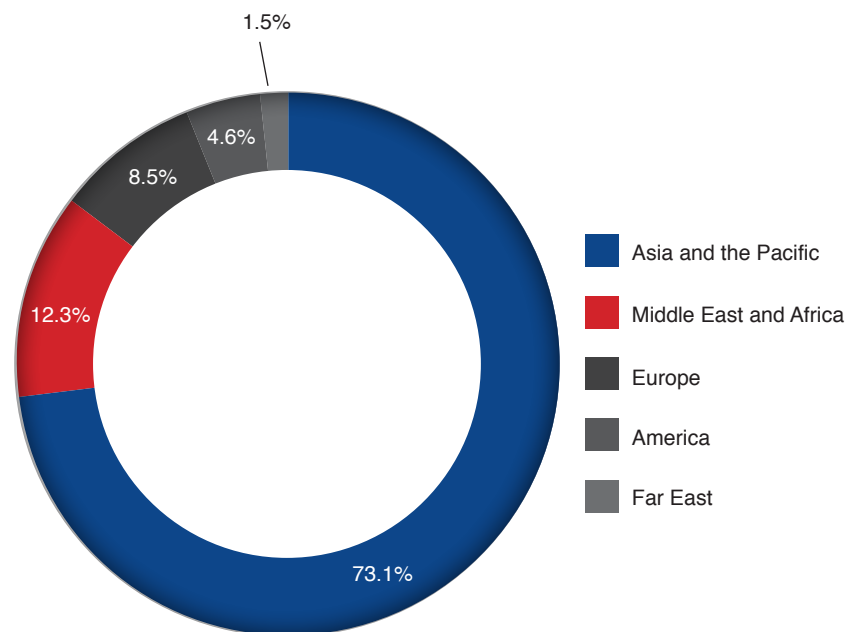


Chart 2: Labuan Foundations By Region



BOX ARTICLE – CORPORATE ACTION PLAN

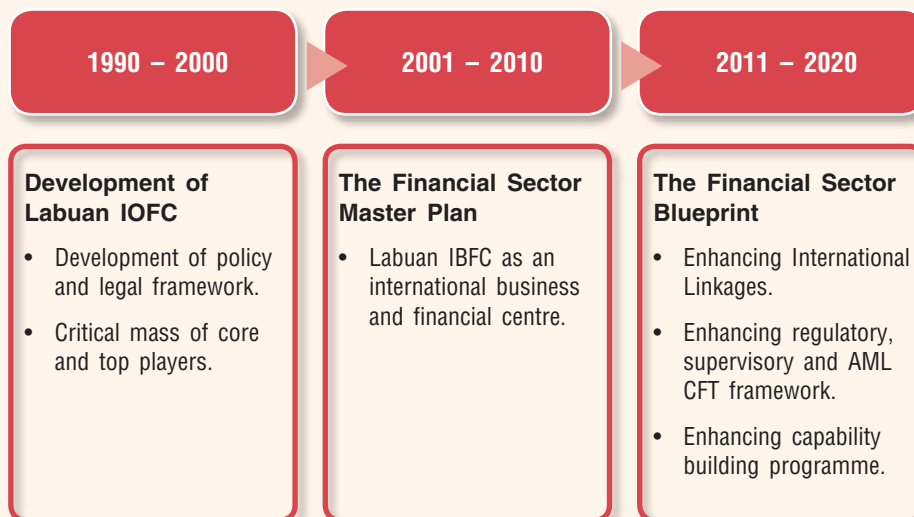
Labuan International Business and Financial Centre (Labuan IBFC) has been a part of the Malaysian financial system for over twenty years, contributing to the national economy through expansion in number of players, diversity of product offerings and volume of activities. Labuan IBFC's development and role evolved through the implementation of broad strategies and key initiatives under the Labuan FSA's Corporate Action Plan (CAP). The CAP is further guided by the Financial Sector Blueprint (FSBP) issued by Bank Negara Malaysia to chart the future direction of the Malaysian financial system for year 2011 to 2020. The recommendations on Labuan IBFC under the FSBP focuses on the following areas:

- (i) Strong Regulatory and Supervisory Regime;
- (ii) Vibrant Centre with Regional and International Financial Linkages; and
- (iii) International Islamic Finance.

The formulation of broad strategies and key initiatives under the CAP has taken into account the continues development of the international financial system that has become more interconnected as a result of greater cross-border trades and financial flows which will aspire to position Labuan IBFC with:

- (i) Enhanced and more diverse products and services offering that cater to the financial needs of a broader spectrum of international investors;
- (ii) A financial centre that is more engaged with the region and other parts of the world; and
- (iii) Enhanced capacity for meaningful contribution to Malaysia's economic transformation and growth.

Labuan IBFC's Role and Development



Box Article – Corporate Action Plan

The key focus areas under the recommendations of the FSBP for Labuan IBFC including its strategic initiatives and goals are depicted in the following chart:

Labuan FSA’s Corporate Action Plan 2015 – 2017

FINANCIAL SECTOR MASTER PLAN 2010 – 2020 RECOMMENDATIONS		STRATEGIC ACTION PLANS	
Strong regulatory and supervisory regime	Enhance the prudential and regulatory standards in line with the international standards and best practices, including Islamic finance	Introduce new and revised capital and other prudential standards and guidelines for banks and insurance (including Islamic)	
	Strengthen corporate governance and risk management practices and market conduct of financial intermediaries	Introduce corporate governance, risk management guidelines and best practices for the industry	
	Enhance engagement and cooperation with foreign and domestic regulatory agencies	Enhance the home-host regulatory and supervisory framework agreements/MoUs collaboration	
	Enhance the capability and resources for effective supervision and regulation	Enhance internal and external talent resources management	
Vibrant centre with regional & international financial linkages	Enhance Labuan IBFC’s role to support international trade and investment	Review the legal and tax framework to accommodate international trade, investment and business developments	
	Develop Labuan as a centre of reinsurance, captive and retakaful	Develop a Capability Building Programme for the industry players	
	Strengthen the capabilities and quality of service providers	Create a vibrant ecosystem to support wealth management	
	Tap on growing regional wealth through Foundations and Trust	Collaborate with established international financial centres and regulators	
	Leverage on the established international financial institutions in Labuan		
International Islamic Finance	Establish vehicles for Islamic asset and wealth management	Diversify the Islamic products and services	
	Develop Labuan as an International retakaful centre	Create an industry wide system based on Islamic principles to promote industry collaboration	
	Leverage on Labuan business structures and institutions to raise funds in multi currencies in accordance with Shariah principles		
Internal strategies to enhance operational excellence in Labuan FSA		Enhance stakeholder management and engagement to heighten awareness and support	
		Establish a comprehensive Management Information System to support Labuan FSA’s functions	
		Enhance talent and financial management to ensure efficient utilisation of resources	

Box Article – Corporate Action Plan

STRATEGIC INITIATIVES AND GOALS 2015 – 2017

- I. Develop an effective supervisory intervention strategy, prosecution and compliance monitoring mechanism to enable prompt regulatory actions be taken to preserve the integrity and credibility of the Labuan IBFC industry players
- II. Engage with international regulators through MoUs for effective supervision and regulatory cooperation
- III. Enhance the supervisory early warning system and robust data capture and info gathering to facilitate preemptive measures to maintain financial stability and soundness
- IV. Enhance the role of internal and external auditors to support the supervisory function to extend the regulatory outreach of Labuan FSA
- V. Engage the various associations on quarterly basis to communicate the policies, guidelines and regulatory expectations on Labuan players, to enable them to move towards governing the market conduct of their member institutions
- VI. Enhance prudential standards/guidelines and framework on risk-based capital, valuation, corporate governance, outsourcing, market conduct, syariah compliance and AML/CFT through consultation process with the relevant stakeholders

- I. Implement capability building programme for industry players with professional bodies/universities to raise competency and knowledge to support the growing market demands in Labuan IBFC
- II. Keep abreast of current international and regional Asean Economic Community (AEC) markets developments and trends on products and services with a view to improve Labuan IBFC offerings including captive, retakaful, wealth management, family office, trusts, waqf and foundation
- III. Develop an international islamic commercial paper money market leveraging on the regional initiatives
- IV. Develop and cement domestic and international partnership and mutual recognitions with other authorities and centres to enhance Labuan IBFC's capacity and capabilities as well as product positioning
- V. Establish a central retakaful settlement system to boost retakaful industry
- VI. Review the safety net of banking and insurance industries to promote confidence in depositors, investors and policy holders
- VII. Introduce legal changes to current legislation to enhance support of business growth and regulatory and supervisory function
- VIII. Enhance the tax framework and policies to support business growth by providing clarity and certainty as well as ensuring compliance with international initiatives on taxation

- I. Enhance the strategic stakeholder engagement framework and procedures to maintain quality of service and increase Labuan IBFC's visibility
- II. Implement robust talent management programme to fast track staff overall capabilities through effective recruitment, retention, training and succession planning
- III. Review existing MOUs with a view to enhance mutual development and growth
- IV. Introduce strategies to increase revenue and reduce expenses at group level including leveraging on industry sources and utilisation of common resources
- V. Organise and host engagements with important stakeholders and international bodies for example International Advisory Panel (IAP), International Islamic Financial Market (IIFM), State Economic Development Authorities and government agencies
- VI. Establish an effective Management Information System (MIS)
- VII. Improve the IT infrastructure for example the Data Centre, MSGP system, COR@L, Enforcement database and HRMIS

Box Article – Corporate Action Plan

As Labuan IBFC's financial sector continues to advance over the decade, priority will continue to be accorded to ensuring that the regulatory and supervisory regime remains current and continues to foster a sound and stable financial system within a more dynamic landscape. In this regard, the CAP will enhance the prudential, supervisory and AML/CFT frameworks to ensure the centre complies with international standards and best practices.

The CAP would also serve to position Labuan IBFC as a vibrant centre with regional & international financial linkages, offering diverse products and financial services, conventional and Islamic. Its comprehensive legal and tax frameworks will strengthen Labuan IBFC's competitiveness and efficiency and to better position Labuan IBFC in the fast moving global economic transformation and greater regional economic and financial integration. This will reinforce the resolute foundation achieved through all efforts and initiatives put in place since the establishment of Labuan IBFC in 1990 as evidenced by the emergence of Labuan IBFC as a reliable and resilient centre despite the challenges of global financial crisis.

Of significant importance, the CAP is envisaged to strengthen the capabilities and quality of service providers in Labuan IBFC to support the growing demand of investors, resulting in Labuan IBFC being a vibrant centre with regional and international linkages, served by professional, competent and efficient service providers and Labuan FSA employing highly credible and reputable regulators.

In conclusion, the CAP is expected to enhance the contributions of Labuan IBFC to complement Malaysia's efforts towards establishing a strong, comprehensive and progressive financial system with well-functioning and efficient financial institutions. It also serves as the foundation to elevate Labuan IBFC's agility to adapt to the challenges arising from an increasingly more diversified, competitive and resilient global financial eco-system, ultimately facilitating Labuan IBFC's eco-system that is able to offer the range of financial products and services to investors with more efficient delivery channels.

ORGANISATIONAL DEVELOPMENT

- 90** Corporate Social Responsibilities
- 92** Human Resource Development
- 95** Labuan International School



Connecting through

CONFIDENCE



Our perseverance towards achieving an objective is something that is entrenched in our organisational climate. Our success over course of our existence is due to our meticulous planning as well as the support of our closes affiliates. We believe that our humble contributions might very well touch the lives of many in a big way and help bring success to all who are associated with us as they invest their confidence in the our practices.

CORPORATE SOCIAL RESPONSIBILITIES

As part of Labuan FSA's commitment to be socially responsible to its various stakeholders, a series of programmes in the area of social responsibility were organised to foster a closer relationship with its stakeholders. The CSR initiatives involve building on the three main pillars of knowledge sharing, environmental awareness and community engagement and while for 2014, the Authority focused on the following two priorities:

- **Education Outreach** – open doors for learning and exploring new opportunities to impart knowledge;
- **Community Engagement** – gathers energy and resources for enhancing community well-being.

(A) Education Outreach

In its continued effort to promote a learning culture, Labuan FSA's commitment was reflected in many of its education outreach initiatives. For the Labuan IBFC industry, the Authority had hosted several seminars and briefings to provide better understanding on the implementation of laws and policies that impact on the business of the Labuan IBFC. Among the programmes organised in 2014 included a seminar on '*Personal Data Protection Act*' (PDPA) for the Labuan IBFC industry players on the implementation of the Act that regulates the processing of personal data in regard to commercial transactions. In collaboration with the Royal Customs of Malaysia, Labuan

FSA conducted briefing sessions on "*The Impact of GST to Labuan IBFC*" to educate on the new tax collection system. This was to equip the Labuan IBFC industry with the knowledge and understanding on the impact of GST on their businesses.

In addition to the above, the annual Labuan International Lecture Series was also held titled "*Good Corporate Governance: Wither Without It*", delivered by Mr Jean Pierre Sabourin, CEO, Perbadanan Insurans Deposit Malaysia (PIDM). The lecture highlighted on the importance of enhancing corporate governance in the financial institutions and regulatory authorities aimed at restoring public confidence, investor protection and ensuring financial stability. The Authority will continue to institute collaborative arrangements with the Labuan IBFC industry in organising relevant training programmes to continuously upgrade the knowledge and competencies of the workforce to support a more dynamic financial sector in the Labuan IBFC.

Besides focusing on imparting knowledge to the Labuan IBFC industry, Labuan FSA also organised talks on relevant subject matters related to the community-wide for the benefits of the general public. Among the outreach programmes that were organised in 2014 included a joint-collaboration with the PIDM, to present a talk on financial consumer protection system and PIDM's role as an integral member of Malaysia's financial safety net. Labuan FSA had also collaborated with the Credit Counselling and Debt Management Agency and the Securities Commission in conducting educational talks to the local community on debt management as well as smart investing, to educate the local community on their personal financial management. For international audience, a briefing was conducted to the heads of foreign mission in Malaysia on the latest update and development of Labuan IBFC.

The educational initiatives supported by Labuan FSA to promote education excellence under the "smart partnership" framework with the Universiti Malaysia Sabah (UMS), included the sponsorship of "excellence achievement awards". In 2014, these awards were given to the UMS top students who had excelled in examinations. The incentive aimed to nurture critical talent and build the required mass of competent workforce in the financial services sector. In partnership with the Education Department, Labuan FSA also gave annual awards to Labuan primary and secondary schools children. The annual contribution formed part of our CSR initiatives in partnership with other agencies aimed to motivate the students to continue achieving academic excellence.

(B) Community Engagement

For the year under review, Labuan FSA continued to support worthy causes which involved the society, welfare and charitable organisations. Through Labuan FSA employee's voluntary group – "CARE", various activities were organised to raise funds for donation to the underprivileged in Labuan and its vicinity areas in Sabah and Sarawak. These efforts had raised greater awareness of Labuan FSA as a caring organisation to the community where it operates. In partnering with the Labuan International School, donation drive organised was donation of tables and chairs to a primary school in Labuan with the intention of giving a more conducive learning environment for the students.

The employees of Labuan FSA had also created tangible benefits for individuals in need through numerous local community outreach and support programmes such as providing food, clothing and reading materials to the children of needy families. During the year, the management and staff of Labuan FSA made a visit to the children's paediatric ward of Nukleus Hospital Labuan while a "Bowling Day" with Labuan Special Olympics children was also organised for the first time by Labuan FSA, to encourage participation in games and group activities by the children.

Another CSR activity organised for the local community was the Labuan FSA Day. In its second consecutive year, the event had attracted about 2,000 people from Labuan and its vicinity states of Sabah and Sarawak representing government agencies, corporates, financial institutions, school children and individuals participated in this fun-filled day with the theme

Wellness or "SIHAT". Among the highlights of the events were treasure hunt, mini run, drawing and colouring contest for the school children, cupcake competition and car boot sales. In line with the "wellness" theme, Labuan FSA had also arranged for a talk by nutritionist to educate the public on the healthy living and eating habits. Health screenings as well as reflexology and acupuncture services offered to the public. The "CARE" team also supported this noble cause by organising a variety of charitable activities, including car wash for fundraising. The money collected from all the activities were channelled to charitable organisations.

HUMAN RESOURCE DEVELOPMENT

A critical success factor to achieve the vision for a financial centre is the supply of highly-skilled talents. In an environment of increasing competitive financial landscape which necessitates amongst others, a human capital base with a more sophisticated skill set. In this context, Labuan FSA would continue to support talent development initiatives, internally as well as within the industry, aimed at ensuring the supply of a pool of highly-skilled talent to drive the financial centre.

The year under review, various human capital initiatives were implemented by Labuan FSA to enhance the overall capabilities of the workforce of Labuan FSA, focusing on talent acquisition, retention and development areas. This was also in support of the Strategic Direction and Corporate Action Plan of Labuan FSA, which is in line with the Financial Sector Blueprint, issued by Bank Negara Malaysia.

As at December 2014, Labuan FSA had a total of 107 full-time employees in various departments including Strategic Development, Business Management, Supervision and Legal, Group Finance and Facilities Management, and Corporate Affairs. Labuan FSA had strengthened the staff strength of the departments such as Strategic Development, Supervision and Legal and Business Management to support the Authority's strategic directions in ensuring the right people are placed based on their competencies, in line with the departments' roles to develop, regulate and supervise the Labuan IBFC.

Key initiatives implemented during the year to strengthen the human capital practices included salary adjustment

exercise, harmonising the terms and conditions of services and the introduction of flexible benefits options. These initiatives were also targeted to improve Labuan FSA's employer brand attractiveness and form part of the retention strategy.

To enhance the skills, knowledge and competencies of the staff and to address developmental areas, Labuan FSA continued to provide opportunities for the staff to attend courses, seminars, trainings and workshops, which were needed to equip them in facing new challenges in the global financial markets. Additionally, the various programmes also could be used for personal development and to build leadership skills among the staff. Reflecting the need to have a human capital base with a more sophisticated skills, customised programmes were organised for the staff, including the following:

i. Supervisors' Training Programme

Supervisors' training programme was designed throughout the year specifically for Labuan FSA's executives to enhance their

capabilities to become competent examiners/regulators. The programme included a series of modules on Risk Management, Risk Based Supervisory Framework (RBSF), Financial Acumen, Banking Operations, Resolution Management and Islamic Finance. Internal experts within Labuan FSA as well as several professional training bodies and agencies such as Asian Institute of Chartered Bankers, Central Bank, Malaysian Insurance Institute, and Islamic Banking and Financial Institute Malaysia were among the subject experts involved in the programme. A total of 20 participants completed this programme for the period from March to July 2014.

ii. Stakeholders Management Workshop

A stakeholders management workshop was designed and conducted for the middle level management of Labuan FSA aimed to train them on the appropriate stakeholder engagement strategies in managing key stakeholders.

iii. Crisis Management and Communication Workshop

The workshop was designed to ensure proper communication in handling crisis. It was also part of familiarisation, in particular, the Business Continuity Plan (BCP) which posed challenges through crisis. The workshop had included assessment of the severity of the crisis, and steps to be taken in managing effective crisis communication including media handling. Several case studies and experience sharing with the expert provided a clear understanding on effective crisis management and communication.

iv. Reinforcement Education Programme

Reinforcement Education Programme (REP), organised throughout the year with the objective to provide opportunities for staff to learn from their colleagues who are in-house subject matter experts on various areas and products such as business operations, financial modeling, risk management and financial instruments. In these programmes, selected heads of department/unit facilitated open sessions on their fields of proficiency.

v. On-Boarding Programme

In ensuring the continuous effort in retaining talent, a revised on-boarding programme was held to assimilate the new staff in

understanding the functional roles of each department/unit within Labuan FSA and shared the key practices in the organisation.

vi. Corporate Grooming and Business Etiquette

Positive image and appropriate grooming standard form part of the appearance as a reputable regulator. This programme was tailor-designed for the staff of Labuan FSA to enhance their images and etiquette to create a more professional image and brand amongst its internal and external stakeholders.

vii. Senior Management Conference/Teambuilding Exercise

A retreat for the senior management of Labuan FSA was conducted to chart out a three year corporate action plan based on the Financial Sector Blueprint issued by Bank Negara Malaysia. Following the retreat, a teambuilding exercise was organised to create greater synergy among departments and to encourage open communication environment among all staff. The experiential learning programme during the teambuilding exercise was aimed to harness the core values and identification of high potential talent within Labuan FSA. Key learnings and reflection during this session continued to enhance teamwork within department/unit and across the organisation. The management

team also took the opportunity during the teambuilding programme to cascade down to the executive levels the three-year action plan to allow the staff to internalise the broad strategic action plans and key initiatives.

Labuan FSA had also invested in certification programmes for the staff to continuously upgrade their skills and competencies to equip Labuan FSA with a team of well trained and highly knowledgeable employees. The certification programmes participated by the identified staff were as follows:

i. Certified Financial Investigator Programme (CFIP)

The CFIP provided the latest financial investigating techniques to develop a well-equipped and high standard financial investigator in conducting investigations in areas of money laundering and terrorism financing activities under the Anti-Money Laundering, Anti Terrorism Financing and Proceeds of Unlawful Activities Act 2001.

ii. Diploma – Malaysian Insurance Institute (MII)

Labuan FSA enrolled a few of its staff for the Diploma course conducted by MII to enrich the staff's key competency including professional development in specific areas such as advance technical knowledge in insurance.

Human Resource Development

iii. Advanced Certification in Anti-Money Laundering/Counter Financing Terrorism (AML/CFT)

AML/CFT is one of the key focus in creating a safe and sound financial centre. Labuan FSA had sponsored its employees to enrol in Advanced Certification in AML/CFT with Asian Institute of Chartered Bankers. This programme was aimed to equip the supervisors with the knowledge in identification of money laundering and illegal business activities. This would also strengthen the capacity building of compliance for the licensed institutions in Labuan.

To continue advocating a high standard of corporate governance and best practices within the organisation and to reinforce shared values of the organisation, Labuan FSA had signed a Corporate Integrity Pledge with the Malaysian Anti-Corruption Commission in January 2014. Subsequently, a seminar on Integrity – *“Issues and Challenges in Public Sector”* was held in November 2014 in collaboration with Malaysian Institute of Corporate Governance, Malaysian Anti-Corruption Academy and Malaysian Institute of Integrity. This seminar focused on the aspect of integrity in dealing with public and shared the recent issues as highlighted by the Auditor-General. The objective of this briefing was also to create awareness of the high standards of corporate governance and strong business ethics within Labuan FSA. The session also shared the common issues in integrity faced by the public sector as reported by the Auditor-General.

Labuan FSA also acknowledged the importance to protect personal data of individuals and third parties collected from any loss, misuse or unauthorised access or disclosure. In this regard, a briefing on the Personal Data Protection Act (PDPA) was conducted for all staff to create awareness of the PDPA. Further to this, Labuan FSA had engaged an external consultant to ensure all processes in PDPA is complied with.

In 2014, Labuan FSA had facilitated a number of students from Universiti Malaysia Sabah and other universities and colleges to undergo practical training as part of their internship programmes. This was conducted to impart knowledge and understanding of various financial products and international business in Labuan. The platform also provided the practical students a greater understanding of the working environment. In addition, to support its talent supply, Labuan FSA had absorbed six management trainees that participated in the 2014 Management Trainee Programme into different departments within the organisation. Labuan FSA would continue to providing this management trainee programme as a platform for a structured development programme for fresh graduates while also addressing the attraction, retention and staff turnover issues in Labuan FSA.

Moving Forward

Human capital development continues to be a critical point to better prepare the increasing roles of Labuan FSA in preserving financial stability and sustainability of the Labuan IBFC. For the next three years, Labuan FSA will implement a robust talent management programme to fast track staff; capabilities development through effective recruitment, retention, training, and succession planning. It will also continue to enhance its core competencies by creating a learning culture organisation. This include organising customised in-house training programmes and more advance master classes to further develop the supervisors. Experts from other regulatory agencies and trainers from training service providers will be engaged to conduct programmes and workshops in identified technical areas required.

As part of its three year corporate action plan, Labuan FSA will also develop a capability building programme for the industry players through customised programmes as well as through collaboration with professional bodies and universities to raise the industry’s knowledge and technical competencies to meet the growing market demands in Labuan IBFC.

LABUAN INTERNATIONAL SCHOOL

The Labuan International School (LIS) is one of the important infrastructure of the Labuan IBFC. The involvement of Labuan FSA in managing and funding the LIS since 1999, is a testament of its commitment to the Labuan communities to provide a quality learning institution that would further progress Labuan as an international business and financial centre.

The programmes offered by LIS consist of:

- International School, with primary and secondary level education based on the international curriculum for example International General Certificate of Secondary Education (IGCSE) 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 foreign and national children between four to six years old.

The support of the Malaysian Government has been and will continue to be critical to the development of LIS in becoming a reputable international education centre equipped with state-of-the-art facilities. 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 and a spectator stand. The construction is progressing well and is expected to be completed by the end of 2015. These new facilities

will complement the facilities currently available in the school campus which began its operation in September 2012. Further to the current development, the management is currently applying to the Ministry of Finance for the funding of additional block of classrooms and a multi-purpose sports hall for future demand.

LIS had been given full accreditation since 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 respectively. As at to date, LIS had a total of approximately 385 students comprising both local and foreign students. The enrolment is expected to increase further concurrent with the planned expansion of the facilities in particular, the boarding facilities for the students under the on-going construction project.

LIS, in meeting with the desired standards, 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, innovations, creativities and opportunities.

Excellent academic achievement is one of LIS main objectives in its pursuit of attaining an education of a world-class standard for both 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, an era of no boundaries where the competition is global. LIS aims to develop modern thinkers in the 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 continues to embrace new ideas and state of the art technology and also

Labuan International School

embarks on a new Virtual Learning Environment platform – The Schoology, which is 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 academicians in their daily interaction in the classrooms, LIS provides specialised Academic Intervention Programme to further challenge the mind of the children. Academic programmes such as the Mastery Intensive Revision Programme, Remedial Classes, Extensive English Programme and the Reading Programme were conducted throughout the year for both secondary and lower primary students. These programmes empower all academicians to monitor the children'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. LIS had also created opportunities for the students to challenge their mind through competitions such as debate which has been initiated through the Inter-School Debate Competition since 2013. In addition, public speaking workshops and scrabble competitions shall be organised to nurture the mind of LIS students.

LIS prides itself in the varieties of the extra-curricular activities that it offers to build the strength of the BODY. Exciting expeditions namely Bronze, Silver, Gold, Platinum including Annual Campori ranging in their level of difficulties were offered throughout the year. These activities aimed to still leadership qualities, while demonstrating the importance of

discipline and teamwork. Besides, the students were exposed to swimming as early as kindergarten level. The participation in local inter-school competition in 2014 have resulted in LIS emerging champion in the Secondary level.

Teaching the children to be caring and compassionate towards others complement the ideas of challenging the MIND and building a strong BODY in every LIS student. LIS students are continuously being exposed to charity events in school. An annual charity drive was organised by Persatuan Anak Penyayang LIS to help the needy and to support cancer research in Malaysia through the National Cancer Council Malaysia. Another activity which involved charity was through the Interact Club under the sponsorship of the Rotary Club.

The year 2014 marked a milestone when the management decided to manage the school on its own. The strategic move was taken after the management felt that it was a suitable time for the school to be independent and looking forward to venture into more exciting development after eight years of fruitful partnership with Cempaka Holdings Sdn Bhd (CHSB). However, in order to ensure the continuity of the school ideas of MIND, BODY and SOUL remain in-tact, CHSB was retained as the consultant. Further to this development, the teaching capacity of the teachers would be enhanced to be in-line with the school ideas. Teachers were attached with local university which provide part-time learning with the objective to attain degree and master degree in education. CHSB had also conducted trainings for the teachers in accordance with the required skills as recommended in its inspectorate report.



The students of LIS were proud of the Chairman of Labuan FSA's visit to the new campus in September 2014. The students were excited as it was the inaugural visit by the Chairman. The students had a short musical performance to show their appreciation to the Chairman's continuous support in the development of the school.

Many other annual events participated by all students to nurture their talents, had been organised throughout the year such as Hari Raya celebration, Chinese New Year celebration, Sports Day, Swimming Gala, Independence Day, Inter-School Debate, Blood Donation Campaign, Science & Mathematic Week 2014 and Year-end Concert of 2014.

The long-term mission of LIS is to institute a high standard of education excellence and provide a conducive environment where students are motivated to develop their potential in academic subjects, performing arts and sports. The school aims to develop students who are knowledgeable, competent with strong values, responsible and capable of achieving high levels of personal well-being.



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**REPORT OF THE AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF
LABUAN FINANCIAL SERVICES AUTHORITY
FOR THE YEAR ENDED 31 DECEMBER 2014**

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 2014, 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 the approved financial reporting standards in Malaysia and the 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 Labuan Financial Services Authority and the Group as at 31 December 2014 and of their financial performance and cash flows for the year then ended in accordance with the approved financial reporting standards in Malaysia.

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.



(DATIN PADUKA ONG SWEE LENG)

For AUDITOR GENERAL

MALAYSIA

PUTRAJAYA

21 MAY 2015



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 2014 and their financial performance and cash flows for the year then ended.

On behalf of the Members of the Authority.



DR. ZETI AKHTAR AZIZ
Chairman



AHMAD HIZZAD BAHARUDDIN
Director-General

Labuan, Malaysia

25 March 2015

STATUTORY DECLARATION

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

I, **WAN AHMAD SANUSI MAHMOOD**, 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.



Subscribed and solemnly
declared by the above named
WAN AHMAD SANUSI MAHMOOD
in the Federal Territory of Labuan
on this

Before me,



LOT 00031 TING 1 JUN OKK AWG BESAR
P. O. BOX 01060, 87020 W. P. LABUAN, MALAYSIA
TEL (887) 416057, 416057, 418057, 418057
FAX NO. 087-413057

STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 31 December 2014

	Note	GROUP		AUTHORITY	
		2014 RM	2013 RM	2014 RM	2013 RM
Revenue	4	54,894,882	41,684,564	52,737,945	39,907,617
Other operating income					
Government grant	13	13,743,071	18,181,837	13,537,394	17,498,572
Income from other investments	5	1,298,143	1,103,849	1,288,000	1,090,638
Other income	6	1,769,910	845,959	1,439,790	426,818
Other operating expense					
Staff costs	7	(31,192,007)	(25,794,323)	(21,428,502)	(17,630,539)
Depreciation of property, plant and equipment	9	(1,971,064)	(2,234,573)	(1,618,660)	(1,463,345)
Other expenses	6	(24,631,129)	(22,632,742)	(32,681,592)	(28,231,303)
Surplus before tax		13,911,806	11,154,571	13,274,375	11,598,458
Income tax expense	8	(209)	(2,642)	–	–
Net surplus for the year		13,911,597	11,151,929	13,274,375	11,598,458

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

STATEMENTS OF FINANCIAL POSITION

as at 31 December 2014

	Note	GROUP		AUTHORITY	
		2014 RM	2013 RM	2014 RM	2013 RM
ASSETS					
Non-current assets					
Property, plant and equipment	9	76,243,601	62,200,165	75,543,338	61,683,983
Investment in subsidiary	10	–	–	900,000	900,000
Other receivables	11	6,447,490	7,053,390	6,447,490	7,053,390
		82,691,091	69,253,555	82,890,828	69,637,373
Current assets					
Fees and other receivables	11	15,563,513	16,844,294	19,028,570	19,575,915
Cash and bank balances	12	60,465,762	48,203,462	52,749,858	45,456,005
		76,029,275	65,047,756	71,778,428	65,031,920
Total assets		158,720,366	134,301,311	154,669,256	134,669,293
RESERVES AND LIABILITIES					
Current liabilities					
Deferred income	13	27,272,023	14,115,594	25,398,677	12,036,571
Other payables	14	14,661,759	14,119,112	12,546,817	15,994,335
Government loans	15	1,500,000	1,500,000	1,500,000	1,500,000
Income tax payables		24	2,642	–	–
		43,433,806	29,737,348	39,445,494	29,530,906
Non-current liabilities					
Deferred income	13	54,263,936	55,429,936	54,263,936	55,429,936
Employee benefits	16	–	523,000	–	523,000
Government loans	15	8,500,000	10,000,000	8,500,000	10,000,000
		62,763,936	65,952,936	62,763,936	65,952,936
Total liabilities		106,197,742	95,690,284	102,209,430	95,483,842
Reserves					
Accumulated surplus		52,522,624	38,611,027	52,459,826	39,185,451
Total reserves and liabilities		158,720,366	134,301,311	154,669,256	134,669,293

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 2014

	Accumulated surplus RM
GROUP	
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
Opening balance at 1 January 2014	38,611,027
Net surplus for the year	13,911,597
Closing balance at 31 December 2014	52,522,624
AUTHORITY	
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
Opening balance at 1 January 2014	39,185,451
Net surplus for the year	13,274,375
Closing balance at 31 December 2014	52,459,826

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

STATEMENTS OF CASH FLOWS

for the year ended 31 December 2014

	GROUP		AUTHORITY	
	2014 RM	2013 RM	2014 RM	2013 RM
OPERATING ACTIVITIES				
Surplus before tax	13,911,806	11,154,571	13,274,375	11,598,458
Adjustments for:				
Depreciation of property, plant and equipment	1,971,064	2,234,573	1,618,660	1,463,345
Utilisation of government grant	(13,743,071)	(18,181,837)	(13,537,394)	(17,498,572)
Gain on disposal of property, plant and equipment	19,548	(66,054)	(27,541)	(46,264)
Provision for long term employee benefits	(523,000)	52,000	(523,000)	52,000
Property, plant and equipment written off	–	10,047	–	10,047
Interest income	(1,447,616)	(1,281,959)	(1,446,571)	(1,268,748)
Operating Profit/(Deficit) Before Working Capital Changes	188,731	(6,078,659)	(641,471)	(5,689,734)
Changes in working capital:				
Fees receivable	57,678	(5,524,411)	(86,946)	(5,696,282)
Other receivables	1,829,003	937,071	1,692,972	953,426
Amounts due from subsidiaries	–	–	(452,781)	1,500
Fees received in advance	117,620	3,146,296	(45,024)	3,146,296
Refundable deposits	601,137	–	–	–
Other payables and accruals	(176,110)	604,725	(1,652,016)	487,806
Amount due to subsidiary	–	–	(1,750,478)	4,442,800
Cash Generated From/(Used In) Operations	2,618,059	(6,914,978)	(2,935,744)	(2,354,188)
Income taxes paid	(2,827)	(3,042)	–	–
Interest received	158,571	178,110	158,571	178,110
Net Cash Generated From/(Used In) Operating Activities	2,773,803	(6,739,910)	(2,777,173)	(2,176,078)
INVESTING ACTIVITIES				
Decrease/(Increase) in fixed deposits	(25,304,290)	9,595,458	(26,512,715)	10,103,883
Proceeds from disposal of plant and equipment	–	126,224	28,855	46,265
Additions of property, plant and equipment	(16,034,048)	(4,098,487)	(15,479,329)	(4,002,983)
Interest received	1,289,045	1,103,849	1,288,000	1,090,638
Net Cash (Used In)/Generated From Investing Activities	(40,049,293)	6,727,044	(40,675,189)	7,237,803
FINANCING ACTIVITIES				
Government grant	25,733,500	18,830,000	25,733,500	18,830,000
Repayment of Government loans	(1,500,000)	(500,000)	(1,500,000)	(500,000)
Net Cash From Financing Activities	24,233,500	18,330,000	24,233,500	18,330,000
Net (decrease)/increase in cash and cash equivalents	(13,041,990)	18,317,134	(19,218,862)	23,391,725
Cash and cash equivalents at 1 January	25,631,758	7,314,624	24,092,726	701,001
Cash and cash equivalents at 31 December (note 12)	12,589,768	25,631,758	4,873,864	24,092,726

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

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 2014, 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 2014.

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

Adoption of the above standards and interpretation did not have any effect on the financial performance or position of the Group and the Authority.

Notes to the Financial Statements

31 December 2014

2. Summary of significant accounting policies (continued)

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 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
Annual Improvements to MFRSs 2012–2014 Cycle	1 January 2016
Amendments to MFRS 116 and MFRS 138: Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to MFRS 116 and MFRS 141 Agriculture: Bearer Plants	1 January 2016
Amendments to MFRS 10 and MFRS 128: Sale or contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2016
Amendments to MFRS 11: Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
Amendments to MFRS 127: Equity Method in Separate Financial Statements	1 January 2016
Amendments to MFRS 101: Disclosure Initiatives	1 January 2016
Amendments to MFRS 10, MFRS 12 and MFRS 128: Investment Entities: Applying the Consolidation Exception	1 January 2016
MFRS 14 Regulatory Deferral Accounts	1 January 2016
MFRS 15 Revenue from Contracts with Customers	1 January 2017
MFRS 9 Financial Instruments	1 January 2018

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.

Notes to the Financial Statements

31 December 2014

2. Summary of significant accounting policies (continued)

2.3 Standards issued but not yet effective (continued)

Annual Improvements to MFRSs 2010–2012 Cycle

The Annual Improvements to MFRSs 2010-2012 Cycle include a number of amendments to various MFRSs, which are summarised below. The management of the Group and the Authority do not anticipate that the application of these amendments will have a significant impact on the Group's and the Company's financial statements.

Standards	Descriptions
MFRS 3 Business Combinations	The amendments to MFRS 3 clarifies that contingent consideration classified as liabilities (or assets) should be measured at fair value through profit or loss at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of MFRS 9 or MFRS 139. The amendments are effective for business combinations for which the acquisition date is on or after 1 July 2014.
MFRS 116 Property, Plant and Equipment and MFRS 138 Intangible Assets	The amendments remove inconsistencies in the accounting for accumulated depreciation or amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amendments clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.
MFRS 124 Related Party Disclosures	The amendments clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. The reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services.

Annual Improvements to MFRSs 2011–2013 Cycle

The Annual Improvements to MFRSs 2011-2013 Cycle include a number of amendments to various MFRSs, which are summarised below. The management of the Group and the Authority do not anticipate that the application of these amendments will have a significant impact on the Group's and the Company's financial statements.

Standards	Descriptions
MFRS 13 Fair Value Measurement	The amendments to MFRS 13 clarify that the portfolio exception in MFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of MFRS 9 (or MFRS 139 as applicable).

Notes to the Financial Statements

31 December 2014

2. Summary of significant accounting policies (continued)

2.3 Standards issued but not yet effective (continued)

Annual Improvements to MFRSs 2012–2014 Cycle

The Annual Improvements to MFRSs 2012-2014 Cycle include a number of amendments to various MFRSs, which are summarised below. The management of the Group and the Authority do not anticipate that the application of these amendments will have a significant impact on the Group's and the Company's financial statements.

Standards	Descriptions
MFRS 7 Financial Instruments: Disclosures	<p>The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in MFRS 7 in order to assess whether the disclosures are required.</p> <p>In addition, the amendment also clarifies that the disclosures in respect of offsetting of financial assets and financial liabilities are not required in the condensed interim financial report.</p>

2.4 Basis of consolidation

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

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

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

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

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

Notes to the Financial Statements

31 December 2014

2. Summary of significant accounting policies (continued)

2.4 Basis of consolidation (continued)

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

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.

Business combinations

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

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

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

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

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

Notes to the Financial Statements

31 December 2014

2. Summary of significant accounting policies (continued)

2.5 Subsidiaries

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

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

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

2.6 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.

Notes to the Financial Statements

31 December 2014

2. Summary of significant accounting policies (continued)

2.7 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.

2.8 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.

Notes to the Financial Statements

31 December 2014

2. Summary of significant accounting policies (continued)

2.8 Taxes (continued)

b) Deferred tax (continued)

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

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

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

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

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

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

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

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

Notes to the Financial Statements

31 December 2014

2. Summary of significant accounting policies (continued)

2.9 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.

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.

2.10 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.

Notes to the Financial Statements

31 December 2014

2. Summary of significant accounting policies (continued)

2.10 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 2014 and 2013.

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 2014 and 2013.

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.

Notes to the Financial Statements

31 December 2014

2. Summary of significant accounting policies (continued)

2.10 Financial instruments – initial recognition and subsequent measurement (continued)

a) Financial assets (continued)

(ii) Subsequent measurement (continued)

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 2014 and 2013.

(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.

Notes to the Financial Statements

31 December 2014

2. Summary of significant accounting policies (continued)

2.10 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 recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the profit or loss.

Notes to the Financial Statements

31 December 2014

2. Summary of significant accounting policies (continued)

2.10 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, 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.

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.

Notes to the Financial Statements

31 December 2014

2. Summary of significant accounting policies (continued)

2.10 Financial instruments – initial recognition and subsequent measurement (continued)

c) Financial liabilities (continued)

(ii) Subsequent measurement (continued)

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 2014 and 2013.

(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.

2.11 Fair value measurement

The Group and the Authority measure financial instruments, such as, derivatives, and non-financial assets such as investment properties, at fair value at each reporting date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 19.

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.

Notes to the Financial Statements

31 December 2014

2. Summary of significant accounting policies (continued)

2.11 Fair value measurement (continued)

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

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

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

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

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

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

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group and the Authority determine whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (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.

2.12 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.

Notes to the Financial Statements

31 December 2014

2. Summary of significant accounting policies (continued)

2.12 Impairment of non-financial assets (continued)

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.

2.13 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.

2.14 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.

2.15 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.

Notes to the Financial Statements

31 December 2014

3. Significant accounting judgements and estimates

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

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.

4. Revenue

	Group		Authority	
	2014 RM	2013 RM	2014 RM	2013 RM
Fee income	52,737,945	39,907,617	52,737,945	39,907,617
Other fees	2,156,937	1,776,947	–	–
	54,894,882	41,684,564	52,737,945	39,907,617

Notes to the Financial Statements

31 December 2014

5. Income from other investments

	Group		Authority	
	2014 RM	2013 RM	2014 RM	2013 RM
Interest received from:				
Fixed deposits	1,187,588	1,080,376	1,177,445	1,067,165
Money at call	110,555	23,473	110,555	23,473
	1,298,143	1,103,849	1,288,000	1,090,638

6. Other income/(expenses)

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

	Group		Authority	
	2014 RM	2013 RM	2014 RM	2013 RM
Other income:				
Interest income from staff loans:				
– Key management personnel	16,860	24,466	16,860	24,466
– Others	141,711	153,644	141,711	153,644
Rental income	276,762	115,031	205,890	82,750
Miscellaneous income	1,121,894	451,504	863,677	105,485
Gain on disposal of property, plant and equipment	27,541	66,054	27,541	46,264
Gain on foreign exchange	6,482	4,163	6,482	4,163
Reversal of allowance for impairment loss on other receivables	–	21,051	–	–
Other operating expenses:				
Operational and marketing expenditure incurred under the government grant*	(12,577,071)	(17,015,837)	(12,371,394)	(16,332,572)
Audit fees				
– current year	(59,642)	(57,980)	(22,000)	(22,180)
– under provision in prior year	(16,000)	–	–	–
Rental expenses	(2,233,281)	(1,940,455)	(1,658,272)	(1,504,806)
Fees and trade receivable written off	(3,002,657)	(1,396,693)	(2,912,250)	(1,244,900)
Amount owing by subsidiary companies written off	–	–	(9,951)	(13,013)
Property, plant and equipment written off	(987,165)	(582,943)	–	(10,047)
Contributions to Labuan FSA Staff Welfare Fund	(400,000)	(400,000)	(400,000)	(400,000)
Lease of machinery and equipment	(57,034)	(53,280)	(48,360)	(53,280)
Tuition fees paid to a subsidiary	–	–	(379,892)	(391,491)
Allowance for impairment loss on fees receivables	(144,623)	(806,912)	(112,154)	(749,573)

Notes to the Financial Statements

31 December 2014

6. Other income/(expenses) (continued)

* These included the following expenditures:

	Group		Authority	
	2014 RM	2013 RM	2014 RM	2013 RM
Infrastructure for school building	(565,379)	(1,912,178)	(565,379)	(1,912,178)
Management fees	(546,435)	(1,348,500)	–	–
Operational expenses	(12,082,279)	(3,285,149)	–	–
Promotional and marketing expenses	–	(4,052,995)	–	–
Government grant expenses paid to subsidiaries	5,500,000	–	(12,356,891)	(14,127,370)
Global Takaful Group	(156,524)	(293,024)	(156,524)	(293,024)

7. Staff costs

	Group		Authority	
	2014 RM	2013 RM	2014 RM	2013 RM
Staff costs*	31,192,007	25,794,323	21,428,502	17,630,539

* These included the following staff costs:

	Group		Authority	
	2014 RM	2013 RM	2014 RM	2013 RM
Members' remuneration:				
– Executive	1,232,998	1,169,238	1,232,998	1,169,238
– Non-executive	162,500	153,500	124,500	128,500
Other key management personnel compensation:				
– Short term employee benefits	5,486,899	3,185,685	2,372,490	2,585,685
Employees Provident Fund	3,668,792	2,828,677	2,729,567	2,160,707

8. Income tax expense

	Group		Authority	
	2014 RM	2013 RM	2014 RM	2013 RM
Statement of comprehensive income:				
Malaysian income tax:				
Current tax	209	2,642	–	–

Notes to the Financial Statements

31 December 2014

8. Income tax expense (continued)

Group

Domestic current income tax is calculated at the statutory tax rate of 25% (2013: 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.

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 2014 and 2013 are as follows:

	Group		Authority	
	2014 RM	2013 RM	2014 RM	2013 RM
Surplus before tax	13,755,895	11,154,571	13,274,375	11,598,458
Taxation at Malaysian statutory tax rate of 25% (2013: 25%)	3,477,952	2,788,643	3,318,594	2,899,615
Effect of tax rate of 20%	(52)	(661)	–	–
Effect of income not subject to tax	(4,812,511)	(3,804,624)	(3,318,594)	(2,899,615)
Effect of expenses not deductible for tax purposes	1,290,349	918,813	–	–
Utilisation of previously unrecognised tax losses	(8,978)	(41,737)	–	–
Deferred tax assets not recognised	53,449	142,208	–	–
Tax expense for the year	209	2,642	–	–

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

	Group	
	2014 RM	2013 RM
Provisions	1,070,495	390,901
Unutilised tax losses	2,110,084	1,951,960
Accelerated capital allowances	132,611	61,780
	3,313,190	2,404,641

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

Notes to the Financial Statements

31 December 2014

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 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/ 1 January 2014	442,000	58,988,000	1,199,955	3,085,502	13,936,766	3,126,562	80,778,785
Additions	–	–	641,264	471,199	333,807	14,587,778	16,034,048
Disposals	–	–	(568,508)	(21,125)	(6,958)	–	(596,591)
Write off	–	–	–	(401,001)	(5,220,972)	–	(5,621,973)
Reclassification	–	–	–	(7,187)	7,187	–	–
At 31 December 2014	442,000	58,988,000	1,272,711	3,127,388	9,049,830	17,714,340	90,594,269
Accumulated depreciation							
At 1 January 2013	7,254	741,645	1,109,476	2,793,666	12,434,290	–	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/ 1 January 2014	7,772	1,921,395	1,055,620	2,648,891	12,944,942	–	18,578,620
Charge for the year	518	1,179,750	156,748	256,704	377,344	–	1,971,064
Disposals	–	–	(568,505)	(19,816)	(6,955)	–	(595,276)
Write off	–	–	–	(401,000)	(5,202,740)	–	(5,603,740)
At 31 December 2014	8,290	3,101,145	643,863	2,484,779	8,112,591	–	14,350,668
Carrying amounts							
At 31 December 2013	434,228	57,066,605	144,335	436,611	991,824	3,126,562	62,200,165
At 31 December 2014	433,710	55,886,855	628,848	642,609	937,239	17,714,340	76,243,601

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31 December 2014

9. Property, plant and equipment (continued)

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 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/ 1 January 2014	442,000	58,988,000	494,653	2,596,137	5,614,674	3,126,562	71,262,026
Additions	–	–	461,863	385,444	44,244	14,587,778	15,479,329
Disposals	–	–	(194,591)	(21,125)	(5,110)	–	(220,826)
Write off	–	–	–	(401,001)	(1,028,064)	–	(1,429,065)
Reclassification	–	–	–	(7,187)	7,187	–	–
At 31 December 2014	442,000	58,988,000	761,925	2,552,268	4,632,931	17,714,340	85,091,464
Accumulated depreciation							
At 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/ 1 January 2014	7,772	1,921,395	440,632	2,212,730	4,995,514	–	9,578,043
Charge for the year	518	1,179,750	78,048	209,168	151,176	–	1,618,660
Disposals	–	–	(194,589)	(19,817)	(5,107)	–	(219,513)
Write off	–	–	–	(401,000)	(1,028,064)	–	(1,429,064)
At 31 December 2014	8,290	3,101,145	324,091	2,001,081	4,113,519	–	9,548,126
Carrying amounts							
At 31 December 2013	434,228	57,066,605	54,021	383,407	619,160	3,126,562	61,683,983
At 31 December 2014	433,710	55,886,855	437,834	551,187	519,412	17,714,340	75,543,338

Notes to the Financial Statements

31 December 2014

10. Investments in subsidiaries

	Authority	
	2014 RM	2013 RM
Unquoted shares, at cost	900,000	900,000

Name	Country of incorporation	Principal activities	Proportion (%) of ownership interest	
			2014	2013
Held by the Authority:				
LabuanFSA Incorporated Sdn. Bhd.*	Malaysia	Investment holding	100	100
Held through LabuanFSA Incorporated Sdn. Bhd.:				
Pristine Era Sdn. Bhd.*	Malaysia	Provision of educational services	100	100
Labuan IBFC Incorporated Sdn. Bhd.*	Malaysia	Provision of marketing and promoting services for Labuan International Business and Financial Centre	100	100

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

Notes to the Financial Statements

31 December 2014

11. Fees and other receivables

	Group		Authority	
	2014 RM	2013 RM	2014 RM	2013 RM
Current				
Fees and trade receivables	15,054,582	14,961,337	14,786,433	14,581,033
Less: Allowance for impairment	(2,175,153)	(2,024,230)	(2,046,808)	(1,928,354)
Fees and trade receivables, net	12,879,429	12,937,107	12,739,625	12,652,679
Other receivables:				
Amount due from subsidiary	–	–	4,455,709	4,002,928
Staff housing loans	470,894	421,670	470,894	421,670
Staff vehicle loans	231,599	313,842	231,599	313,842
Staff advances/sundry debtors	585,418	1,945,906	337,023	1,564,106
Refundable deposits	683,003	677,064	430,566	403,299
Interest receivable	575,941	604,607	575,941	604,607
Prepaid expenses	23,033	111,003	–	3,200
Others	326,983	223,511	–	–
	2,896,871	4,297,603	6,501,732	7,313,652
Less: Allowance for impairment	(212,787)	(390,416)	(212,787)	(390,416)
	2,684,084	3,907,187	6,288,945	6,923,236
	15,563,513	16,844,294	19,028,570	19,575,915
Non-current				
Other receivables:				
Staff housing loans	5,637,524	6,048,055	5,637,524	6,048,055
Staff vehicle loans	809,966	1,005,335	809,966	1,005,335
	6,447,490	7,053,390	6,447,490	7,053,390
Total fees and other receivables (current and non-current)	22,011,003	23,897,684	25,476,060	26,629,305
Add: Cash and bank balances (note 12)	60,465,762	48,203,462	52,749,858	45,456,005
Less: Prepayments	(23,033)	(111,003)	–	(3,200)
Total loans and receivables	82,453,732	71,990,143	78,225,918	72,082,110

Notes to the Financial Statements

31 December 2014

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		Authority	
	2014 RM	2013 RM	2014 RM	2013 RM
Neither past due nor impaired	12,879,429	12,652,679	12,739,625	12,652,679
More than 91 days past due not impaired	139,804	284,428	–	–
Impaired	2,175,153	2,024,230	2,046,808	1,928,354
	15,054,582	14,961,337	14,786,433	14,581,033

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 Group and 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 RM139,804 (2013: RM284,428) that are past due at the reporting date but not impaired.

Notes to the Financial Statements

31 December 2014

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	
	2014 RM	2013 RM	2014 RM	2013 RM	2014 RM	2013 RM
Group						
Fees and trade receivables – nominal amounts	785,285	767,929	1,389,868	1,256,301	2,175,153	2,024,230
Less: Allowance for impairment	(785,285)	(767,929)	(1,389,868)	(1,256,301)	(2,175,153)	(2,024,230)
	–	–	–	–	–	–
Authority						
Fees and trade receivables – nominal amounts	716,675	709,054	1,330,133	1,219,300	2,046,808	1,928,354
Less: Allowance for impairment	(716,675)	(709,054)	(1,330,133)	(1,219,300)	(2,046,808)	(1,928,354)
	–	–	–	–	–	–

Movement in allowance account

	Group		Authority	
	2014 RM	2013 RM	2014 RM	2013 RM
At 1 January	2,024,230	1,273,607	1,928,354	1,156,680
Net charged for the year	150,923	750,623	118,454	771,674
At 31 December	2,175,153	2,024,230	2,046,808	1,928,354

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

b) Staff housing and vehicle loans

Staff housing and vehicle loans are repayable over a maximum period of 30 years and 9 years respectively (2013: 30 years and 9 years respectively). The interest charged on these loans ranges from 2% to 3% (2013: 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.

Notes to the Financial Statements

31 December 2014

12. Cash and bank balances

	Group		Authority	
	2014 RM	2013 RM	2014 RM	2013 RM
Cash on hand and at banks	12,589,768	6,210,331	4,873,864	4,671,299
Money at call with licensed banks	–	19,421,427	–	19,421,427
Fixed deposits with licensed banks	47,875,994	22,571,704	47,875,994	21,363,279
Cash and bank balances	60,465,762	48,203,462	52,749,858	45,456,005

Cash at banks earns interest at floating rates based on daily bank deposit rates. Money at call with licensed banks is made for varying period of one day depending on the immediate cash requirement of the Group and of the Authority. The weighted average effective interest rates as at 31 December 2014 for the Group and the Authority were 3.66% (2013: 3.04%) per annum.

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

	Group		Authority	
	2014 RM	2013 RM	2014 RM	2013 RM
Cash and bank balances	60,465,762	48,203,462	52,749,858	45,456,005
Less: Fixed deposits with licensed banks	(47,875,994)	(22,571,704)	(47,875,994)	(21,363,279)
Cash and cash equivalents	12,589,768	25,631,758	4,873,864	24,092,726

	Group		Authority	
	2014 US\$	2013 US\$	2014 US\$	2013 US\$
Cash held in trust	–	6,519,874	–	6,519,874

In previous year, the Authority received cash held in trust of a Labuan company as stakeholder pursuant to a Court order. The sum of cash was placed with a licensed bank.

Notes to the Financial Statements

31 December 2014

13. Deferred income

a) Grant related to income

During the year, the Group and the Authority received government grants of RM25.73 million (2013: RM18.83 million) from the Ministry of Finance for the purpose of projects to be undertaken by the Authority under the Tenth Malaysia Plan.

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

	Group		Authority	
	2014 RM	2013 RM	2014 RM	2013 RM
At 1 January	12,949,594	11,135,431	10,870,571	8,373,143
Received during the financial year	25,733,500	18,830,000	25,733,500	18,830,000
Less: Recognised in profit or loss	(12,577,071)	(17,015,837)	(12,371,394)	(16,332,572)
At 31 December	26,106,023	12,949,594	24,232,677	10,870,571

b) Grant related to assets

Grant related to assets represent the fair value of a school building received from Government.

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

	Group		Authority	
	2014 RM	2013 RM	2014 RM	2013 RM
Cost:				
At 1 January	58,300,000	58,300,000	58,300,000	58,300,000
Received during the financial year	–	–	–	–
At 31 December	58,300,000	58,300,000	58,300,000	58,300,000
Accumulated amortisation:				
At 1 January	(1,704,064)	(538,064)	(1,704,064)	(538,064)
Amortisation	(1,166,000)	(1,166,000)	(1,166,000)	(1,166,000)
At 31 December	(2,870,064)	(1,704,064)	(2,870,064)	(1,704,064)
Net carrying amount:				
Current	1,166,000	1,166,000	1,166,000	1,166,000
Non-current	54,263,936	55,429,936	54,263,936	55,429,936
	55,429,936	56,595,936	55,429,936	56,595,936

Notes to the Financial Statements

31 December 2014

13. Deferred income (continued)

The remaining maturities of the grants as at 31 December 2014 are as follows:

	Group		Authority	
	2014 RM	2013 RM	2014 RM	2013 RM
Within 12 months	27,272,023	14,115,594	25,398,677	12,036,571
After 12 months	54,263,936	55,429,936	54,263,936	55,429,936

14. Other payables

	Group		Authority	
	2014 RM	2013 RM	2014 RM	2013 RM
Current				
Amount due to a subsidiary	–	–	2,992,479	4,742,957
Fees received in advance	7,384,417	7,266,797	7,221,773	7,266,797
Refundable deposits	1,501,137	900,000	900,000	900,000
Accruals	1,476,882	2,554,108	289,714	435,781
Provisions	348,821	369,637	348,821	369,637
Others	3,950,502	3,028,570	794,030	2,279,163
Total other payables	14,661,759	14,119,112	12,546,817	15,994,335
Add: Government loans (note 15)	10,000,000	11,500,000	10,000,000	11,500,000
Total financial liabilities carried at amortised cost	24,661,759	25,619,112	22,546,817	27,494,335

a) Amount due to a subsidiary

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

b) Fees received in advance

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

c) Refundable deposits

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

d) Other payables

These comprise amounts outstanding for ongoing costs of staff retirement plan.

Notes to the Financial Statements

31 December 2014

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 Authority 2014 RM	2013 RM
Within 12 months	1,500,000	1,500,000
After 12 months	8,500,000	10,000,000

16. Employee benefits

Movements in the liability for other long term employee benefits:

	Group and Authority 2014 RM	2013 RM
At 1 January	523,000	471,000
Recognised in profit or loss	(523,000)	52,000
At 31 December	–	523,000

Assumptions

Principal assumptions at the reporting date:

	Group and Authority 2014 %	2013 %
Discount rate	–	3.48
Future salary increases	–	5.00

During the financial year, the Authority has ceased the employee benefit scheme.

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

Other long term benefit was 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.

Notes to the Financial Statements

31 December 2014

17. Capital commitments

	Group and Authority	
	2014	2013
	RM	RM
Approved and contracted for:		
School building	13,410,000	26,980,000

18. 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	
	2014	2013
	RM	RM
Rental income received from a subsidiary	120,000	–
Tuition fees paid to a subsidiary	379,892	391,491
Project expenses under RMK10	12,356,891	14,127,370

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 Authority	
	2014	2013
	RM	RM
Key management personnel		
– Staff housing loans	640,370	962,274
– Staff vehicle loans	79,176	172,664
	719,546	1,134,938

Notes to the Financial Statements

31 December 2014

19. 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

	Note	Carrying amount RM	Group Fair value (Level 2) RM	Carrying amount RM	Authority Fair value (Level 2) RM
31 December 2014					
Financial asset:					
Other receivables (non-current)	11	6,447,490	6,247,235	6,447,490	6,247,235
Financial liability:					
Government loans (non-current)	15	8,500,000	8,500,000	8,500,000	8,500,000
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 (non-current)	15	10,000,000	10,000,000	10,000,000	10,000,000

Fair value hierarchy

The Group and Authority use the following hierarchy for determining and disclosing the fair value of assets or liabilities by valuation technique:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: Techniques that use inputs that have a significant effect on the recorded fair value are not based on observable market data.

Notes to the Financial Statements

31 December 2014

19. 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 or that they are floating rate instruments that are re-priced to market interest rates on or near the reporting date.

20. 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).

Notes to the Financial Statements

31 December 2014

20. Financial risk management objectives and policies (continued)

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.

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.

	On demand or within one year RM	One to five years RM	Over five years RM	Total RM
31 December 2014				
Group				
Financial assets:				
Fees and other receivables	15,563,513	2,359,920	4,087,570	22,011,003
Cash and bank balances	60,465,762	–	–	60,465,762
	76,029,275	2,359,920	4,087,570	82,476,765
Financial liabilities:				
Government loans	1,500,000	6,500,000	2,000,000	10,000,000
Other payables	14,661,759	–	–	14,661,759
	16,161,759	6,500,000	2,000,000	24,661,759
Net undiscounted financial assets/(liabilities)	59,867,516	(4,140,080)	2,087,570	57,815,006
Authority				
Financial assets:				
Fees and other receivables	19,028,570	2,359,920	4,087,570	25,476,060
Cash and bank balances	52,749,858	–	–	52,749,858
	71,778,428	2,359,920	4,087,570	78,225,918
Financial liabilities:				
Government loans	1,500,000	6,500,000	2,000,000	10,000,000
Other payables	12,546,817	–	–	12,546,817
	14,046,817	6,500,000	2,000,000	22,546,817
Net undiscounted financial assets/(liabilities)	57,731,611	(4,140,080)	2,087,570	55,679,101

Notes to the Financial Statements

31 December 2014

20. Financial risk management objectives and policies (continued)

b) Liquidity risk (continued)

Analysis of financial instruments by remaining contractual maturities (continued)

	On demand or within one year RM	One to five years RM	Over five years RM	Total RM
31 December 2013				
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

21. Authorisation of financial statements for issue

The financial statements were authorised for issue by the Members of the Authority on 8 May 2015.

APPENDICES

- 142** Guidelines/Consultation Papers/
Shariah Resolutions/Clarification
Notes/Circulars Issued
- 143** Memorandum of Understanding
(MoU)
- 144** Management of Labuan FSA
- 145** Listing of Labuan Associations

GUIDELINES/CONSULTATION PAPERS/SHARIAH RESOLUTIONS/ CLARIFICATION NOTES/CIRCULARS ISSUED

No	Subject	Date of Issuance
1.	Guidelines on Single Counterparty Exposure Limit for Labuan Banks	1 January
2.	Revised Guidelines on the Establishment of Labuan Mutual Funds including Islamic Mutual Funds	1 January
3.	Circular on Appointment of Internal Shariah Advisory Board or Shariah Adviser under Sections 129, 130 and 131 of Labuan Islamic Financial Services and Securities Act 2010	3 January
4.	Consultation Paper and Response on Insurance Capital Adequacy Framework	23 January
5.	Circular on Fraud Prevention Measures for Labuan Insurers and Insurance – Related Companies	27 January
6.	Guidelines on Investment Management for Labuan Insurance and Takaful Business	11 February
7.	Revised Guidelines on Fit and proper Person Requirements	11 February
8.	Revised Guidelines on the Establishment of Labuan Fund Manager	13 February
9.	Revised Guidelines on the Establishment of Marketing Office in Kuala Lumpur and Iskandar Malaysia	5 March
10.	Circular on Beneficial Ownership of an Entity Incorporated or Registered in Labuan IBFC	12 March
11.	Revised Circular on Financial Reporting Standards for Labuan Financial Institutions (FRS Circular) and Directive on Financial Reporting Standards for Labuan Financial Institutions	18 March
12.	Guidelines on Minimum Audit Standards for Internal Auditors of Labuan Banks	6 June
13.	Clarification Note on the Licensing Requirements for Labuan International Commodity Trading Company under the Global Incentives for Trading (GIFT) Programme	23 June
14.	Circular on Reporting Guide for Licensed Labuan Bank – Statistical Management System	23 June
15.	Circular on Management Information System – Information on Beneficial Ownership and Politically Exposed Persons	3 September
16.	Clarification Note for Guidelines on the Establishment of Labuan Mutual Funds including Islamic Mutual Funds (Fit and Proper Requirements)	30 September
17.	Clarification Note for Guidelines on the Establishment of Labuan Foundation including Islamic Foundation (Fit and Proper Requirements)	30 September
18.	Circular on Adoption of IIFM Standardisation Documents by Labuan Islamic Banks	16 October
19.	Revised Labuan International Commodity Trading Company Annual Update Submission Form	5 November
20.	Shariah Resolution of the Shariah Supervisory Council of Labuan FSA on Labuan Captive Takaful	12 November
21.	Circular on the Opening of Central Depository System Account by Labuan Entities	17 November
22.	Adherence by the Labuan Financial Institutions to the United States Foreign Account Tax Compliance Act (FATCA)	11 December

MEMORANDUM OF UNDERSTANDING (MOU)

For the year 2014, Labuan FSA had signed MoU's on cooperation and mutual assistance with three international home-host regulators to strengthen cross-border coordination in the supervision of financial institutions in the Labuan IBFC.

29 August 2014

Signed MoU with Financial Supervisory Commission of Gibraltar with the objective to establish a formal basis for cooperation in the financial services area, including the exchange of information. The scope of the MoU also expanded to include areas of consolidated supervision, enforcement, research and development, on-site examination and training and development.

22 September 2014

Signed MoU with the Jersey Financial Services Commission concerning collaborative efforts and cooperation in consolidated supervision, enforcement, and exchange of information and on site supervision. Other areas of cooperation are in research and development, training and staff development.

5 November 2014

Signed MoU with Financial Supervisory Commission (FSC), Taiwan for supervisory cooperation and mutual assistance in the fields of banking, insurance, securities and futures as well as in the area of anti-money laundering and anti-terrorism financing. The MoU includes rules that set out principles regarding how supervisory information is to be exchanged, the purpose of such exchanges, and the maintenance of confidentiality; the cooperation of on-site examinations, training and staff development.

MANAGEMENT OF LABUAN FSA

No	Name	Designation
1.	Datuk Ahmad Hizzad Baharuddin	Director General
2.	Mr. Danial Mah Abdullah	Deputy Director General
3.	Mr. Iskandar Mohd Nuli	Senior Director Supervision and Legal Department
4.	Mr. Mohd Rizlan Mokhtar	Director Group Internal Audit and Risk Management Department
5.	Mr. Azuddin Jasin	Director Business Management Department
6.	Mrs. Yon Zahimah Ibrahim	Director Corporate Affairs Department
7.	Mr. Syahrul Imran Mahadzir	Director Strategic Development Department
8.	Mr. Wan Ahmad Sanusi Mahmood	Director Group Finance and Facilities Management Department
9.	Mr. Jimmy Chen	Director Supervision and Monitoring Department

LISTING OF LABUAN ASSOCIATIONS

ASSOCIATION OF LABUAN BANKS

Level 8(D), Main Office Tower, Financial Park Labuan
Jalan Merdeka, 87000 FT Labuan, Malaysia

Tel : +6087 452 778
Fax : +6087 452 779
Email : admin@alb-labuan.com
Chairman : Vacant
Secretary : Mrs. 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 : +6087 410 745
Fax : +6087 419 755
Email : cck@noblehouse-labuan.com
Chairman : Datuk Chin Chee Kee
Secretary : Mr. Moritz Gubler

LABUAN INTERNATIONAL INSURANCE ASSOCIATION

c/o TMF Trust Labuan Limited
Brumby Centre, Lot 42, Jalan Muhibbah
87000 FT Labuan, Malaysia

Tel : +6087 593 828
Fax : +6087 417 242
Email : secretariat@liia-labuan.org
Chairman : Mr. Raymond Wong Shu Yoon
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 : +603 2072 0730
Fax : +603 2072 0732
Email : howard@ibhinvestmentbank.com
Chairman : Dato' Choo Kah Hoe
Secretary : Mr. Joel Raj Francis

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www.labuanibfc.com

Labuan Financial Services Authority

Level 17, Main Office Tower, Financial Park Complex, Jalan Merdeka, 87000 Federal Territory of Labuan, Malaysia
Tel: (+6087) 591 200 Fax: (+6087) 453 442 email: communication@labuanfsa.gov.my