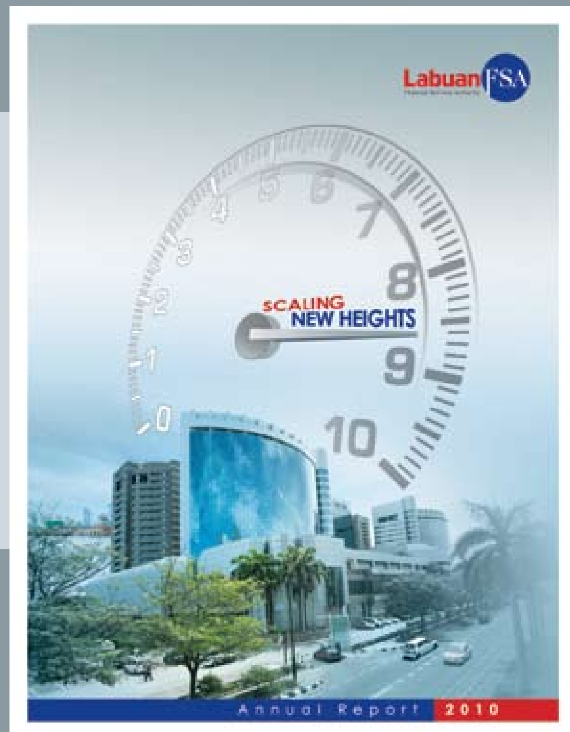
Labuan FSA
Financial Services Authority

Annual Report 2010

Scaling New Heights

Cover Rationale



Labuan FSA remains committed to its goals in developing Labuan IBFC as a preferred international business and financial centre. 2010 witnessed the birth of a new legislative framework and with it, new products and businesses in Labuan. It was also another year of strong growth for Labuan entities.

The image of the 'speedometer' symbolises the increasing momentum of Labuan IBFC's growth. With Labuan FSA's new strategic plan in place to chart the future, the jurisdiction is well positioned to scale new heights as the financial centre of choice in the region.

BANKING

Labuan banking business means the business of providing credit facilities and receiving deposits, investment banking services, Islamic banking business, building credit business, credit token, development finance business, leasing business or such other activities as approved by Labuan FSA. It is governed by the Labuan Financial Services and Securities Act 2010.

Labuan banks licensed to operate in Labuan can conduct transactions with Malaysian residents and have the option of operating a marketing office in mainland Malaysia. From 2010 onwards, Labuan banking institutions that meet the predetermined criteria had been accorded flexibility to co-locate onshore.

INSURANCE

Labuan insurance business means insurance business transacted in foreign currency, and includes life, general, reinsurance, captive insurance, insurance manager, underwriting manager and insurance broking, but does not include domestic insurance business.

Labuan insurers may carry on reinsurance of domestic insurance business, in Malaysian currency and such other business as may be specified by the Labuan FSA. The activities are governed by the Labuan Financial Servises and Securities Act 2010.

Effective from March 2011, with the exception of insurance manager and underwriting manager, all other Labuan insurance entities are allowed to establish an office in any part of Malaysia.

WEALTH MANAGEMENT

Labuan IBFC offers a comprehensive array of services ranging from investment banking, financial and investment advisory services, trusteeship, custodian, administration of estates to a broad range of professional services including fiduciary services related to management of wealth. The Labuan Trusts Act 1996 and Labuan Foundations Act 2010 accords the establishment of a wide diversity of structures that takes the form of trusts or foundations for the management of approved Malaysian and international assets, including the Labuan Special Trusts and Foundations.

FOUNDATION

A foundation is an entity established for the purpose of holding of assets with the objective of managing the assets for the benefit of a class of person on contractual basis. It has a seperate legal entity from its managers and is typically used for private wealth management and charitable purposes.

The introduction of Labuan Foundations Act 2010 represented a significant effort to further diversify the structures offered in Labuan IBFC to global investors. This would enable investors from civil law countries to enjoy the benefits offered in Labuan IBFC by using foundations as a viable alternative to Trusts.

LABUAN PROTECTED CELL COMPANY

ISLAMIC FINANCE

A Protected Cell Company is a legal entity that has the ability to form 'cells'. The cells of a Protected Cell Company may comprise:

- A single core cell for holding non-cell assets or general assets, or
- Any number of cells with the intention of segregating and protecting the assets of each respective cell.

A Labuan Protected Cell Company (Labuan PCC) may be established to conduct insurance business, captive insurance business and mutual fund business in accordance to either conventional or Islamic principles.

Labuan PCC is administered under Labuan Companies Act 1990 (LCA), while its relevant business is governed under Labuan Financial Services and Securities Act 2010 or Labuan Islamic Financial Services and Securities Act 2010.

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

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

BUSINESS REGISTRATION

Any person is allowed to establish companies in Labuan IBFC to undertake business in non-ringgit with non-residents or residents in accordance with the provisions of the Labuan Companies Act 1990. The Act provides for the incorporation, registration and administration of Labuan companies.

LEASING

Leasing is the business of letting or sub-letting property on hire for the use of such property by the hirer, regardless whether the letting is with or without an option to purchase the property, or such business as approved by the Labuan FSA. The business is governed under the Labuan Financial Services and Securities Act 2010.

LISTING OF FINANCIAL INSTRUMENTS

Labuan International Financial Exchange (LFX) is a one-stop financial exchange offering full services from the submission of application to approval, listing, trading and settlement of the instruments listed.

The LFX provides unlimited opportunities for global investors and companies by providing an efficient and cost-effective access to the capital market as well as the listing of both conventional and Islamic instruments.

Mission Statement

Labuan FSA shall act as a one stop agency to realise the Government's vision to develop Labuan as a premier IBFC by ensuring the highest level of integrity, commitment and professionalism.

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CHAIRMAN'S STATEMENT

CHAIRMAN'S STATEMENT

The global economy gained stronger ground in 2010. Within the Asian region, growth continued to be robust driven by strong domestic demand and recovery in world trade. While the global environment is expected to become more challenging in 2011, Asian economies are expected to remain on a steady growth path, reinforced by the reform measures and capacity building initiatives that have been taken during this recent decade and the structural adjustments to promote a more self-sustaining growth.

In Malaysia, domestic macroeconomic and financial stability provided the requisite support to ensure resilience to withstand the challenges arising from global developments and sustaining our economic performance. The financial system has continued to provide an effective and efficient role in the financial intermediation process facilitating the management of the changing conditions in the economy. Policy measures have continued to be focused on enhancing the potential capacity and resilience of the Malaysian financial sector, including its ability to drive Malaysia's transformation into a high value-added and high income economy by 2020.

Amidst the strong performance of the economies in Asia, Labuan is well positioned as a gateway for new business opportunities in the region. Labuan IBFC has made further advancements in 2010 in all key sectors including in banking, insurance, leasing and Islamic finance. The IBFC's wide offering of products and services, facilitative yet robust regulatory and supervisory regime and conducive business environment have reinforced its position as a vibrant international business and financial centre.

The year 2010 holds special significance for Labuan FSA as it celebrates the 20th anniversary of Labuan IBFC. A notable accomplishment was the coming into force of Labuan's new legislative framework governing business and the financial industry in Labuan IBFC. This new legislation reflects international best practices and will further enhance Labuan IBFC's competitiveness and potential to best serve the vast opportunities emerging from the Asia Pacific region. The new legislation is holistic, encompassing amongst others new business activities, regulatory and supervisory regime, Islamic finance and tax regime that is not only providing greater certainty but is conducive for Labuan's continued growth as a premier international business and financial centre in Asia.

Labuan IBFC has strengthened its performance over the recent years despite the more challenging conditions due to the global financial and economic turmoil. Sustained interest from international institutions has resulted in an increase in the number of players and business volume in most sectors including banking, leasing and insurance. Labuan companies recorded a growth of 7.8%, increasing to 8,004 from 7,423 in 2009. As at December 2010, Labuan IBFC is also the home of 61 banks, 169 insurance players, 176 leasing and 23 trust companies.

The banking sector in Labuan IBFC, which represents the core of Labuan financial system, has performed significantly well in terms of growth in pre-tax profits recording an increase of 111.8% to USD536.4 million and a growth in total assets of 13.2% to USD33.9 billion in 2010. For the third consecutive year, the total gross insurance premium underwritten through Labuan IBFC surpassed the USD1 billion mark. In 2010, total gross premiums transacted through Labuan IBFC remained strong at USD1.2 billion, with non-resident business accounting for 52.9% of total businesses underwritten by insurance companies in Labuan IBFC.

The leasing sector recorded the highest growth amongst the business sectors in Labuan IBFC, with total assets leased standing at USD25.0 billion in 2010. The number of leasing companies also increased by 29.4% to 176 companies. The prospects for further growth in the leasing sector is encouraging with the strong performance of capital intensive industries such as the oil and gas, aviation and shipping sectors. The amendments to the Labuan Business Activity Tax Act 1990 (LBATA) which came into force in February 2010 would further enhance the business growth of these sectors.

In 2010, Labuan IBFC made significant progress in the area of Islamic finance. Efforts were channeled towards attracting global investors through product and service innovation and diversification, capacity building initiatives as well as expanding market outreach. Total Islamic assets during the year grew by 55.8% to USD1.24 billion while gross contributions for retakaful industries increased by 26.7%. Labuan IBFC also witnessed the issuance of the world's first Japanese corporate Sukuk of USD100 million. Two new Islamic private funds, with a combined fund size of USD103.0 million, were also established in Labuan during the year. The enactment of the Labuan Islamic Financial Services and Securities Act 2010 (LIFSSA), an omnibus legislation governing Islamic financial services reinforces Labuan IBFC's role in supporting Malaysia's position as a leading international Islamic financial hub.

In line with the repositioning study undertaken in 2007, Labuan FSA undertook further developmental policy initiatives to promote the development of Labuan IBFC. In January 2010, eligible Labuan banks and Labuan investment banks were accorded flexibility to establish their offices in other parts of Malaysia other than in Labuan under the national financial sector liberalisation measures. This co-location policy was extended to Labuan insurance and takaful companies in March 2011. This was complemented by strengthened prudential standards in line with established international standards and best practices.

To further enhance global and regional inter-linkages, several initiatives were undertaken by the Labuan FSA and its marketing arm, Labuan IBFC Inc. Sdn Bhd. As part of these efforts, Labuan FSA and Financial Services Commission Mauritius (FSC Mauritius) signed a Memorandum of Understanding (MoU) on Co-operation and Mutual Assistance in April 2010 to facilitate cooperation in the areas of research and development, capacity building, enforcement, regulation and mutual exchange of

Labuan IBFC has strengthened its performance over the recent years despite the more challenging conditions due to the global financial and economic turmoil.

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information as well as supervisory and investigation assistance. In the third quarter of 2010, Labuan IBFC Inc. established a representative office in Hong Kong for better connectivity with North Asian countries.

Moving forward, Labuan IBFC is well positioned to effectively contribute and support the nation's transition to a high value-added, high income economy. A new blueprint which is aimed towards enhancing Labuan IBFC as a sound and robust jurisdiction with wide international and regional linkages while maintaining competitiveness through an enhanced delivery system and cost structure has been finalised. This new blueprint will encapsulate Labuan IBFC's strategic direction over the next ten years. The rebranding of Labuan IBFC, coupled with the various transformation efforts that have taken place in Labuan augurs well for the future development of the Labuan IBFC as a reputable international financial centre. These initiatives will ensure that Labuan IBFC's position as a well-regulated, sound and "low risk" jurisdiction is maintained.

For the year ended 31 December 2010, the Labuan FSA recorded an operating income of RM22.9 million, while its total reserves in 2010 stood at RM28.1 million.

On behalf of the Members of the Authority, I would like to express my appreciation to Members of the International Advisory Panel, the Shariah Supervisory Council, the Islamic Finance Committee, the respective Government Ministries and Agencies, as well as, the industry players for their continued contribution and support in making another year of success for the Labuan IBFC in 2010. My gratitude also goes to Dato' Basiran bin Saban, whose term of appointment as a member of the Authority ended in December 2010 and to welcome Encik Zainul Abidin bin Abdullah as a member of the Authority. To the management and staff of the Labuan FSA, I thank you for your dedication and commitment in achieving the objectives of the Labuan FSA. The Labuan FSA will continue to accord utmost priority in developing the Labuan IBFC into a premier international business and financial centre.

Zeti Akhtar Aziz
Chairman

6 May 2011

Corporate Profile

OBJECTIVES OF LABUAN FSA

Labuan Financial Services Authority (Labuan FSA), formerly known as Labuan Offshore Financial Services Authority (LOFSA), was established on 15 February 1996 under Section 3 of the Labuan Financial Services Authority Act 1996. Labuan FSA is the statutory body responsible for the development of Labuan International Business and Financial Centre (IBFC).

Labuan FSA was established to:
- promote and develop Labuan as a premier centre of high repute for international financial products and services;
- develop national objectives, policies and priorities for the systematic growth and administration of international financial products and services in Labuan, and to make recommendations to the Malaysian Government; and
- act as the central regulatory, supervisory and enforcement authority of the international business and financial services industry in Labuan.

In developing Labuan to be a vibrant and progressive IBFC in line with these objectives, Labuan FSA has embarked on a two-pronged strategy to:
- create an integrated international business and financial centre offering a wide range of international products and services, including Islamic finance; and
- provide legal, regulatory and supervisory frameworks conducive for the development of a globally competitive international industry.

THE AUTHORITY AND ITS MEMBERS

Labuan FSA is governed by a board known as the Authority whose 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.
The members of the Authority are:

- Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz, Chairman
- Tan Sri Zarinah Anwar
- Datuk Oh Chong Peng
- Dato' Mohammed Azlan Hashim
- Dato' Azmi Ariffin
- Datuk Ali Abdul Kadir
- Datuk Dr. A Manaf Hussin
- Dato' Basiran Saban (until 30 November 2010)
- Mr. Zainul Abidin Abdullah (since 1 December 2010)
- Datuk Azizan Abdul Rahman, Director-General

MEMBERS OF THE AUTHORITY

Sitting from left

Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz
Chairman

Datuk Azizan Abdul Rahman
Director-General

Standing from left

Dato' Azmi Ariffin

Mr Zainul Abidin Abdullah

Datuk Oh Chong Peng

Tan Sri Zarinah Anwar

Datuk Dr. A Manaf Hussin

Datuk Ali Abdul Kadir

Dato' Mohammed Azlan Hashim

Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz, Chairman

Dr. Zeti was appointed Governor of Bank Negara Malaysia (BNM) in May 2000. She has been with the central bank since 1985, in a career spanning several senior positions in monetary and financial policies, and reserve management. Dr. Zeti presided over the formulation of the Financial Sector Masterplan, a 10-year road map for the development of the Malaysian financial system. During her term as Governor, she oversaw the transformation of the financial system involving wide-ranging financial reforms, the establishment of new financial institutions, strengthening of the financial markets and the transition to a managed float of the Ringgit exchange rate. She is actively involved in promoting regional financial cooperation and the international development of Islamic finance.

In promoting regional integration initiatives, Dr. Zeti chaired the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) Taskforce on "Regional Cooperation among Central Banks in Asia" to draw up the blueprint for future financial cooperation in the region. Dr. Zeti is a member of the South East Asian Central Banks' (SEACEN) Board of Governors and Chairman of SEACEN's Board of Directors. She has been a member of the Bank for International Settlements (BIS) Central Bank Governance Group since 2001. Dr. Zeti is also one of the founding members of the Asian Consultative Council for BIS and was Chairman of the Council from 2008 to 2010.

Dr. Zeti received her Bachelor of Economics (Hons) from University of Malaya and her PhD from University of Pennsylvania.

Tan Sri Zarinah Anwar

Tan Sri Zarinah has served as member of the Labuan Financial Services Authority (Labuan FSA) since 1 June 2006.

Tan Sri Zarinah is the Chairman of the Securities Commission (SC), Malaysia, a post she assumed on 1 April 2006. She had served as the Deputy Chief Executive of the SC and member of the Commission since 1 December 2001. Tan Sri Zarinah is also the Vice Chairman of the Emerging Markets Committee of International Organisation of Securities Commissions (IOSCO) and represents the Committee on the International Financial Reporting Standards Foundation Monitoring Board.

Tan Sri Zarinah currently chairs the Malaysian Venture Capital Development Council and the Capital Market Development Fund. She is also the Vice Chairman of the Asian Institute of Finance Malaysia. In addition, Tan Sri Zarinah is a member of, the Financial Reporting Foundation, Malaysia International Islamic Financial Centre, and the Board of Directors of the Institut Integriti Malaysia.

Prior to joining the SC, Tan Sri Zarinah was the Deputy Chairman of Shell Malaysia. She graduated with an LLB (Hons) from the University of Malaya.

Datuk Oh Chong Peng

Datuk Oh is an Authority member of Labuan FSA since 1996.

He started his career with Coopers & Lybrand (now merged into PricewaterhouseCoopers) in London in 1969 and in Malaysia in 1971. He was a partner of Coopers & Lybrand Malaysia from 1974 until his retirement in 1997. He is a Fellow of the Institute of Chartered Accountants, England and Wales and was a Council member (1981-2002) of the Malaysian Institute of Certified Public Accountants and a past President (1994-1996).

Datuk Oh is the Chairman of Alliance Financial Group Berhad and serves as a Non-Executive Director on boards of various public listed companies, such as British American Tobacco (Malaysia) Berhad, IJM Corporation Berhad, IJM Plantations Berhad, Malayan Flour Mills Berhad and Dialog Group Berhad. He is also a trustee of the UTAR Education Foundation. He was formerly a government-appointed member of the Kuala Lumpur Stock Exchange (now known as Bursa Malaysia) and member of the Malaysian Accounting Standards Board.

Dato' Mohammed Azlan Hashim

Dato' Azlan is Chairman of D&O Green Technologies Berhad, SILK Holdings Berhad and Labuan IBFC Inc Sdn Bhd.

He also serves as a Board member of, amongst others, Khazanah Nasional Berhad and Scomi Group Berhad and is a member of the investment panels of the Employees Provident Fund and Government Retirement Fund Inc.

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

Dato' Azlan holds a Bachelor of Economics (Monash University) and is 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 the Malaysian Institute of Directors, Fellow Member of the Institute of Chartered Secretaries and Administrators and Honorary Member of the Institute of Internal Auditors, Malaysia.

Dato' Azmi Ariffin

Dato' Azmi was appointed as the third Chief Executive Officer of Suruhanjaya Syarikat Malaysia on 16 April 2009. Prior to assuming this position, he served as Head of the Commercial Crime Unit of the Attorney-General's Chambers in Putrajaya.

He had served the Government in various capacities including as the Deputy Public Prosecutor with the Anti-Corruption Agency (1987-1990), Senior Magistrate in the Kuching Magistrates' Court (1990-1991), Deputy Public Prosecutor with the Johor State Legal Advisor's Office (1991-1994), Research Officer with the High Court of Johor Bahru (January-October 1994), Deputy Public Prosecutor with the Kedah State Legal Advisor's Office (1994-2000) and Head of the Prosecution Unit with the Kelantan State Legal Advisor's Office (2000-2004). Dato' Azmi had also served as Deputy Public Prosecutor for the Classified Cases Unit as well as Deputy Head, Crime Division, of the Attorney-General's Chambers. Currently, he is Chairman of the Promotion Appeal Board of the Malaysia Co-operative Societies Commission, White Collar Crime Working Committee and My Corporate Identity Steering Committee. Dato' Azmi is also a member of the International Corporate Governance Consultative Committee and Audit Oversight Board under the Securities Commission, and Financial Reporting Foundation.

Dato' Azmi graduated with an LLB (Hons) degree from University of Malaya.

Datuk Ali Abdul Kadir

Datuk Ali is an Adjunct Professor with University of Malaya. He is currently Chairman of Financial Reporting Foundation and member of the Malaysian Audit Oversight Board. He is the Chairman of Microlink Solutions Berhad, Jobstreet Corporation Berhad, Privasia Technology Berhad and Milux Bhd, and sits on the Board of Directors of Glomac Berhad.

Datuk Ali was Executive Chairman and Partner of Ernst & Young and its predecessor firms from 1975 to 1999, and Senior Adviser from March 2004 to 2005. He was appointed as the Executive Chairman of the Securities Commission from March 1999 to February 2004. During his tenure, he was elected Chairman of IOSCO's Asia-Pacific Regional Committee, Chairman of the Islamic Capital Market Working Group, and member of the Executive Committee, the oversight Board of Danaharta and the National Asset Management Company. He was a Trustee of AAOIFI and Force of Nature Aid Foundation, and was the Advisor to the Sri Lankan Securities Commission for its Capital Market Blueprint

He is a Fellow of Institute of Chartered Accountants in England and Wales (ICAEW), a member of Malaysian Institute of Certified Public Accountants (MICPA) and Malaysian Institute of Accountants (MIA). He is also Honorary Advisor to ICAEW Kuala Lumpur Chapter as well as Honorary Fellow of Institute of Chartered Secretaries and Administrators (UK) and Malaysian Institute of Directors. He was President of MICPA and chaired its Executive Committee and Insolvency Practices Committee. He also co-chaired the Company Law Forum.

Datuk Dr. A Manaf Hussin

Datuk Dr. A Manaf is Deputy Under-Secretary in the Loan Management, Financial Market and Actuary Division of the Ministry of Finance (MOF), where he is responsible for management policy of government loans. He is a Board member of Amanah Ikhtiar Malaysia, National Feedlot Corporation Sdn Bhd and alternate Board member of National Savings Bank.

In a career with the Government that began in 1980, Datuk Dr. A Manaf has served the Economic Planning Unit of the Prime Minister's Department, Pahang State Economic Planning Unit and MOF. He held senior positions in various units of MOF, including the State Government Unit, Privatisation and Finance Minister Inc Unit and Capital Market Unit in the Loan Management and Financial Policy Division.

Datuk Dr. A Manaf holds a Masters in Business Administration (Finance) from Oklahoma City University, USA, and a Doctorate in Business Administration (Finance) from National University of Malaysia (UKM).

Mr Zainul Abidin Abdullah (from 1 December 2010)

Mr Zainul is the Chief Executive Officer of Labuan Corporation, a position he has held since December 2010.

Prior to joining Labuan Corporation, Mr Zainul was the District Secretary, Planning Division, Ministry of Federal Territories Diplomatic and Administration Officer (P.T.D.). In a career with the Government that spanned over two decades, Mr Zainul had held various senior positions, including as Director, Housing Loan Scheme, Ministry of Housing and Local Government and Assistant Principal Secretary, Human Resource Development, Ministry of Finance.

Mr Zainul holds a Bachelor of Arts (Hons) from the University of Malaya and a Masters in Human Resource Development from University Putra Malaysia.

Datuk Azizan Abdul Rahman

Datuk Azizan has been the Director-General of Labuan FSA since July 2005.

He is a Board member and Chairman of the Audit Committee of Labuan Corporation. He serves as an Exco member of Malaysia International Islamic Financial Centre (MIFC) and a Board member of the International Islamic Finance Market, which is based in Bahrain. He is also Chairman of LabuanFSA Incorporated Sdn Bhd, Pristine Era Sdn Bhd and a Board member of Labuan IBFC Incorporated Sdn Bhd.

Prior to his appointment with Labuan FSA, he was the Director of Banking Supervision, Bank Negara Malaysia (BNM). He has been with BNM since 1979, where his career spanned several positions in the areas of finance, supervision and examination. During his early years with BNM, he was on attachment to PricewaterhouseCoopers and Standard Chartered Bank from 1979 to 1983 and 1986 to 1987 respectively. While in BNM, he was a member of the board and investment committees of several government bodies, including Pension Provident Fund and ERF Sdn Bhd, besides being an Advisor to the Malaysian Accounting Standards Board.

Datuk Azizan graduated with a Bachelor in Accounting (Hons) from University of Malaya and holds a Masters in Business Administration from University of Queensland, Australia. He is a member of CPA (Australia) and a Chartered Accountant of MIA.

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 Business Activity Tax 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 exercise, discharge and perform such powers, duties and functions in accordance with the laws;

- To maintain the good repute of Labuan as an international business and financial centre;

- To carry out research and commission studies on financial services in Labuan;

- To make recommendations for the creation and improvement of facilities to enhance the attraction of Labuan as a centre for financial services;

- To collaborate with financial institutions and industry associations in Labuan to promote and provide financial services and to foster high standards for Labuan's financial services; and

- To advise and make recommendations to the Government on matters relating to financial services in Labuan IBFC.

INTERNATIONAL MEMBERSHIPS

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

a. **Offshore Group of Banking Supervisors (OGBS)**
OGBS was formed in October 1980, to promote a positive, constructive and coordinated response to the approaches made by supervisory authorities for effective consolidated supervision of international banks and related financial services primarily engaged in cross-border activities. (Member since 1999)

b. **International Organisation of Securities Commissions (IOSCO)**
IOSCO is the worldwide association of national securities regulatory commissions. The organisation role is to assist its members to promote high standard of regulations and act as a forum for national regulators for international cooperation. (Member since 2003)

c. **Offshore Group of Insurance Supervisors (OGIS)**
Offshore Group of Insurance Supervisors is a grouping of insurance regulators and supervisors from offshore jurisdictions with the aim of promoting proper supervision of offshore business. OGIS membership provides a unique facility for offshore jurisdictions to exchange information in maintaining the highest international standards of insurance regulation. (Member since 1999)

d. **International Association of Insurance Supervisors (IAIS)**
IAIS was established in 1994 to represent insurance regulators and supervisors from 190 international financial jurisdictions to promote financial stability by working closely with financial sector standard setting bodies and international organisations. 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)

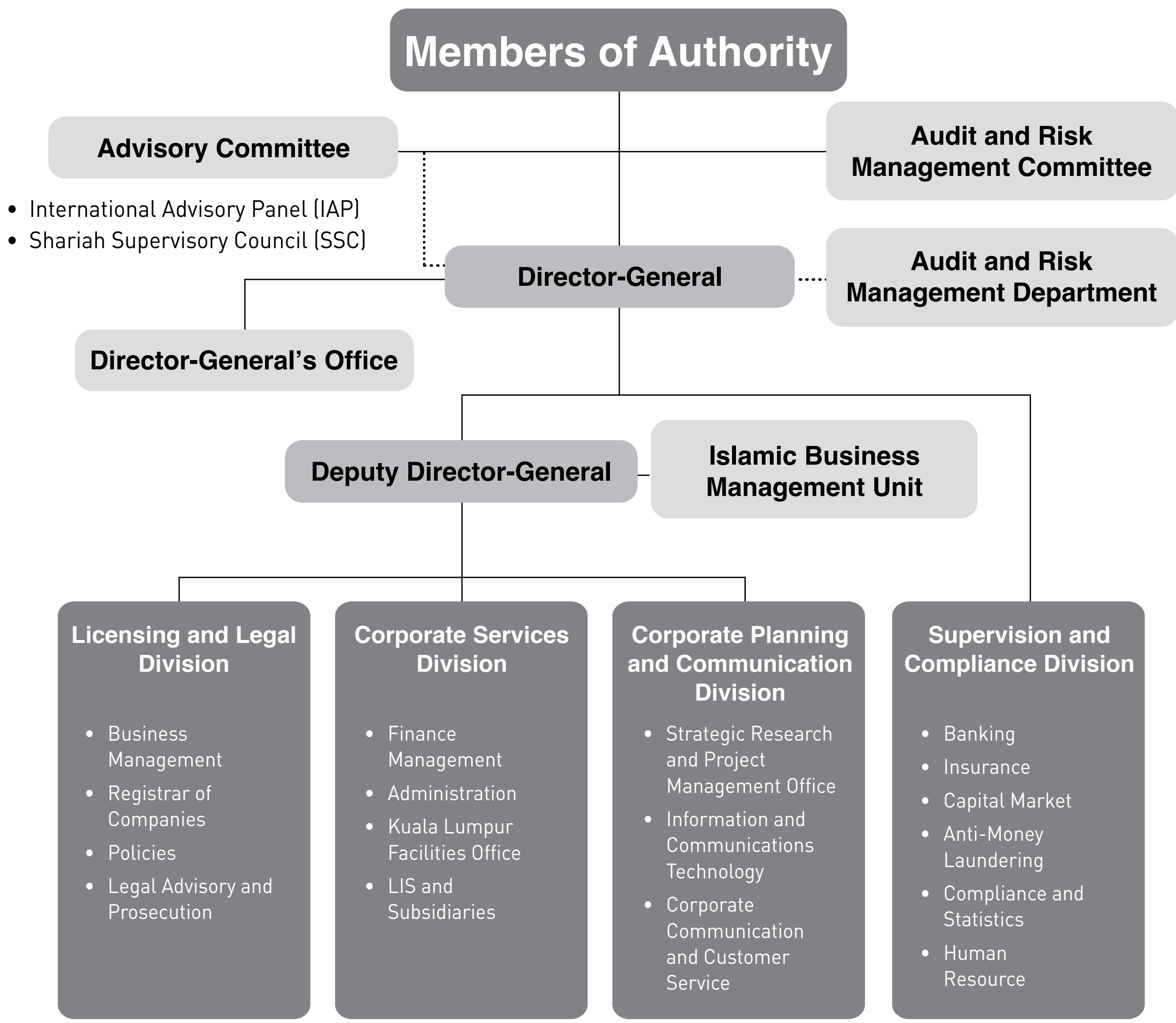
e. **International Islamic Financial Market (IIFM)**
IIFM is the global standardization body for the Islamic Capital & Money Market segment of the Islamic financial market IIFM acts as a market body in the development and maintenance of uniformity, assisting with standards benchmarking for transparency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

f. **Islamic Financial Services Board (IFSB)**
IFSB is an international standard-setting body of regulatory and supervisory agencies that have vested interest in ensuring the soundness and stability of the Islamic financial services industry. IFSB promotes the development of a prudent and transparent Islamic financial services industry through introducing new, or adapting existing international standards consistent with Shariah principles, and recommend them for adoption. IFSB complements the Basel Committee on Banking Supervision, International Organisation of Securities Commissions and the International Association of Insurance Supervisors. (Member since 2003)

g. **Asia/Pacific Group on Money Laundering (APG)**
APG is an international grouping of more than 40 members founded in 1997 that facilitates improvements to 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 standard through mutual evaluation and conducts research into money laundering and terrorist financing methods, trends, risks and vulnerabilities. (Member since 2000)

ORGANISATION STRUCTURE

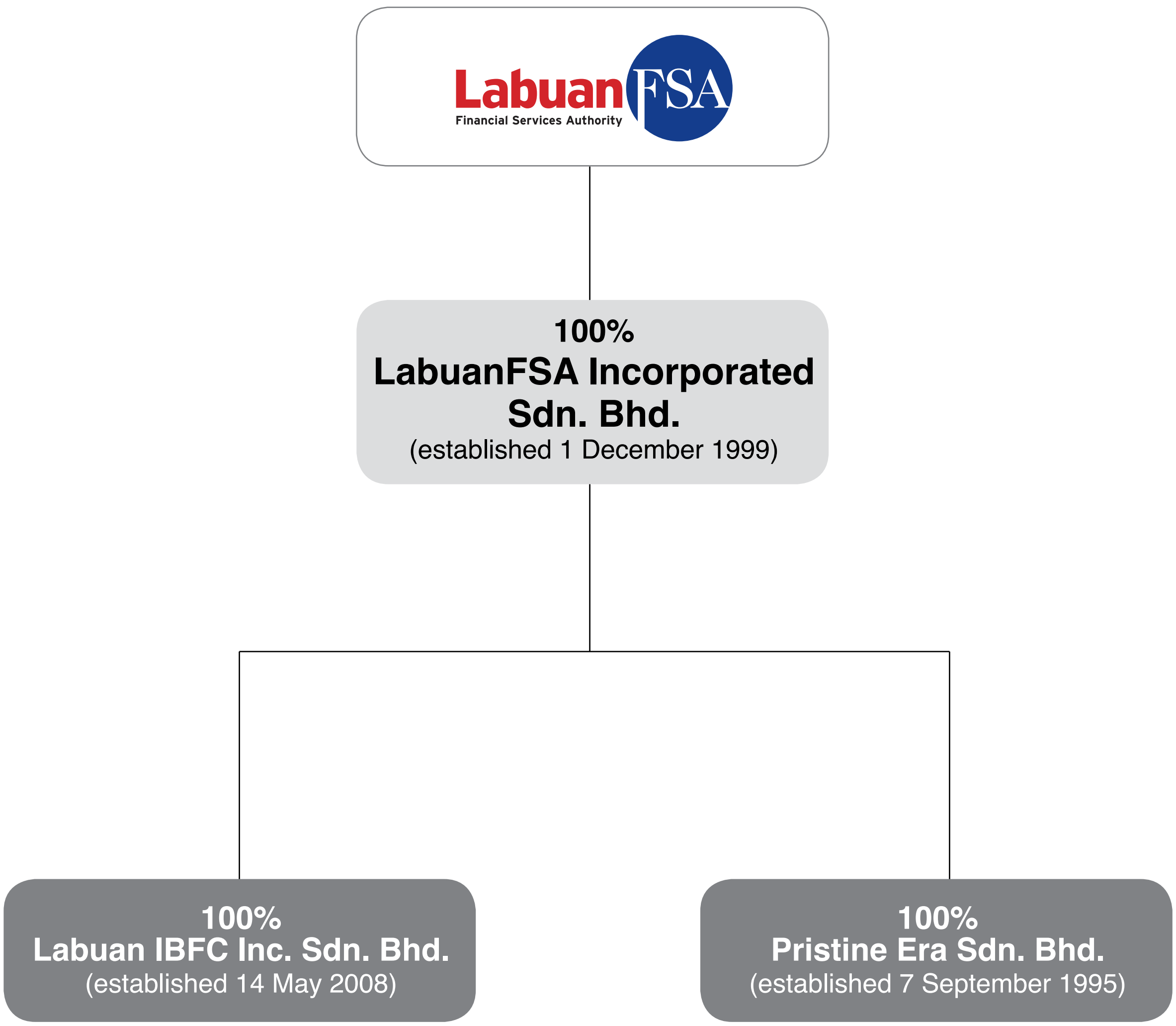
Labuan FSA is structured into seven core areas, namely, the Licensing and Legal Division, Corporate Services Division, Corporate Planning and Communication Division, Supervision and Compliance Division, Audit and Risk Management Department, Director-General's Office and Islamic Business Management Unit. The structure enables Labuan FSA to effectively regulate and supervise the international financial community in Labuan IBFC.



GROUP CORPORATE STRUCTURE

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 activities of Pristine Era Sdn. Bhd. is to manage the Labuan International School (LIS), while Labuan IBFC Inc. Sdn. Bhd. was set-up to market and promote Labuan International Business and Financial Centre.



The International Advisory Panel (IAP), which was set up in 2004, 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.

A view of Financial Park Complex which house Labuan FSA

THE INTERNATIONAL ADVISORY PANEL

Dato' Mohammed Azlan Hashim, Chairman

Dato' Mohammed Azlan is an Authority member of Labuan FSA.
His profile is provided on page 17.

Datuk Seri Ahmad Johan Mohammad Raslan

Datuk Seri Johan is the Executive Chairman of PwC Malaysia and has vast experience in business advisory services both in Malaysia and the United Kingdom.

He is a Board member and Audit Committee Chairman of Putrajaya Corporation, a member of the Board of Kuala Lumpur Business Club and a member of the Board of Trustees of the Tun Suffian Foundation. He currently chairs the Institute of Corporate Responsibility Malaysia, a network of companies committed to advancing responsible business practices in Malaysia.

An Eisenhower Fellow, Datuk Seri Johan is Adjunct Professor of University of Malaya, President of MICPA and Council Member of MIA. He is a member of Institute of Chartered Accountants in England and Wales and is immediate past Chairman of Financial Reporting Foundation.

Datuk Seri Johan is also a regular speaker on corporate governance, corporate reporting and corporate responsibility at local and international forums.

Tan Sri Andrew L T Sheng

Tan Sri Sheng, a Chartered Accountant by training, is currently Chief Adviser to the China Banking Regulatory Commission and a Board member of the Qatar Financial Centre Regulatory Authority, Sime Darby Berhad and Khazanah Nasional Berhad. He is also Adjunct Professor at the Graduate School of Economics and Management, Tsinghua University, Beijing, and University of Malaya, Kuala Lumpur. He currently chairs the Annual Organisation for Economic Co-operation and Development/Asian Development Bank Institute Roundtable on Capital Market Reform in Asia.

He was Chairman of the Hong Kong Securities and Futures Commission (HKSFC) from 1 October 1998 to 30 September 2005. Between October 1993 and September 1998, he was the Deputy Chief Executive responsible for the Reserves Management and External Affairs Departments at the Hong Kong Monetary Authority. Between 1989 and 1993, he was Senior Manager, Financial Sector Development Department, at the World Bank. From 1976 to 1989, he held various positions with Bank Negara Malaysia, including Chief Economist and Assistant Governor in charge of Bank and Insurance Regulations. From October 2003 to September 2005, he chaired the Technical Committee of International Organization of Securities Commissions.

Anthony Neoh, QC

Mr Neoh is a senior member of the Hong Kong Bar, active in civil appellate and international litigation and arbitration cases. He was Chief Adviser to the China Securities Regulatory Commission (CSRC) from September 1998 to June 2004 at the personal invitation of former Premier Zhu Rongji. He remains a member of the International Advisory Board of CSRC.

He was Chairman of HKSFC from 1995 to 1998. He was the first Asian to be elected Chairman of the Technical Committee of IOSCO from 1996 to 1998. Prior to his appointment to the chair of the Hong Kong SFC, he was in private legal practice, which he began in 1979 after 13 years in the Hong Kong Civil Service. His last appointment with the Hong Kong Government was as an Assistant Director of the Independent Commission Against Corruption.

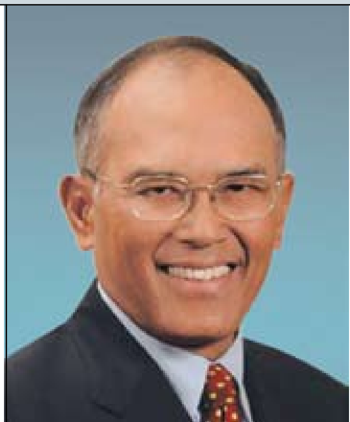
Mr Neoh is appointed Arbitrator of the China International Economic and Trade Arbitration Commission, Legal Adviser to the Shenzhen Municipal Government, and Senior Economic Adviser to the Fujian Provincial and Tianjin City Governments. In 2010, he joined the Panel of Conciliators and Arbitrators of ICSID, the World Bank's International Centre for Settlement of Investment Disputes, upon nomination by the People's Republic of China.

Mr Neoh was appointed Queen's Counsel (now re-titled Senior Counsel) in April 1990. A law graduate of London University, he was called to the English Bar by Gray's Inn in 1976. He was a Visiting Scholar at Harvard Law School in 1990/91 and from September 2001 to May 2002, he was Visiting Professor from Private Practice at Harvard Law School. He was awarded the Honorary Degree of Doctor of Laws by the Chinese University in 2003. In 2008, he was elected Honorary Fellow of the Hong Kong Institute of Securities and in 2009, an Academician of the International Eurasian Academy of Science.

Iqbal Khan

Mr Khan serves as the Chief Executive Officer of Fajr Capital. He is also currently Chairman of the Executive Committee and a Board member of Jadwa Investment in Saudi Arabia, and a Board member of Bank Islam Brunei Darussalam. Previously, he was founding CEO of HSBC Amanah, where he built the business and team over eight years to become one of the fastest growing and most successful emerging businesses in the HSBC Group. He was a member of the Board of Directors of HSBC Bank Middle East, Saudi British Bank, and HSBC Investment Bank (Saudi Arabia). He reported directly to the HSBC Group Holdings Group CEO and now Chairman, Stephen Green.

Mr Khan has been associated with the launch of leading Islamic financial services institutions such as Meezan Bank, Citi Islamic Investment Bank and IDB Infrastructure Fund, and has overseen a wide range of business lines, including retail banking, corporate finance advisory, treasury and risk management, wealth management, private banking, and private equity. He is active in a large number of Islamic financial services industry initiatives, serving as an advisor to government initiatives in the United Kingdom (UK), the United Arab Emirates (UAE) and Malaysia. Mr Khan has received a number of industry commendations, including a special award from Euromoney in 2006 for his "Outstanding Contribution to Islamic Finance."



Tan Sri Dato' Megat Zaharuddin Megat Mohd Nor

Tan Sri Dato' Megat Zaharuddin is Chairman of Malayan Banking Berhad. He is also Chairman of Maybank Investment Bank Berhad and President Commissioner of PT Bank Internasional Indonesia Tbk, both of which are subsidiary companies of the Maybank Group. Additionally, he is a Director of The ICLIF Leadership and Governance Centre and Woodside Petroleum Ltd. - a company listed on the Australian Securities Exchange. He served as the Chairman of Maxis Communications Berhad from January 2004 to November 2007, Etiqa Insurance & Takaful Berhad from January 2006 to February 2009, Malaysian Rubber Board from February 2009 to May 2010 and Director of the Capital Market Development Fund from January 2004 to January 2010.

He built an outstanding career in the oil and gas industry for 31 years with the Royal Dutch Shell Group of Companies and was Regional Business Chief Executive Officer and Managing Director, Shell Exploration and Production BV, prior to his retirement in early 2004.

Tan Sri Dato' Megat Zaharuddin graduated with a Bachelor of Science (Hons) in Mining Engineering from Imperial College of Science & Technology, University of London.

Datuk George Ratilal

Datuk Ratilal is Executive Vice-President (Finance) of PETRONAS. He was appointed to the Board of Directors of PETRONAS on 1 May 2010 and is also a member of its Executive Committee and Management Committee.

He obtained his degree in Bachelors of Arts (Hons) in Accountancy from City of Birmingham Polytechnic, UK, in 1982 and Master in Business Administration from University of Aston in Birmingham, UK, in 1984.

Prior to joining PETRONAS as Vice-President (Finance) in 2003, he was attached to a local merchant bank for 18 years, concentrating on corporate finance, where he was involved in advisory work in mergers and acquisitions, equity and debt capital markets. From 1997 to 2002, he served as Managing Director of the merchant bank.

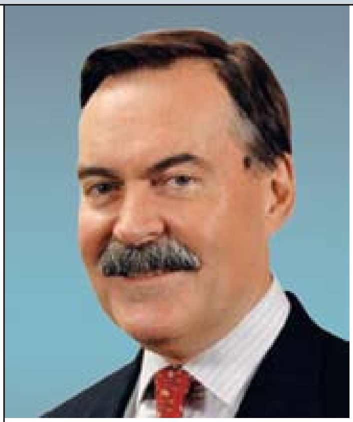
He also sits on the Board of PETRONAS Dagangan Berhad, KLCC Property Holdings Berhad, Cagamas Holdings Berhad, Cagamas Berhad and Danajamin Nasional Berhad.

Michael Troth

Mr Troth is Region Head for Citi Trust in Asia Pacific, which includes the operations of Cititrust Singapore Limited. He is responsible for business strategy, sales, relationship management and day-to-day operations.

Prior to joining Citi Private Bank, he spent 13 years with Jardine Matheson Trust Corporation, of which the last 10 years were in Asia where he was Managing Director of its Asian Trust Business.

Mr Troth obtained his Bachelor of Science degree from Manchester University, Institute of Science and Technology. He is an Associate of the Chartered Institute of Bankers and holds a Diploma in Trust and Estate Practice. He is also a member of the Chartered Institute of Bankers and the Society of Trust and Estate Practitioners. He is based in Singapore.



Robert M Tomlin

Mr Tomlin is currently Vice-Chairman of Lepercq de Neuflize Asia Pte Ltd, Singapore. Of his 43 years in banking and finance, 10 were with UBS and 30 with the Schroder Group. At UBS, he held successively the positions of Managing Director, Corporate Finance, Branch Manager and Country Head, and Vice-Chairman Asia. He started his career with the London-based Schroder Group in 1969, serving in London, New York and finally Singapore. He left the Group as CEO, South East Asia, in 1999.

He serves on the boards of SGX-listed Olam International Ltd, an STI component stock, and of Mediacorp Pte Ltd. He is currently Chairman of the Singapore Repertory Theatre and Design Singapore Council, a trustee of Singapore Management University, a Director of Lasalle Foundation Ltd and member of the Governing Board of the Yong Siew Toh Conservatory at National University of Singapore. He sits on the Advisory Committee of Catalist and the Singapore Second Board.

Past positions include serving as a member of the Council of the Stock Exchange of Singapore, Chairman of the Merchant Bankers Association, Director of PSA International Corporation and Old Parliament House Ltd, and Chairman of SGX-listed Global Yellow Pages.

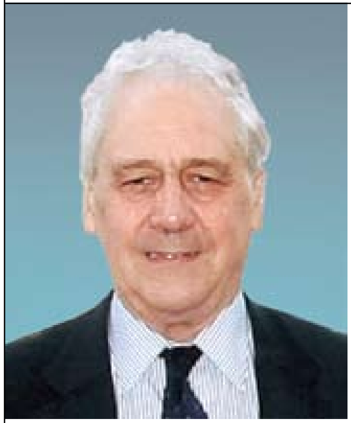
A British citizen, he obtained his Bachelor of Arts degree in Modern Languages from Downing College, Cambridge, in 1966 and a Masters in Business Administration from Harvard University in 1973.

Baron Frederik van Tuyll

Baron Frederik is the Chief Executive Officer at Equity Trust. He has extensive background and career in international financial and business planning, which spans more than 20 years.

Joining Equity Trust in 1994, was part of the management buy-out team, he has seen the company expand, both organically and through acquisition, and has played a vital role in its development and success.

Before taking up his post as the CEO, Baron Frederik was the Deputy CEO of Equity Trust and the CEO of the company's Asia Pacific region. He lived in Hong Kong for more than 20 years.



Mark Lea

Educated in England at Eton College, where he was President of the Eton Society, Mr Lea went on to qualify as a Solicitor in 1970 in the City of London. He joined the merchant bank, N M Rothschild & Sons Limited. Mr Lea became a Director of Rothschild's Trust Companies and of its Guernsey Bank.

Mr Lea has acted as adviser to government and professional bodies on changes to trust and related laws in Hong Kong, Malaysia and Singapore, where he is an Adjunct Professor of Law at National University of Singapore.

He has vast experience in trust and taxation. He has served on committees of both the Hong Kong Trustees Association and the Society of Trust and Estate Practitioners (STEP) and as a member of the international editorial board of STEP.

Mr Lea is also a member of the Inland Revenue Board of Review of Hong Kong, hearing tax appeals in respect of corporate and personal tax matters.

THE SHARIAH SUPERVISORY COUNCIL

The Shariah Supervisory Council (SSC) was set-up in 2002 and comprises renowned Malaysian and international Islamic finance scholars. The Council reviews the compatibility of proposed financial instruments to Shariah requirements and also advises Labuan FSA on the development of Islamic jurisprudence principles. The members of the SSC are appointed by the Authority.

Dr. Mohd Daud Bakar, Chairman

- Managing Director, Amanie Islamic Finance Consultancy and Education LLC (DIFC)
- President / Chief Executive Officer of Amanie Business Solutions Sdn. Bhd. (Kuala Lumpur)
- Chairman, Amanie Advisors Sarl (Luxembourg)
- President / Chief Executive Officer of the International Institute of Islamic Finance
- PhD, University of St Andrews, United Kingdom
- BA (Hons) University of Kuwait, Kuwait
- B Jurisprudence, University of Malaya, Malaysia

Dr. Mohd Daud is Chairman of the Shariah Advisory Council (SAC) of Bank Negara Malaysia and the Securities Commission of Malaysia. He was a former Associate Professor in Islamic Law and Deputy Rector at International Islamic University Malaysia. He also serves as a member of the Shariah Board of Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) (Bahrain), Dow Jones Islamic Market Index (New York), BNP Paribas (Bahrain), Morgan Stanley (Dubai) and Bank of London and Middle East (London), among others.

Dato' Dr. Abdul Halim Ismail

- Director of BIMB Holdings Berhad
- PhD, Economics, Oxford University, United Kingdom
- BA (Hons) in Economics, University of Malaya, Malaysia

Prior to his retirement, Dato' Dr. Abdul Halim was the Executive Director of BIMB Securities Sdn Bhd until 2010. He was the Managing Director of Bank Islam Malaysia Berhad until 1994. He is currently Chairman of BIMB Unit Trust Management Berhad and Director at Institut Kefahaman Islam Malaysia (IKIM). He is also a member of the SAC of BNM and SC of Malaysia.

Professor Madya Dr. Ahmad Shahbari @ Sobri bin Solomon

- Executive Chairman, Pusrawi Corporation Sdn Bhd
- PhD, Modern Middle Eastern History, New York University, USA
- MA Economics, Fairlaigh Dickinson University, USA
- BA Shariah, Al-Azhar University, Egypt

Dr. Ahmad Shahbari is Chairman of the Shariah Advisory Board (SAB) of Syarikat Takaful Malaysia Berhad. He is also a member of the SAB of Bank Islam Malaysia Berhad and Syarikat Takaful Indonesia. Previously, he was a lecturer in the Department of Shariah, National University of Malaysia, and a lecturer in the Kulliyah of Economics and Kulliyyah of Law, International Islamic University Malaysia. He was also a member of the Islamic Religious Council of Selangor for 25 years.

CORPORATE PROFILE - THE SHARIAH SUPERVISORY COUNCIL

Dr. Hussein Hamed Hassan

- Chairman of Dubai Islamic Bank's Fatwa and Shariah Supervision Board, UAE
- PhD, Shariah,University of Al-Azhar, Egypt
- MA Comparative Jurisprudence, University of New York, USA
- BA Shariah, Al-Azhar University, Egypt

Dr. Hussein sits on the Shariah Advisory Board of numerous banks and regulatory bodies. He is currently Chairman of Liquidity Management Centre of Bahrain, a member of the Shariah Supervision Board of Sharjah Islamic Bank and Dubai Islamic Bank, and a Shariah Board member of AAOIFI. He served as an adviser to the presidents of many Muslim countries. Previously, he was a professor of Shariah at University of Cairo for more than 40 years and was the author of numerous books on Islamic Law, Islamic Finance, Islamic Economics, Art and Social Studies.

Dr. Mohamed Ali Elgari

- Professor of Islamic Economics, King Abdul Aziz University, Jeddah
- PhD, Economics, University of California, USA

Dr. Elgari was formerly a Professor of Islamic Economics and Director of the Centre for Research in Islamic Economics at King Abdul Aziz University, Jeddah, Saudi Arabia. He is an expert at the Islamic Jurisprudence Academy of the Organisation of the Islamic Conference (OIC) and the Islamic Jurisprudence Academy of the Islamic World League, and a member of the Shariah Council of AAOFI. He is a member of the editorial board of several academic publications in the field of Islamic Finance and Jurisprudence.

Dr. Elgari is member of numerous Shariah Boards of Islamic banks and takaful companies worldwide. He authored several books in Islamic finance and published articles on the subject both in Arabic and English. He is also a frequent speaker in conferences worldwide.

Dr. Elgari is the recipient of the Islamic Development Bank prize in Islamic Banking and Finance for the year 1424H (2004).

Dr. Engku Rabiah Adawiah

- Associate Professor of Ahmad Ibrahim Kuliyyah of Laws, International Islamic University, Malaysia
- PhD, Law (Securities Regulation), University of Aberdeen, United Kingdom
- Masters Comparative Laws, International Islamic University, Malaysia
- LLB & LLBS (1st Class Hons), International Islamic University, Malaysia

Dr. Engku Rabiah is an Associate Professor at Ahmad Ibrahim Kulliyah of Laws, International Islamic University Malaysia. She teaches both Shariah and civil law, particularly on the subjects of Company Law and Islamic Banking and Securities at both undergraduate and postgraduate level. She also serves as Shariah adviser and consultant to several financial institutions and legal firms. Currently, she is a member of the SAC of BNM, a member of the Shariah Committee of Labuan Re and an independent Shariah Adviser for Islamic securities issuance, approved by and registered with the SC. In addition, she is also a member of the investigation tribunal for the Malaysia Bar Council.

SENIOR MANAGEMENT

Standing from right

- **Sabaruddin Ismail**
- **Iskandar Mohd Nuli**
- **Datuk Azizan Abdul Rahman**
  Director-General
- **Mohd Rizlan Mokhtar**
- **Danial Mah Abdullah**
- **Md Yunus Atip**

Datuk Azizan Abdul Rahman, Director-General

Datuk Azizan is an Authority member of Labuan FSA. His profile is provided on page 19.

Danial Mah Abdullah, Deputy Director-General

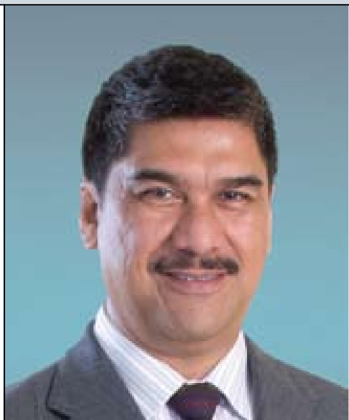
- Chartered Accountant of the Malaysian Institute of Accountants
- Masters in Business Administration, Manchester Business School, UK
- Bachelor of Accounting (Hons), University of Malaya, Malaysia

Mr Danial is the Deputy Director-General of Labuan FSA. He is Chairman of the Policy Committee, Credit Risk, Investment and Risk Management Committee and Asset Management Committee of Labuan FSA. He is also the Secretary to the Authority of Labuan FSA. Mr Danial is a member of the Executive Committee of the International Islamic Financial Market (IIFM), alternate Board member of the IIFM, and a Board member of LabuanFSA Incorporated Sdn Bhd and Pristine Era Sdn Bhd.

Iskandar Mohd Nuli, Senior Director, Licensing & Legal Division

- Commissioner of Oath
- Certified Financial Investigator (CFI)
- Advocate and Solicitor in the High Court of Malaya
- Bachelor of Law (Hons), International Islamic University, Malaysia

Mr Iskandar joined Labuan FSA in 1996 and was formerly attached to the Legal Department of Bank Negara Malaysia. He oversees the licensing and registration for banking, insurance, companies, fund management, leasing and other licensed activities. His other responsibilities include managing the Policies Unit, which develops the business policies for activities in Labuan. He also oversees the Legal Advisory and Prosecution Unit. He is a member of the Board of LabuanFSA Incorporated Sdn Bhd and Pristine Era Sdn Bhd.



Sabaruddin Ismail, Director, Corporate Planning & Communication Division

- Masters in Economic Policy, Boston University, Massachusetts, USA
- Bachelor of Arts in Economics, University of Malaya, Malaysia

Formerly with Bank Negara Malaysia, Mr Sabaruddin joined Labuan FSA in 1998 and is responsible for the various strategic initiatives and business support functions of Labuan FSA covering strategic planning, research and information and communication technology.

He also oversees the Corporate Communication & Customer Service Unit as well as the Project Management Office for the Ninth Malaysia Plan projects initiated by Labuan FSA.

Md Yunus Atip, Director, Supervision & Compliance Division

- Bachelor of Business Administration (Economics), Linfield College Oregon, USA

Prior to joining Labuan FSA in 1996, Mr Md Yunus was with Bank Negara Malaysia attached to various departments including Foreign Exchange Administration, Internal Audit and Labuan Offshore Unit.

In Labuan FSA, he oversees the supervisory activities of banking, insurance and capital market industry. He is responsible for the supervision and enforcement of Labuan legislations and regulations, compliance with best practices and standards promoted by international standard-setting bodies. His other responsibilities are managing the Anti Money Laundering and Investigation Unit, Compliance and Statistics Unit and the Human Resource Unit.

Mohd Rizlan Mokhtar, Director, Corporate Services Division

- Bachelor of Arts in Accounting & Finance, Manchester Polytechnic (now Manchester Metropolitan University), UK

Mr Mohd Rizlan joined Labuan FSA in 1999 as an Assistant Manager in the Banking and Insurance Division. Since then, he has held various portfolios in Policies, Research and Statistics, Business Development and Audit and Risk Management.

He currently oversees the Corporate Services Division that includes the support functions of Financial Management, Administration and the Kuala Lumpur Facilities Office. He also oversees the operations of the Labuan International School. He is a Board member of LabuanFSA Incorporated Sdn Bhd and Pristine Era Sdn Bhd.

Statement of Corporate Governance

The governance framework of Labuan FSA has been broadly translated in its organisation structures and processes, explaining how the organisation is directed, controlled and held to account. The framework constitutes a set of relationships comprising the supervisory authority, management and stakeholders, vis-a-vis a collaborative stewardship structure, through which the objectives of Labuan FSA are established and means of attaining its business objectives and performance are monitored and measured.

GOVERNANCE PRINCIPLE

The governance framework of Labuan FSA is built upon three principles aimed at driving the performance and outcomes of Labuan IBFC. These principles comprised an accountability structure with a view of the Authority's impact on the performance of Labuan IBFC; mechanisms that enhance the integrity of the organisation and its operations; as well as transparency of the organisational conduct for the promotion of efficient business and financial system under Labuan FSA's supervision. The framework of governance also reinforces the integration of core components within the principles to ensure coherent functioning of the organisational systems.

Diagram 1 : PRINCIPLES OF GOVERNANCE

Accountability	Authority's oversight through: • Strategic directions • Reviews and approval of business policies, guidelines and the operations
Integrity	• Regular audit exercise • Effective risk management, internal control and governance process • Implementation of Whistle Blowing Policy
Transparency	• Collaboration with relevant agencies and organisations • Balanced disclosure to stakeholders

The Labuan Financial Services Authority Act 1996 (the Act), which was revised and enforced in 2010 provides further clarity to the functions and powers of the Authority based on the following objectives:

Labuan FSA was established to:

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

In administering the functions and powers under the Act, the Authority is subject to the general directions and control of the Minister of Finance. As a regulatory and supervisory body of an international business and financial centre, Labuan FSA also works closely with other statutory bodies in the country as well as regionally and internationally.

ACCOUNTABILITY

Accountability within Labuan FSA is manifested and enforced in its decision-making structure and effective use of internal resources towards meeting the mandated objectives and interests of the stakeholders.

The Authority

The Authority, being the highest decision-making body, provides oversight on the management through the strategic directions of the business and review and approval of the business policies and guidelines. The Authority also advises the management to ensure that the internal resources are utilised in the most economical and efficient manner. The decision-making structure of Labuan FSA, which encompasses the reporting relationships and division of responsibilities among different constituents within and external to the organisation, is intended to meet the interests of the stakeholders in an objective and equitable manner. To this end, accountability of the institution is further strengthened through effective and timely implementation of regulatory and supervisory processes that are transparent, enforceable and consistent with the relevant laws.

The Authority 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 also provides that the Director-General be directly responsible for the administration and day-to-day operations of Labuan FSA. The Authority is committed to ensure that the principles and spirits of the Malaysian Code of Corporate Governance as well as international standards and best practices on governance are complied with. In fulfilling its oversight and supervisory responsibilities, the Authority is assisted by the Audit and Risk Management Committee.

In 2010, there were six authority meetings and the attendances were as follows:

Authority Members	Meeting Attendances
Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz (Chairman)	6/6
Tan Sri Zarinah Anwar	4/6
Datuk Oh Chong Peng	5/6
Dato' Mohammed Azlan Hashim	5/6
Datuk Ali Abdul Kadir	5/6
Datuk Dr. A Manaf Hussin	5/6
Dato' Azmi Ariffin	4/6
Dato' Basiran Saban	4/6
Datuk Azizan Abdul Rahman	6/6

The Audit & Risk Management Committee

The Audit and Risk Management Committee (ARMC) is established in accordance with the oversight powers extended to the Authority by the Act. The committee comprises the following:

Datuk Oh Chong Peng	Chairman
Datuk Ali Abdul Kadir	Member
Dato' Mohammed Azlan Hashim	Member
Dato' Azmi Ariffin	Member (until 1 December 2010)
Mr Zainul Abidin Abdullah	Member (effective 18 February 2011)

The ARMC is established to assist the Authority in fulfilling its oversight responsibilities to ensure a sound system of internal controls, risk management and corporate governance. This is aimed at safeguarding the interests of the institution and maintaining the position of Labuan as a vibrant and strong IBFC. The ARMC also advises the Authority on the quality of financial reporting and compliance of Labuan FSA with acceptable accounting standards and the relevant regulatory frameworks.

During the year ended 31 December 2010, the ARMC held six meetings and the meeting attendances were as follows:

Authority Members	Meeting Attendances
Datuk Oh Chong Peng (Chairman)	5/6
Datuk Ali Abdul Kadir	5/6
Dato' Mohammed Azlan Hashim	6/6
Dato' Azmi Ariffin	4/6

The ARMC performs its roles and responsibilities in accordance with its terms of reference. The key activities performed during the year includes the following:

- Reviewing the scope of the internal audit plan for 2010 and providing oversight on the work performed by the internal auditors throughout the year;
- Reviewing accounting and financial reports including other key issues raised by the internal and external auditors, and Auditor-General's Office;
- Reviewing financial reports including the quarterly and annual financial statements;
- Reviewing and advising the Authority on the 2010 Budget Proposal;
- Reviewing and advising the management on the Business Continuity Plan and its implementation; and
- Reviewing and advising on the status of risk issues and its management as they relate to the strategic, financial, operational, legal and reputational risks of Labuan FSA.

INTEGRITY

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.

Good corporate culture demands high integrity at all levels of staff considering Labuan FSA's regulatory role. Towards this end, the Authority has put in place an enabling environment that is backed by competent and professional individuals, effective internal controls and business risk management.

Throughout 2010, the Internal Audit Unit (IAU) performed its regular audit on all functions of Labuan FSA to ensure that the risk management, internal controls and governance processes continue to be effective. IAU adopts a risk-based approach that is in line with industry best practices and prioritises the high risk areas during the implementation of the Audit Plan 2010, which was approved by the ARMC at the beginning of the year.

In October 2010, Labuan FSA implemented a set of Guidelines on Whistle Blowing (GWB). The GWB was formulated to facilitate reports by staff, players and other related parties of wrong-doings or abuses, including concerns of unethical practices by Labuan FSA and its subsidiaries at an early stage. It reflects Labuan FSA's philosophy to stand ready to identify and resolve problems or pre-empt a situation which may be detrimental to the organisation. The GWB also aims to protect any person who wishes to report any wrong-doings without fear of reprisal, victimisation, harassment, subsequent discrimination or disadvantage. Ultimately the objective of the guidelines is intended at maintaining a high standard of corporate governance and business integrity to enable Labuan FSA or its subsidiaries to be able to serve its stakeholders effectively. The implementation of the GWB is also part of the acculturation programme by the Authority to maintain an optimum standard of ethics among its employees and agents.

Enterprise Risk Management

Labuan FSA adopts an Enterprise Risk Management (ERM) framework, which ensures the ownership and accountability of business risks. The ERM facilitates the identification, assessment, mitigation and reporting of key risks. The risk management process is dynamic as it takes into account the changing business environment in which Labuan FSA operates, and ensures sustainability and value of the business. The framework also sets out the roles and responsibilities and reporting lines for the management of risks of the business. The coordinating role and reporting of the organisational risks is performed by Risk Management Unit, where profiles of the enterprise risk are reported to the Risk Management Working Group (RMWG) on a quarterly basis before their escalation to the ARMC and the Authority.

Business Continuity Plan

The Business Continuity Plan (BCP) is another key component of the integrated risk management under the organisation's ERM framework. The BCP is formulated to ensure Labuan FSA is well prepared to manage its critical business functions and the functions continue to be available under any adverse situations. The BCP, which forms a component of the Business Continuity Management Policy (BCMP) was operationalised in 2010.

The plan invocation of the BCP and levels of emergencies, which have been developed on the basis of business interruption period and impact to Labuan FSA's critical business operations, are supported with emergency and recovery actions call tree. The required actions by the process owners are expected to be implemented during emergency situations to ensure continuity of the critical business functions through activation of crisis management and/or recovery procedures, where relevant. The levels of emergencies in the BCP are summarised in the following four stages of action plan:

Levels of Disruption and Stages of Emergency	Group Involved
Level 1 : Alert and Preparation Stage (Less than 4 hours of disruption)	• Affected process owners • Directors of business units/departments • Emergency Management Team
Level 2 : Emergency Containment Stage (4 to 8 hours of disruption)	• As above; and • Management Committee
Level 3 : Emergency Proclamation Stage (8 to 24 hours of disruption)	• As above; and • Members of the Authority
Level 4 : Disaster Recovery Stage (More than 24 hours of disruption)	• Emergency Management Team • Emergency Recovery Team • Management Committee • Members of the Authority

The workability of the BCP was also audited and tested (A&T) through a business simulation exercise from 27 September to 12 October 2010. The A&T exercise, which had involved the Emergency Management Team (EMT) and Emergency Recovery Team (ERT) was performed with the following objectives:

i. Test the current workability, capability and effectiveness of the internal BCP;
ii. Draw upon evidences of good BCP practices and improve gaps and weaknesses in the existing BCMP; and
iii. Equip Labuan FSA's ERT with the fundamental knowledge, know-how and technology, as well as to prepare the team in effectively managing any eventuality that might occur.

In performing the A&T exercise, reference was made to the requirements of the British Quality Standards (BS 25999) as well as the Business Continuity Institute's Good Practice Guidelines on BCP. Findings from the A&T were also used by the internal team in further improving Labuan FSA's BCMP framework covering the BCP infrastructure and operational processes.

TRANSPARENCY

Transparency is adopted by Labuan FSA as means of holding the organisation accountable to its mandated roles and objectives. The effective manner in which its transparency is exhibited is aimed at further enhancing the accountability and integrity of the organisation so that its actions and performance could be objectively judged by its stakeholders. In addressing the need for transparency, the Authority also recognises that the corporate governance framework of Labuan FSA should be complemented by balanced disclosure in addition to the provisions of wide ranging and relevant information. The collaborative working with and disclosure of information to the relevant stakeholders are also important to avoid situations of conflict of interest that may compromise the transparency, accountability and the integrity of the organisation.

As a statutory body, Labuan FSA is required to submit its annual accounts to be audited by the Auditor-General's (AG) Office before the accounts are tabled to Parliament. Labuan FSA provides 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 its business affairs based on generally accepted accounting principles. Labuan FSA is also subject to management and operational audit by the AG. 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 maintain its consultative approach with the industry players on issues and developments affecting the business. Quarterly and half yearly meetings were conducted with the associations and council members of the Labuan banks, Labuan investment banks, Labuan insurance and insurance-related companies, and Labuan trust companies during the year. The regular discussion not only facilitates greater understanding of the business conditions but also serves as an effective platform for greater collaboration and ensuring good rapport between Labuan FSA and the industry players.

Labuan FSA makes continuous efforts to enhance transparency as demonstrated through its collaboration with local authorities, such as the Ministry of Finance, Bank Negara Malaysia (BNM), Securities Commission Malaysia, Royal Malaysia Police, Companies Commission of Malaysia, Attorney-General Chambers, National Coordination Committee to Counter Money Laundering (NCC) and others. Labuan FSA's collaboration with the authorities is targeted mainly for policy coordination with emphasis on maintaining a sound and resilient business and financial system for Labuan and Malaysia. The NCC, in particular, is a cross-regulatory and enforcement body that provides the Authority with updates on measures performed by its members in combating money laundering and terrorist financing.

At the international arena, Labuan FSA continued its commitment as a signatory to the International Organisation of Securities Commissions (IOSCO) Multilateral Memorandum of Understanding (MMoU). The MMoU facilitates consultations and cooperation, in addition to exchange of information for enforcement with members of the IOSCO. Labuan FSA has been accepted as signatory B of the MMoU since 2009.

In 2010, the enhanced provisions in the Labuan Business Activity Tax Act were operationalised to enable the various tax regulators to adopt internationally-agreed standards to ensure a more efficient conduct of the businesses. The enhancements of the Law, which became effective in February 2010, specifically relate to the requirements of the Organisation for Economic Cooperation and Development (OECD) for exchange of information through double taxation agreements (DTAs). The action represents part of the country's efforts to curb tax evasion and illegal activities. Therein, it allows the following:

- provides power to the Director-General of Inland Revenue to call for information from any person as he may require for the purpose of compliance with any DTAs entered into by the government of Malaysia; and
- disclosure of any information on a DTA to any authorised agent of the Government with whom the Government has made such an agreement, and upon a request from a tax authority of any government of any country outside Malaysia.

TRANSPARENCY - continue

Following the enactment, 15 protocols were signed incorporating Article 26 of the OECD Model Tax Convention on Income and on Capital, which creates an obligation for exchange of information between the competent authorities. The insertion of the enhanced protocol in the DTA facilitates more effective administration and enforcement of domestic tax laws of the contracting countries. The list of protocols signed by the government in 2010 are as follows:

No.	Country	No.	Country
1.	Brunei Darussalam	9.	Seychelles
2.	United Kingdom	10.	Kuwait
3.	France	11.	Japan
4.	San Marino	12.	Turkey
5.	Netherlands	13.	Germany
6.	Ireland	14.	Australia
7.	Belgium	15.	Lao
8.	Senegal		

As a regulatory body for the Labuan IBFC, Labuan FSA is determined to maintain its image as a reputable regulator and committed to sound and prudent supervisory practices. Labuan FSA had taken great strides towards enhancing its supervisory capability to further promote financial stability and healthy market practices. This includes continued implementation of its robust supervisory and regulatory framework, complying with international standards and best practices, and reinforcing cooperation with fellow regulators and standard setting bodies.

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 remain relevant and effective to achieve the mandated objectives.

Business Activities of Labuan IBFC

On a general trend, global economic activity is forecast to expand by 4.8% in 2010 compared to negative 0.6% in 2009[1]. The positive outcome is attributed to the various macro-economic measures taken to stimulate private consumptions and economic activities. However, there were phases of instability in the financial market, and the international financial system is in the process of being further strengthened.

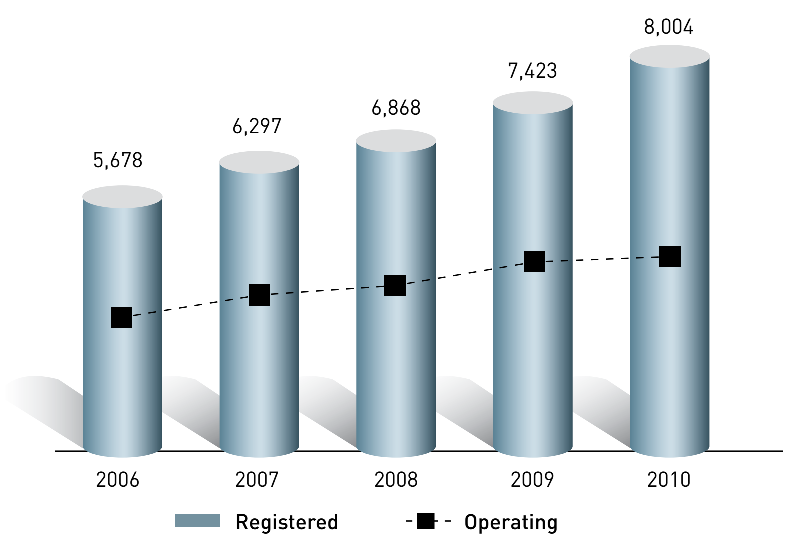
Against this backdrop, in 2010, Labuan IBFC continued to record positive growth of 7.8% in the registration of Labuan companies with strong business performance in other sectors, including banking, leasing and insurance. The positive growth in the number of companies was due to greater awareness of Labuan IBFC among international investors to capitalise on the incentives and flexibilities accorded under the new legislation that came into effect in February 2010. The leasing business continued to significantly outperformed other sectors due to heightened activity in the oil and gas and aviation industries. The year-on-year growth in terms of approved new licenses for the leasing industry was 88.5% in 2010 whilst the insurance industry maintained its strong momentum at 57.1%. For the third consecutive year, the total insurance premium underwritten through Labuan IBFC surpassed the USD1 billion mark. The banking system continued its resilience, as reflected in the significant increase in pre-tax profit of 114.8% compared to year 2009.

With the introduction of Labuan FSA's new legislation, Labuan IBFC has generated interest from investors in setting-up private trust companies, foundations and protected cell companies. Labuan IBFC will continue to be promoted as a business hub renowned for its flexible business environment, fiscal incentives and internationally accepted regulatory framework.

LABUAN COMPANIES

In 2010, 581 new companies were registered representing an increase of 4.7% from 555 new companies in 2009. In terms of cumulative number, Labuan companies grew by 7.8% to 8,004 compared to 7,423 in 2009.

Chart 1: Labuan Companies - Number of Registered and Operating Companies



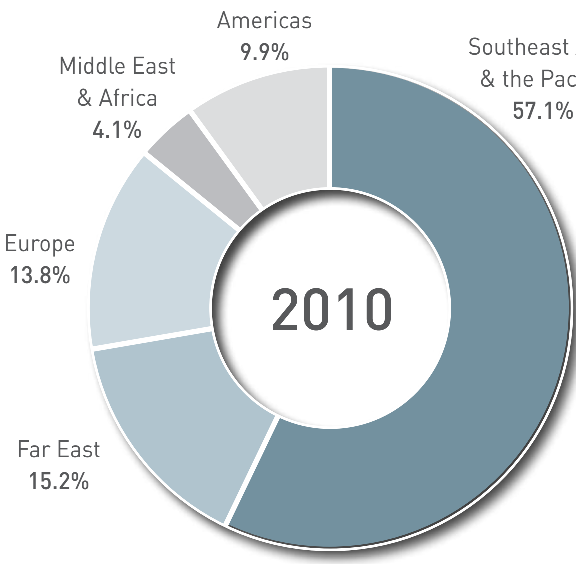
1 Source: International Monetary Fund, World Economic Outlook/ October 2010

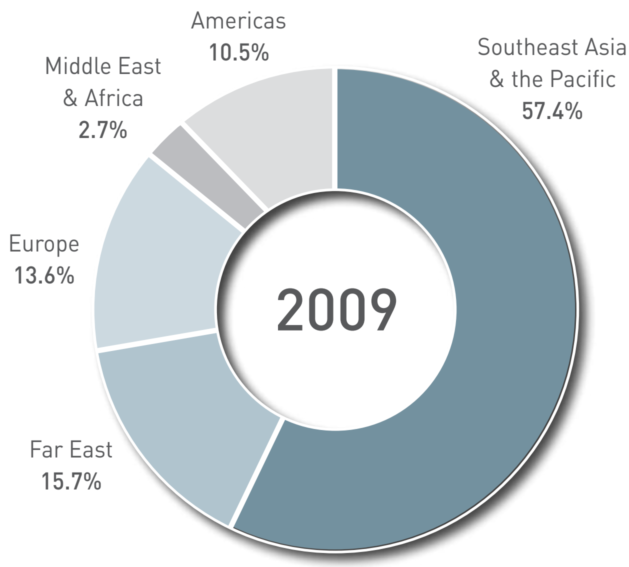
BUSINESS ACTIVITIES OF LABUAN IBFC

The Labuan companies registered in Labuan IBFC originated from about 100 countries. This wide spectrum of countries reflected the continued acceptance and confidence from local and foreign investors towards Labuan as an international business and financial centre. Labuan companies were established mainly to carry on trading and non-trading activities including investment holding and special purpose companies. There was an equal distribution in terms of numbers of trading and non-trading companies.

The breakdown of companies originating according to region showed that the Southeast Asia and Pacific region continued to dominate with 57.1% (2009: 57.4%) mainly from Malaysia, Indonesia, Singapore and Australia. This was followed by the Far East region, namely, Hong Kong, Taiwan, Korea, Japan and The People's Republic of China that made up 15.2% (2009: 15.7%). Representation from Europe stood at 13.8% (2009: 13.6%) with the Americas accounting for 9.9% (2009: 10.5%), while the Middle East and Africa increased to 4.1% (2009: 2.7%).

Chart 2: Operating Labuan Companies - Breakdown of Origin By Region





LABUAN BANKS

The total number of approved banks increased to 61 as at end-2010 (2009: 59). During the year, four new banks were granted approvals comprising two full-fledged and two investment banks. However, Labuan FSA withdrew two investment bank approvals due to non-compliance with the conditional approval.

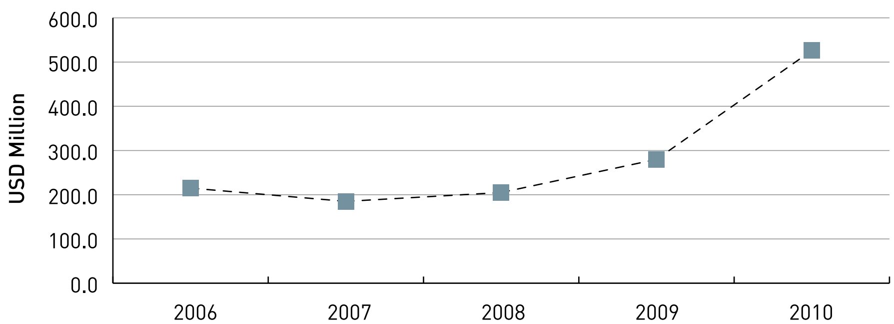
Out of the 61 approved banks, 56 were in operation, comprising 13 subsidiaries and six branches of Malaysian-owned banks and 9 subsidiaries and 28 branches of foreign-owned banks.

Since its inception in 1990, Labuan IBFC has witnessed positive pace of transformation in the banking industry. Labuan banks continued to contribute towards the significant development of the centre via diversification of financial products and services offered by the banks. In 2010, the Labuan banking industry recorded its best ever performance in terms of growth in pre-tax profits. The banking industry achieved a record growth of 114.8% in pre-tax profit to USD536.4 million (2009: USD249.7 million). The significant increase in the pre-tax profits was due to higher fee-based activities, write-backs on provision for impairment of loans and higher net interest income. As a result, the return on assets of the banks also showed an improvement at 1.6% (2009: 0.8%).

Table 1: Labuan Banks - Key Data

	2008	2009	2010
Return on Assets (%)	0.7	0.8	1.6
Pre-tax Profit per Employee (USD'000)	438.7	513.8	997.0
Staff Cost per Employee (USD'000)	33.6	31.1	38.6
Average Assets per Bank (USD Million)	568.6	554.8	605.5
Pre-tax Profit (Loss) (USD Million)	214.1	249.7	536.4
Total Assets (USD Million)	28,997.5	29,960.5	33,909.1
Staff Cost (USD Million)	16.4	15.1	20.8
Number of Employees	488	486	538
Number of Banks in Operation	51	54	56
Number of Banks Approved	59	59	61

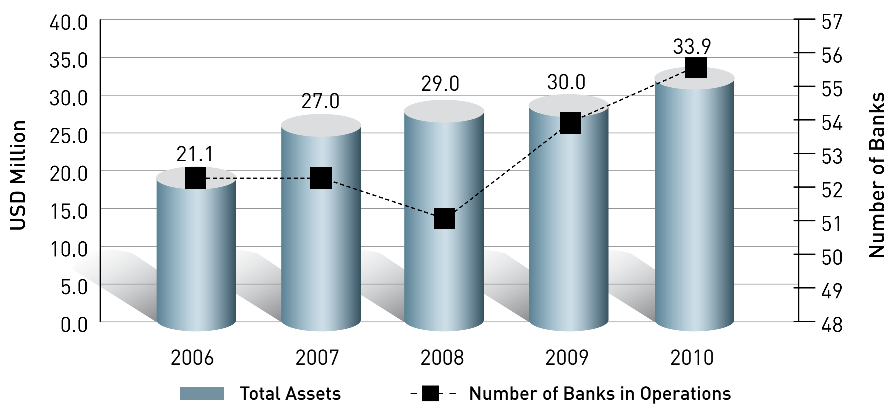
Chart 3: Labuan Banks - Profit Before Tax



As the Labuan banks continued to expand their business activities, the total assets position increased by 13.2% to USD33.9 billion in 2010 (2009: USD30.0 billion), driven by increase in loans and advances amounting to USD19.9 billion as compared to USD18.5 billion last year.

BUSINESS ACTIVITIES OF LABUAN IBFC

Chart 4: Labuan Banks - Total Assets and Number of Banks in Operation



In 2010, the main source of funding for Labuan banking industry continued to be borrowings from head office, comprising 43.4% of total resources. These resources were mainly utilised for loans and advances, accounting for 58.7% or USD19.9 billion (2009: USD18.5 billion) of total funds.

Table 2: Labuan Banks - Sources & Uses of Funds

	2008	2009	2010	2010	
	USD Million			change (%)	share (%)
Sources:					
Deposits	9,406.2	10,235.3	11,240.7	9.8	33.1
Deposits & Placements of Banks & Other Financial Institutions	5,393.4	5,162.0	4,807.3	(6.9)	14.2
Balances due to Head Office & Branches Outside Malaysia	10,279.8	11,855.5	14,714.3	24.1	43.4
Others	3,918.1	2,707.7	3,146.9	16.22	9.3
Total	**28,997.5**	**29,960.5**	**33,909.1**	**13.18**	**100.0**
Uses:					
Cash & Short-term Funds	1,638.1	1,666.3	2,217.4	33.07	6.54
Balances due from Head Office & Branches Outside Malaysia	5,733.9	5,456.2	7,145.2	30.96	21.07
Investments	1,744.1	1,643.1	2,435.2	48.21	7.18
Loans & Advances	17,576.7	18,462.3	19,914.4	7.87	58.73
Fixed Assets	14.6	6.9	7.0	1.45	0.02
Others	2,290.1	2,725.7	2,189.8	-19.66	6.46
Total	**28,997.5**	**29,960.5**	**33,909.1**	**13.18**	**100.0**

Note: Figures may not necessarily add up due to rounding

Compared to the previous year, the banks recorded an increase in total deposits of 9.8% to USD11.2 billion in 2010 (2009: USD10.2 billion). More than half of the deposits were derived from non-residents which increased by 18.5% to USD6.6 billion. The growth is a reflection of greater confidence by the international investors to place their funds in Labuan IBFC.

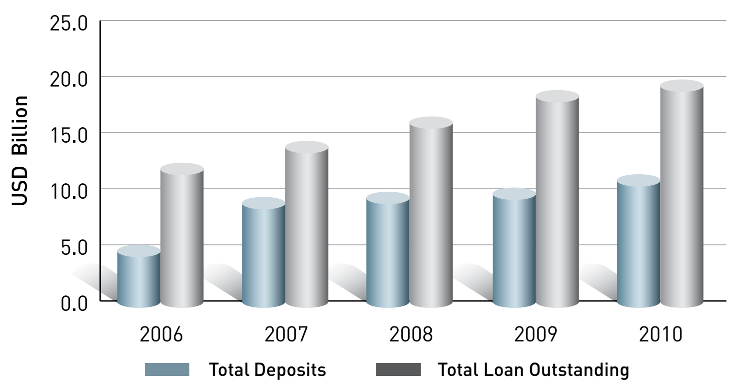
BUSINESS ACTIVITIES OF LABUAN IBFC

Table 3: Labuan Banks - Deposits & Loans Outstanding of Non-Bank Customers

	2008	2009	2010	% change (2010)
	USD Million			
Total Deposits	**9,406.2**	**10,235.3**	**11,240.7**	**9.8**
Residents	3,796.2	4,644.5	4,614.4	(0.6)
% share	40.4	45.4	41.1	(9.5)
Non-Residents	5,610.0	5,590.9	6,626.3	18.5
% share	59.6	54.6	58.9	7.9
Total Loans Outstanding	**17,576.7**	**18,462.3**	**19,914.4**	**7.9**
Residents	7,519.9	6,806.4	5,883.3	(13.6)
% share	42.8	36.9	29.5	(19.9)
Non-Residents	10,056.8	11,655.9	14,031.1	20.4
% share	57.2	63.1	70.5	11.6

Note: Figures may not necessarily add up due to rounding

Chart 5: Labuan Banks - Total Deposits & Loans Outstanding



Apart from the increase in loans and deposits, off-balance-sheet transactions such as commitments, guarantees and derivatives also grew by 14.0% to USD15.5 billion (2009: USD13.6 billion).

The financing, insurance and business services sectors received the most funding support from the Labuan banking industry accounting for 28.5% or USD5.7 billion (2009: 30.8% or USD5.7 billion) of total loans outstanding. This was followed closely by the transport, storage and communication sector at USD3.9 billion or 19.8% (2009: USD3.8 billion or 20.3%). While USD2.7 billion or 13.6% (2009: USD1.4 billion or 7.6%) went to the electricity, gas and water sector.

Table 4: Labuan Banks - Direction of Lending by Sectors

Loans by Sectors	2008	2009	2010	2010	
	USD Million			change (%)	share (%)
Agriculture, Hunting, Forestry & Fishing	443.1	689.6	951.0	37.9	4.8
Mining & Quarrying	496.6	425.6	458.4	7.7	2.3
Manufacturing	2,200.5	2,095.6	1,971.1	(5.9)	9.9
Electricity, Gas & Water	1,381.0	1,397.4	2,711.5	94.0	13.6
Property of which:					
Real Estate	217.8	291.4	321.3	10.3	1.6
Construction	598.7	542.6	476.3	(12.2)	2.4
Housing	160.0	183.6	178.5	(2.8)	0.9
Wholesale & Retail Trade & Restaurants & Hotels	195.4	148.6	205.0	38.0	1.0
Transport, Storage & Communications	3,934.4	3,752.3	3,946.9	5.2	19.8
Financing, Insurance & Business Services	3,837.9	5,690.1	5,681.1	(0.2)	28.5
Other Services	13.7	22.5	85.9	281.8	0.4
Miscellaneous	4,097.6	3,223.0	2,927.4	(9.2)	14.7
Total	**17,576.7**	**18,462.3**	**19,914.4**	**7.9**	**100.0**

Note: Figures may not necessarily add up due to rounding

The ratio of gross non-performing loans of Labuan banks was low at 2.2% in 2010 (2009: 1.9%). Labuan FSA would continue to monitor the loan portfolio of the banks to ensure the overall stability and soundness of the banking system.

As at end-2010, the number of staff in the Labuan banking industry increased by 10.7% to 538 (2009: 486). The increase was in tandem with the rising banking activities where expertise was needed to offer value-added end-to-end financial solutions for their wholesale banking customers. Malaysians accounted for 87.9% of the total number of employees and the number of Malaysians at senior management and middle management levels were 52 and 98, respectively. Non-Malaysians holding senior and middle management positions rose to 51 (2009: 49).

Table 5: Labuan Banks - Employment

	Staff Position	Malaysian	Others	Total
2008	Senior Management	44	25	69
	Middle Management	84	19	103
	Supervisory Staff	122	7	129
	Others	175	12	187
	Total Staff	**425**	**63**	**488**
2009	Senior Management	44	28	72
	Middle Management	79	21	100
	Supervisory Staff	129	4	133
	Others	173	8	181
	Total Staff	**425**	**61**	**486**
2010	Senior Management	52	26	78
	Middle Management	98	25	123
	Supervisory Staff	137	2	139
	Others	186	12	198
	Total Staff	**473**	**65**	**538**

LABUAN INVESTMENT BANKS

The 14 (2009: 13) investment banks that are operating in Labuan IBFC originated from Malaysia (7), Indonesia (1), Hong Kong (1), United Arab Emirates (1), Saudi Arabia (1), Switzerland (1) and the United States of America (2). The activities of the Labuan investment banks include providing consultancy and advisory services relating to corporate and investment matters or making and managing investments on behalf of their corporate or individual clients. In year 2010, the financial performance of the investment banking industry improved tremendously as shown by the high growth in total assets and gross income level. Total assets grew by 18.6% to USD534.0 million (2009: USD434.7 million) due to an increase in interbank-balances, balances in bank accounts and deposits. The industry also achieved a hefty pre-tax profit growth of 464.0% to USD28.2 million (2009: USD5.0 million), attributable to higher income generated from fee-based activities comprising of proceeds from foreign exchange transactions and corporate finance advisory services. As a result, return on assets increased to 5.3% in 2010 from 1.2% in 2009.

LABUAN INSURANCE

In 2010, the insurance industry in Labuan continued to dominate the business activities of Labuan IBFC. This was reflected by the high growth in premiums and entrance of international reinsurers and underwriting managers including Lloyd's syndicates and a state-owned reinsurer from India. In addition, a Tunisia-based international reinsurer conducting retakaful business redomiciled its entire head office operations to Labuan. The profile of Labuan insurance industry was also enhanced with the assignment of "A (Excellent)" rating to a home-grown captive insurer by an international credit rating agency.

The continued interest from international institutions to establish insurance and insurance-related companies in Labuan has led to the rise in the number of approved entities to a total of 169 (2009: 149) as at end-2010. During the year under review, 22 new licences were approved, comprising nine insurance brokers, seven underwriting managers, three reinsurers, two captive insurers and one general insurer. However, two captive insurers surrendered their licences.

In terms of country of origin, 74 insurance and insurance-related licensees originated from the Asia Pacific region, comprising Malaysia (40), Japan (9), Singapore (8), Indonesia (5), Hong Kong (4), Australia (4), India (2), Korea (1) and Taiwan (1). The remaining licensees were from Europe (56), the Americas and Carribean (28) and the Middle East and Africa (11).

Table 6: Labuan Insurance - Number and Type of Insurance and Insurance-Related Licences

Type of Licence	2008	2009	2010
Life	2	2	2
General	6	6	7
Composite	2	2	2
Reinsurance	30	31	34
Captive	32	34	34
Insurance Manager	6	6	6
Underwriting Manager	11	10	17
Broker	51	58	67
Total	**140**	**149**	**169**

The industry's total capitalisation was USD611.9 million in 2010 (2009: USD663.8 million), with total foreign shareholdings at 45.2% (2009: 71.0%).

Table 7: Labuan Insurance - Total Capitalisation

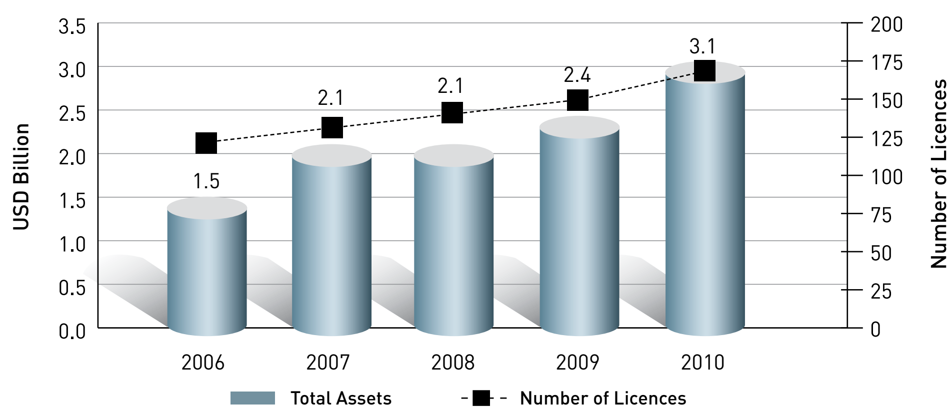
Held By	2008		2009		2010	
	USD'000	share (%)	USD'000	share (%)	USD'000	share (%)
Malaysian	193,150	30.5	192,210	29.0	335,290	54.8
Others	440,539	69.5	471,604	71.0	276,577	45.2
Total	**633,689**	**100.0**	**663,814**	**100.0**	**611,867**	**100.0**

As at end-2010, the total assets of the insurance industry increased by 26.1% to USD3.1 billion (2009: USD2.4 billion). Fixed deposits and money market instruments remained the highest asset type of the industry, amounting to USD1.2 billion (37.5% of the total assets). Other assets were amounts due from ceding/related companies (19.4%), cash and bank balances (10.3%), investments (7.7%), fixed assets (0.6%) and others (24.5%).

Table 8: Labuan Insurance - Total Assets

Assets	2008		2009		2010	
	USD'000	share (%)	USD'000	share (%)	USD'000	share (%)
Fixed Assets	10,538	0.5	13,841	0.6	18,062	0.6
Due from Ceding/ Related Companies	264,641	12.6	360,577	14.8	596,502	19.4
Fixed Deposits/ Money Market	1,081,670	51.6	1,157,900	47.5	1,152,947	37.5
Cash & Bank Balances	159,195	7.6	240,919	9.9	315,115	10.3
Investments	192,926	9.2	217,042	8.9	236,430	7.7
Others	387,069	18.5	446,201	18.3	752,921	24.5
Total	**2,096,039**	**100.0**	**2,436,480**	**100.0**	**3,071,977**	**100.0**

Chart 6: Labuan Insurance - Total Assets and Number of Insurance and Insurance-Related Licences



Despite the prolonged soft market and global economic uncertainty, total gross premiums transacted through Labuan IBFC remained strong at USD1.2 billion, compared to USD1.1 billion recorded in previous year. Non-resident business accounted for 52.9% (2009: 61.1%) of the business. During the year, the motor sector recorded a significant growth of 162.2% (2009: -48.3%). In terms of market share, the fire sector remained the largest contributor with 42.6% (2009: 50.2%), followed by the engineering sector with 19.6% (2009: 16.2%) and the other classes, covering liability, professional indemnity, energy and extended warranty with 17.8% (2009: 17.1%).

Table 9: Labuan Insurance - Distribution of Gross Premiums

Year	Total		Fire	Marine	Engineering	Motor	Other Classes	Total
	Malaysian	Others	USD'000					
2008	442,201	585,116	440,058	140,699	171,661	70,790	204,110	1,027,318
2009	434,686	683,142	560,793	147,645	181,116	36,587	191,686	1,117,827
2010	567,332	637,418	513,190	145,773	235,628	95,916	214,243	1,204,750
	change (%)							
2008	25.1	3.4	9.3	29.7	32.7	(45.3)	36.8	11.8
2009	(1.7)	16.8	27.4	4.9	5.5	(48.3)	(6.1)	8.8
2010	30.5	(6.7)	(8.5)	(1.3)	30.1	162.2	11.8	7.8
	share (%)							
2008	43.0	57.0	42.8	13.7	16.7	6.9	19.9	100.0
2009	38.9	61.1	50.2	13.2	16.2	3.3	17.1	100.0
2010	47.1	52.9	42.6	12.1	19.6	8.0	17.8	100.0

Chart 7: Labuan Insurance - Distribution of Gross Premiums

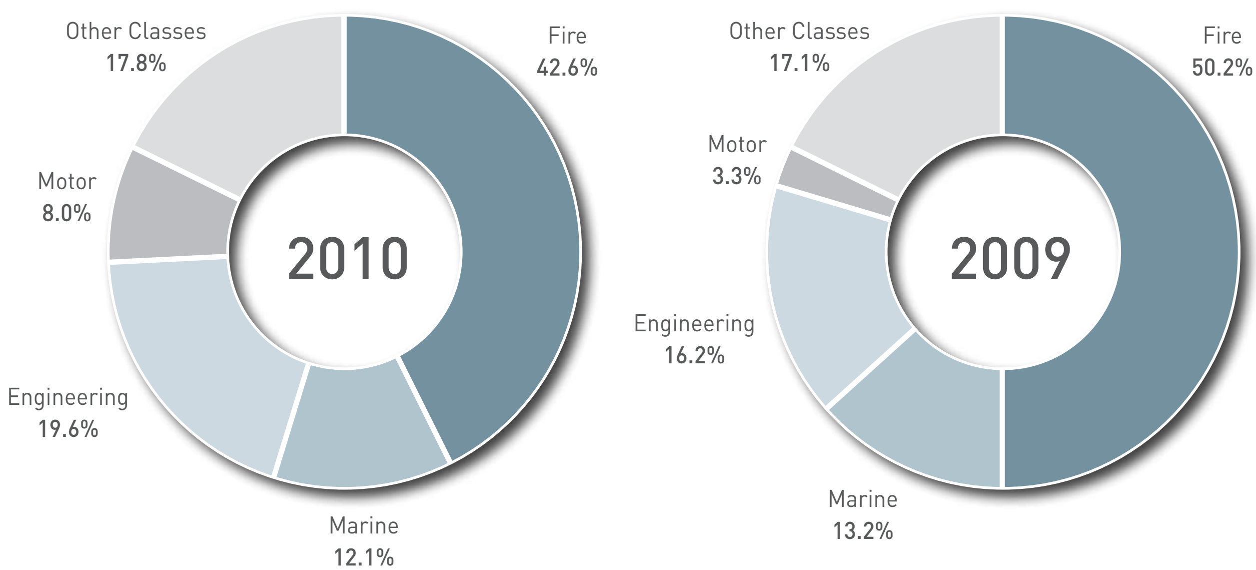


Table 10 : Labuan Insurance - Distribution of Net Premiums

Year	Total		Fire	Marine	Engineering	Motor	Other Classes	Total
	Malaysian	Others	USD'000					
2008	294,672	464,264	338,944	107,049	89,572	64,972	158,399	758,936
2009	289,714	502,384	398,182	109,573	83,389	47,829	153,124	792,098
2010	386,297	496,851	409,675	101,685	118,410	93,514	159,865	883,148
change (%)								
2008	23.7	5.8	16.4	30.1	32.9	(41.3)	26.2	12.1
2009	(1.7)	8.2	17.5	2.4	(6.9)	(26.4)	(3.3)	4.4
2010	33.3	(1.1)	2.9	(7.2)	42.0	95.5	4.4	11.5
share (%)								
2008	38.8	61.2	44.7	14.1	11.8	8.6	20.9	100.0
2009	36.6	63.4	50.3	13.8	10.5	6.0	19.3	100.0
2010	43.7	56.3	46.4	11.5	13.4	10.6	18.1	100.0

Note: Figures may not necessarily add up due to rounding

The overall net retention (net premium over gross premium) for the industry in 2010 was higher at 73.3% (2009: 70.9%). The highest retention was in the motor sector at 97.5% (2009: 130.7%), followed by fire at 79.8 % (2009: 71.0%) and other classes at 74.6% (2009: 79.9%).

Table 11 : Labuan Insurance - Net Retention Ratio (%)

Year	Malaysian	Others	Fire	Marine	Engineering	Motor	Other Classes	Total
2008	66.6	79.3	77.0	76.1	52.2	91.8	77.6	73.9
2009	66.6	73.5	71.0	74.2	46.0	130.7	79.9	70.9
2010	68.1	77.9	79.8	69.8	50.3	97.5	74.6	73.3

Note: Figures may not necessarily add up due to rounding

In terms of total earned premium income, there was a slight growth of 3.3% amounting to USD767.3 million (2009: USD742.9 million). During the year under review, there was improvement in net claims incurred ratio to 51.1% (2009: 55.1%), commission ratio to 24.0% (2009: 26.4%). These resulted in significant increase in underwriting margin of 52.0% to USD153.4 million (2009: USD100.9 million).

Table 12 : Labuan Insurance - 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 (%)
2008	757,318	427,894	56.5	165,537	21.9	35,053	4.6	128,834	17.0
2009	742,921	409,086	55.1	196,126	26.4	36,785	5.0	100,924	13.6
2010	767,307	392,332	51.1	183,939	24.0	37,587	4.9	153,449	20.0

Due to a steady demand for investment-linked insurance products, the number of investment-linked policies in force issued out of Labuan increased to 928 (2009: 785). In terms of value, USD17.8 million worth of premiums were written compared to USD17.2 million in 2009.

Table 13 : Labuan Insurance - Statistics on Investment-Linked Policies

Year		New Policies		Policies in Force	
		Malaysian	Other	Malaysian	Other
2008	No. of Policies	196	2	630	52
	USD'000				
	Sum Insured	3,667	117	13,200	314
	Single Premiums	3,826	144	14,588	351
2009	No. of Policies	160	6	733	52
	USD'000				
	Sum Insured	4,285	578	17,140	864
	Single Premiums	2,409	561	16,285	879
2010	No. of Policies	174	12	870	58
	USD'000				
	Sum Insured	3,371	654	18,385	1,107
	Single Premiums	1,730	450	16,848	991

Total gross premiums in captive insurance rose by 31.9% to USD231.8 million in 2010 (2009: USD175.8 million). The increase was primarily attributed by the risks underwritten in the oil and gas, and aviation sector. As at end of the year, two new captives were approved while two captives surrendered their licences, thus maintaining the total number of captives at 34 (2009: 34).

Table 14 : Labuan Insurance - Distribution of Gross Premiums for Captive Business

Year	Malaysian	Others	Fire	Marine	Engineering	Other Classes	Total
	USD'000						
2008	125,517	61,389	31,019	21,704	101,063	33,120	186,906
2009	125,165	50,627	18,565	15,016	107,620	34,590	175,791
2010	177,403	54,437	15,112	21,198	152,112	43,418	231,840
change (%)							
2008	29.5	103.5	159.9	50.1	44.5	7.6	47.0
2009	(0.3)	(17.5)	(40.1)	(30.8)	6.5	4.4	(5.9)
2010	41.7	7.5	(18.6)	41.2	41.3	25.5	31.9
share (%)							
2008	67.2	32.8	16.6	11.6	54.1	17.7	100.0
2009	71.2	28.8	10.6	8.5	61.2	19.7	100.0
2010	76.5	23.5	6.5	9.1	65.6	18.7	100.0

Note: Figures may not necessarily add up due to rounding

The total premiums processed by the insurance broking companies increased remarkably by 43.2% to USD635.2 million in 2010 (2009: USD443.6 million), out of which 82.3% (2009: 85.2%) were in respect of general insurance business. The general insurance premiums transacted by Labuan insurance brokers were for reinsurance cessions placed with Malaysian insurers (42.3%), overseas insurers (41.7%) and Labuan insurers (16.0%). For life insurance business, these were mainly direct business placed with overseas insurers (99.3%) amounting to USD112.3 million (2009: USD65.6 million), of the life premium processed. The 71.2% increase in life insurance premium as compared to last year was due to the expansion of life insurance broking business activities in Labuan IBFC.

Table 15 : Labuan Insurance - Premiums Placement by Insurance Brokers

	2008	2009	2010
General Business	USD'000		
Labuan	69,280	77,194	83,436
Malaysia	115,718	144,721	221,306
Others	107,699	156,059	218,168
Sub Total	**292,697**	**377,974**	**522,909**
Life Business	USD'000		
Labuan	-	-	795
Malaysia	-	-	-
Others	90,329	65,625	111,533
Sub Total	**90,329**	**65,625**	**112,328**
Grand Total	**383,026**	**443,599**	**635,237**

The insurance broking sector earned total brokerage fees amounting to USD43.9 million (2009: USD28.8 million), a growth of 52.4%, due to the higher amount of premiums processed. General insurance business comprised 76.5% of the total brokerage income, consistent with the higher proportion of general insurance premiums processed during the year.

Table 16 : Labuan Insurance - Brokerage Fee Earned by Insurance Brokers

	2008	2009	2010
General Business	USD'000		
Labuan	3,389	4,050	3,885
Malaysia	5,698	7,702	8,279
Others	8,599	10,788	21,474
Sub Total	**17,686**	**22,540**	**33,639**
Life Business	USD'000		
Labuan	-	-	22
Malaysia	-	-	0
Others	6,363	6,285	10,284
Sub Total	**6,363**	**6,285**	**10,306**
Grand Total	**24,049**	**28,825**	**43,944**

Labuan insurance and insurance-related companies have a ready pool of experts comprising, among others, underwriters, actuaries, professional financial advisors and risk solution specialists to cater for the international insurance market. The total number of employees in the insurance industry increased to 673 (2009: 626), comprising 524 Malaysians and 149 non-Malaysians.

Table 17 : Labuan Insurance - Employment

	Staff Position	Malaysian	Others	Total
2008	Senior Management	82	78	160
	Middle Management	77	36	113
	Supervisory Staff	108	10	118
	Others	164	12	176
	Total Staff	**431**	**136**	**567**
2009	Senior Management	79	74	153
	Middle Management	92	41	133
	Supervisory Staff	123	11	134
	Others	202	4	206
	Total Staff	**496**	**130**	**626**
2010	Senior Management	85	78	163
	Middle Management	96	42	138
	Supervisory Staff	125	14	139
	Others	218	15	233
	Total Staff	**524**	**149**	**673**

BUSINESS ACTIVITIES OF LABUAN IBFC

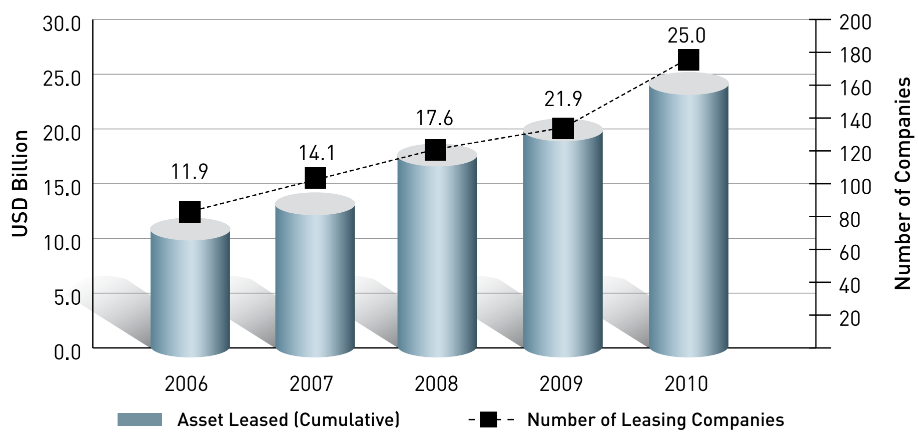
LABUAN LEASING

Labuan leasing continued to be the highest growth sector in Labuan IBFC in terms of new approvals granted in 2010, with the number of leasing companies rising by 29.4% to 176 companies (2009: 136). There were 49 new companies established during the year. Six ceased operations due to completion of their lease agreements, while three approvals were withdrawn.

Table 18 : Labuan Leasing - Growth

	2006	2007	2008	2009	2010
Number of Leasing Companies In Operation	83	104	120	136	176
	change (%)				
	20.3	25.3	15.4	13.3	29.4
Asset Leased (Cumulative)	USD Million				
	11,908	14,130	17,643	21,866	25,031
	change (%)				
	9.1	18.7	24.9	23.9	14.5

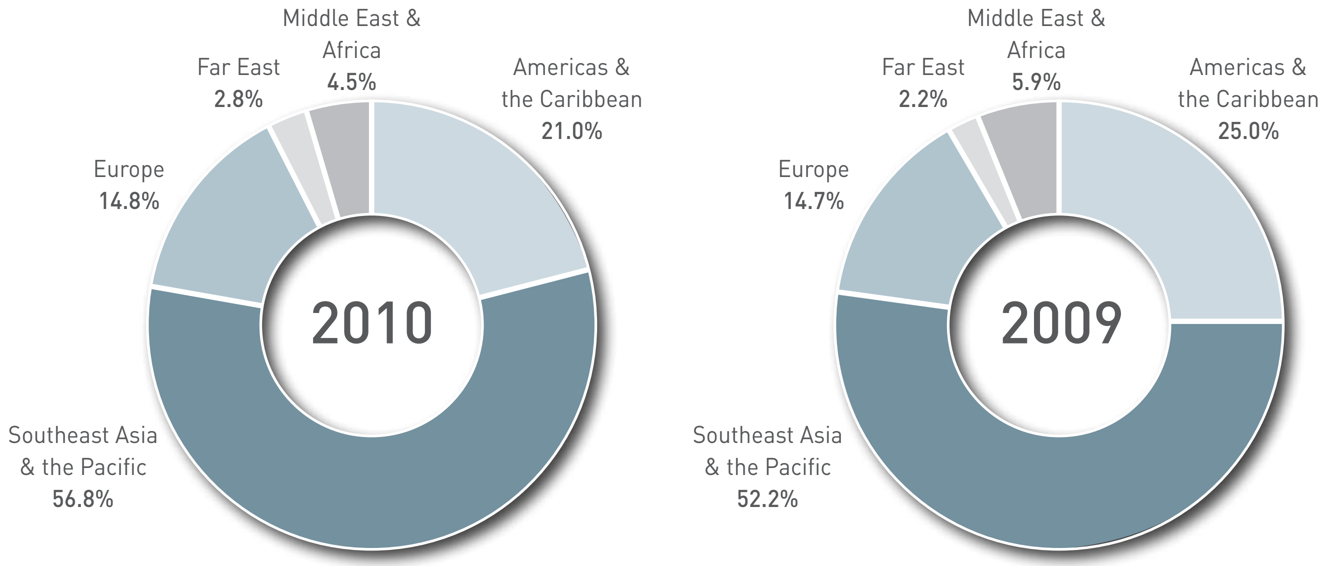
Chart 8: Labuan Leasing - Asset Leased and Number of Leasing Companies in Operation



Leasing companies from the Southeast Asia and Pacific region comprised 56.8% of the total number of leasing companies, followed by 21.0% from the Americas and Caribbean. The majority of the foreign-owned leasing companies were established as special purpose vehicles to facilitate their leasing transactions.

The rapid development in the oil and gas sector as well as the aviation sector has led to an increase of leasing activities predominantly for financial transactions in the offshore support services and purchase of aircrafts. This has resulted in an increase of 14.5% in the cumulative amount of assets leased to USD25 billion (2009: USD21.9 billion). Apart from the two main sectors, the telecommunication industry is anticipated to increase its use of Labuan for leasing transactions.

Chart 9: Labuan Leasing - Breakdown of Origin by Region



LABUAN TRUST COMPANIES

In 2010, the total number of trust companies increased to 23 (2009: 22) with one new trust company approved to operate in Labuan. The trust companies mainly render corporate secretarial services and administrative work for Labuan companies, trusteeship for bond issuances, funds and trust products, administration services for mutual funds and business process outsourcing services to their global operations. The trust companies reported an improved aggregate operating income of USD15.4 million, an increase by 18.0% from USD13.0 million achieved in the previous year. With improvement and expansion in business performance of trust companies, the number of Malaysian employees in the trust companies increased by 3.6% to 317 (2009: 306) while the number of non-Malaysian employed remained at 11 (2009: 11).

Table 19 : Trust Companies - Key Data

	2006	2007	2008	2009	2010	Annual change
Number of Trust Companies	21	21	23	22	23	
	USD Million					(%)
Operating Income	10,333	15,240	14,670	13,021	15,367	18.0
Profit Before Tax	4,565	6,560	6,770	5,236	3,966	24.3

OTHER LABUAN FINANCIAL BUSINESS ACTIVITIES

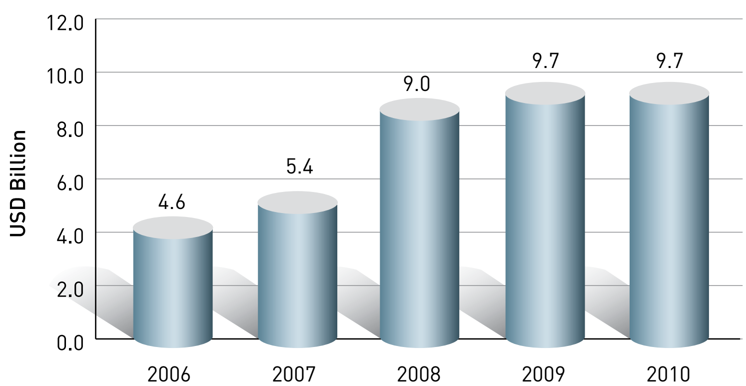
Labuan Mutual Funds

In 2010, five notifications were submitted to Labuan FSA for the establishment of private funds (2009: 1). One private fund ceased its operation during the year under review bringing the total number of registered funds to 42 (2009: 38). However, the number of public funds remained at two. Under the new legal framework effective from February 2010, further flexibility was accorded to the Labuan mutual fund industry. Private funds were only required to notify Labuan FSA on their establishment. This is to enhance the ease of doing business in Labuan IBFC and is expected to further boost the mutual fund industry.

Table 20 : Mutual Funds - Approved Fund Size (Cumulative)

	2006	2007	2008	2009	2010	change
	USD Million					
Private Fund	4,484	5,250	8,884	9,590	9,553	-37
Public Fund	130	130	130	130	130	0
Total	**4,614**	**5,380**	**9,014**	**9,720**	**9,683**	**(37)**

Chart 10: Mutual Funds - Approved Fund Size in USD Billion (Cumulative)



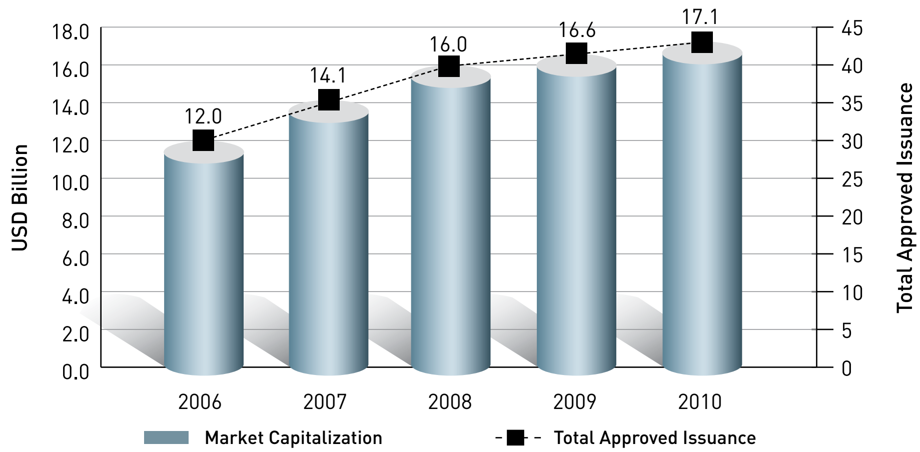
Labuan Debt Issuances

Two new issuances in 2010 (2009: 2) brought the total number of debt issuances to 42 (2009: 40), with total market capitalisation of USD17.1 billion (2009: USD16.6 billion).

Table 21 : Debt Instruments - Market Capitalisation & Total Approved Issuance (Cumulative)

	2006	2007	2008	2009	2010
Total approved issuance	30.0	35.0	39.0	40.0	42.0
Market Capitalisation (USD Million)	**11,974.0**	**14,074.0**	**16,034.0**	**16,634.0**	**17,082.0**

Chart 11: Debt Instruments - Market Capitalisation and Total Approved Issuance (Cumulative)



LABUAN NEW FINANCIAL PRODUCTS

The enactment of the Labuan legislation in 2010 introduced several new products, among others, private trust companies, foundations and protected cell companies. The new products and services will place Labuan at par with other jurisdictions while providing investors with greater alternatives to structure their businesses and wealth management.

Labuan Private Trust Companies

Private trust company is a trust in which each beneficiary of the trust is connected person in relation to the settlor of the trust Private trust company can act as trustee for a group of connected person for the purpose of managing the wealth of a family. In year 2010, Labuan FSA has granted two approvals for the registration of private trust companies originating from Hong Kong It is expected that more private trust companies would be set up to cater towards the needs to self-manage family wealth.

Labuan Foundations

A foundation is an entity established for the purpose of holding of assets with the objective of managing the assets for a benefit of a class of person on contractual basis. It is typically used for private wealth management and charitable purposes. Since its introduction in 2010, Labuan FSA had granted four approvals for the establishment of foundations for charitable purposes and one for wealth management.

LABUAN INTERNATIONAL FINANCIAL EXCHANGE

In 2010, the new instruments listed on the Labuan International Financial Exchange (LFX) included the following:

- Guaranteed Exchangeable Bonds – Due 2015, USD0.4 billion by YTL Corp Finance (L) Limited
- Guaranteed Notes – Due 2020, USD0.3 billion by Axiata SPV1 (L) Limited
- Trust Certificates – Due 2015, USD1.25 billion by 1Malaysia Sukuk Global Berhad
- Medium Term Notes – Due 2012, USD0.056 billion by Mulpha SPV Limited
- Trust Certificates – Due 2015 and 2020, USD1.1 billion by Danga Capital Berhad (Khazanah)

A total of USD3.12 billion was raised on the LFX during the year. The market capitalisation of LFX as at end-2010 was USD19.2 billion (2009: USD18.1 billion), with the total number of listed instruments maintained at 28 (2009: 28).

BUSINESS ACTIVITIES OF LABUAN IBFC

Chart 12: LFX - Listed Instruments

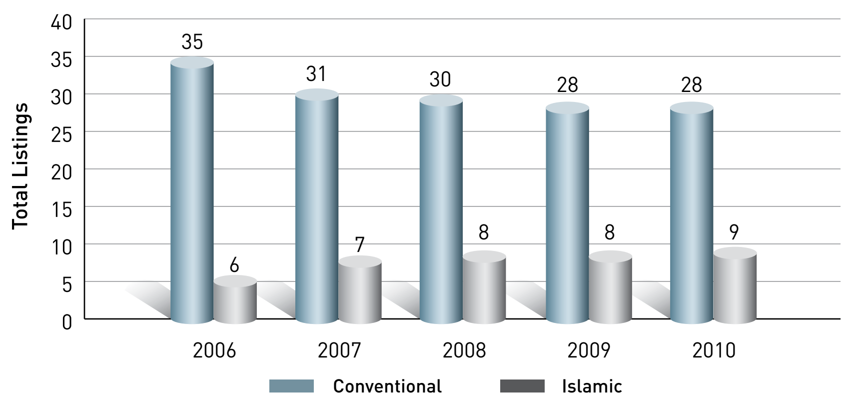
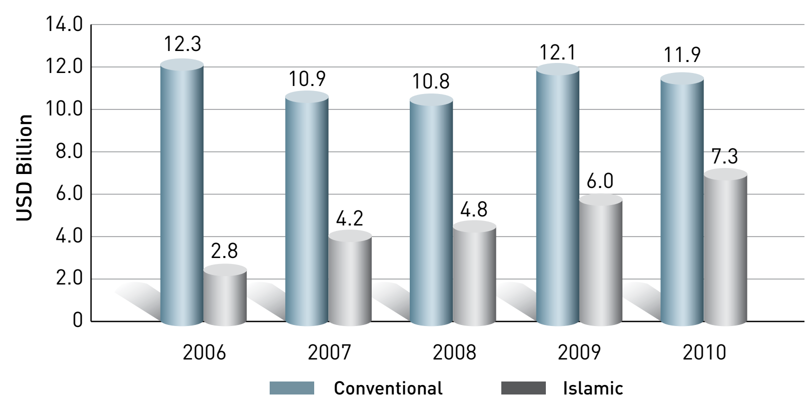


Chart 13: LFX - Market Capitalisation (Conventional & Islamic)

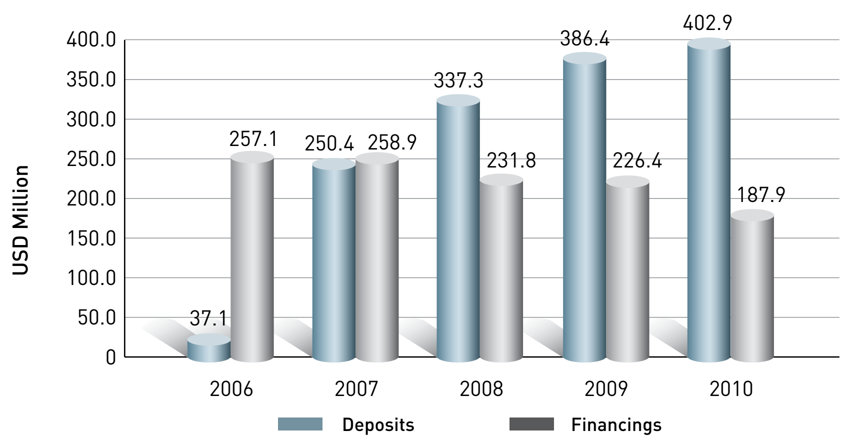


LABUAN ISLAMIC FINANCIAL SERVICES

Labuan Islamic Banking

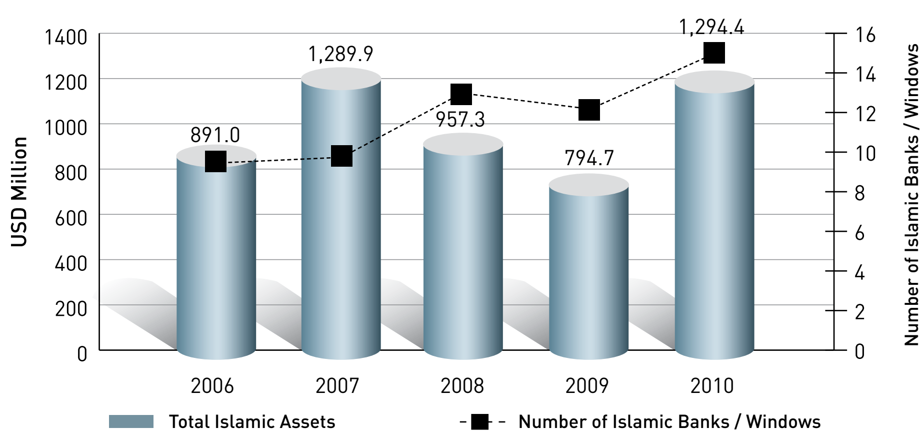
Islamic banking in Labuan IBFC in 2010 was represented by six full-fledged Islamic banks and nine Islamic windows of conventional banks, of which three were established during the year under review. They generated total deposits of USD402.9 million as at 31 December 2010, up 4.3% from last year's total of USD386.4 million. Placements by non-residents increased from 35.0% in 2009 to 53.8% in 2010. Total financing as at 31 December 2010 decreased to USD187.9 million (2009: USD226.4 million), with non-residents being the major borrowers accounting for most of the total Islamic financing at USD183.6 million.

Chart 14: Labuan Islamic Banks - Deposits and Financing



As at 31 December 2010, total Islamic assets in the banking industry grew by 62.9% to reach USD1.3 billion (2009: USD794.7 million), resulting in a larger market share of 3.8% against the total banking industry (2009: 2.7%).

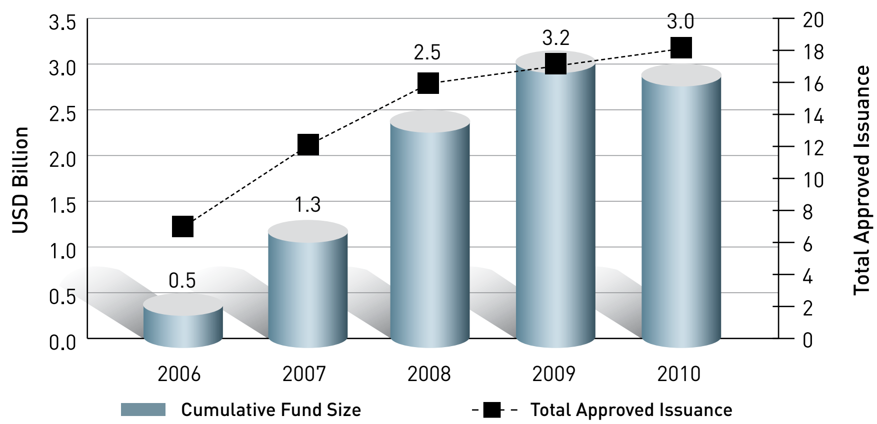
Chart 15: Labuan Islamic Banks - Total Islamic Assets and Number of Islamic Banks in Operation



Labuan Islamic Private Funds

Two new Islamic private funds, with a combined fund size of USD103.0 million, were established during the year under review, bringing the total number to 19. However, one Islamic private fund ceased, reducing the total fund size by 5.8% to USD3.03 billion as at 31 December 2010 (2009: USD3.22 billion). This led to a corresponding decrease in the market share of Islamic private funds against total private funds in Labuan to 32.1% (2009: 33.6%). Generally, the Islamic private funds in Labuan are invested in Shariah-compliant real estate and properties in the region as well as in the Middle East.

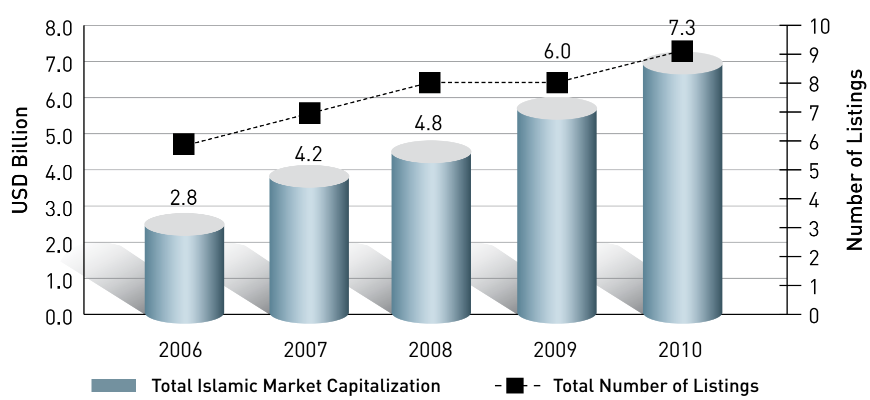
Chart 16: Labuan Islamic Private Funds - Cumulative Fund Size and Total Approved Issuance



Labuan Islamic Capital Markets

The Islamic capital market in Labuan IBFC continued to attract interest from international issuers. In 2010, a Japanese multinational corporation issued its debut sukuk out of Labuan. The USD100 million corporate sukuk was also the first issuance of Islamic notes under the new enacted Labuan Islamic Financial Services and Securities Act 2010 (LIFSSA). This exercise brought the number of Islamic capital market instruments listed on the Labuan International Financial Exchange (LFX) to a total of nine as at 31 December 2010 (2009: 8). The market capitalisation of Islamic instruments at USD7.3 billion made up 38.0% of the total capital market capitalisation on LFX, i.e. more than one-third of market share. In the previous year, the Islamic portion was USD6.0 billion with a market share of 33.2%.

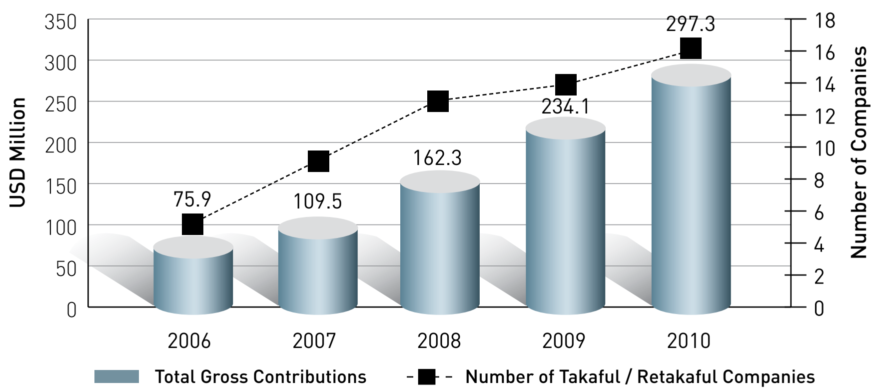
Chart 17: Labuan Islamic Capital Market - Total Islamic Market Capitalisation and Total Number of Listings



Labuan Takaful and Retakaful

As at 31 December 2010, there were seven full-fledged retakaful companies and nine retakaful windows conducting business in Labuan IBFC, comprising operators from the Asia Pacific, Middle East and Europe. Growth continued to be positive, as reflected in the increase of 27% in gross contributions amounting to USD297.3 million as at 31 December 2010 (2009: USD234.1 million). The gross contributions were mainly from non-resident business, a testament to the global reach of operators in Labuan IBFC and their capacity to compete for international business.

Chart 18: Labuan Takaful/Retakaful - Total Gross Contributions and Number of Takaful/Retakaful Companies



Labuan Islamic Foundations

Labuan FSA is on an ongoing mission to attract global investors to Labuan IBFC by diversifying the structures offered in the IBFC. The enactment of the Labuan Foundations Act 2010 (LFA) was a significant effort in this direction. The LFA enables investors from civil law countries to enjoy the benefits offered in Labuan IBFC by using foundations as the viable alternative to trusts. Following the Act coming into force, one Shariah-compliant foundation was formed in Labuan IBFC in 2010, making it the first Islamic foundation to be formed under new provisions introduced in LIFSSA. The formation of this foundation showed that an Islamic structure, which was also modeled to be in compliance with Shariah principles, could be introduced under the LFA. More Islamic foundations are expected to be established in Labuan IBFC.

Supervision and Regulation of Labuan Financial Institutions

A Sound and Resilient Financial Centre

A SOUND AND RESILIENT FINANCIAL CENTRE

Overview

The supervisory activities in 2010 emphasised on the resilience of financial institutions, strengthening the capabilities and capacities to respond to the emerging risks arising from the global financial crisis. Continuing change in the global financial markets has prompted a review of the current supervisory practices to ensure that they remain effective in dealing with the challenges of the modern financial landscape. This includes ensuring that Labuan financial institutions are adequately managing their risks in line with supervisory expectations and continuously building its internal capacity with regards to the corporate governance practices and effective risk management.

Labuan FSA maintained its risk-based supervisory approach during the year under review, focusing on financial institutions that posed significant risks to the soundness of the Labuan financial system. The risk-based supervisory framework has been continuously refined to suit the environment, based on experience and feedback from users and other stakeholders.

In 2010, Labuan FSA held 78 supervisory engagements (2009: 67 supervisory engagements) with Labuan financial institutions, including banks, insurance and trust companies as well as fund management entities. The level and frequency of supervisory scrutiny depends on the risk assessment conducted on the financial institutions and entities. Those deemed to have a higher degree of risk were closely monitored either through on-site examinations or supervisory meetings to communicate Labuan FSA's concerns with their operations. Labuan FSA also met with the internal auditors of these institutions to gain greater understanding of their activities.

The supervisory activities carried out in 2010 indicated that there were no major inadequacies in the reviewed areas. The corporate governance of the banking and insurance sectors, including board and senior management's oversight functions as well as risk management systems, had improved considerably over the years. However, that of trust companies and the capital market sector needed to be enhanced so as to be in line with best international practices.

Labuan FSA also conducted a number of investigations on Labuan companies arising from public complaints which ranged from providing misleading information, alleged fraud and conducting financial activities without licence. In order to maintain Labuan IBFC as a credible and reputable jurisdiction, strong measures were continuously taken to ensure that all companies and individuals are operating with proper business conduct and within the perimeters of the legal framework. As part of this initiative, the Labuan trust companies, as the company registration agent in Labuan IBFC are expected to intensify their due diligence process and monitor the operations of these companies to ensure only genuine entities and individuals are allowed to establish their presence in the centre.

SUPERVISION AND REGULATION OF LABUAN FINANCIAL INSTITUTIONS

The Banking Sector

The Labuan financial industry comprises banking sector, insurance sector, service provider and capital market sector. The banking sector forms the nucleus of the Labuan financial system, which constitutes more than 90.0% of the financial system's assets in Labuan.

The sector remained sound in 2010, as attested by their high quality assets, strong earnings performance, and adequate level of capital as well as ample liquidity positions. The industry's gross and net non-performing loans ratios remained low at 2.2% and 0.8% respectively. For the financial year ended 31 December 2010, earnings improved by 111.8% to USD536.4 million as a result of lower interest expense, substantial improvement in non-interest income and reduction in impairment provisions. Return on assets improved from 0.8% to 1.6% in tandem with the banks' increased profitability. The capital position of the Labuan banking sector remained strong with risk-weighted capital ratio and core capital ratio at 20.5% and 20.1% respectively.

Labuan FSA has established that the Labuan banks have adequate corporate governance policies and sound risk management in all aspects of their operations. Nevertheless, there are gaps between the Labuan full-fledged banking licensees and investment banks, both in conventional and Islamic, with the full-fledged banking performing better in areas such as financial management, global network accessibility, operational efficiency, capital support and risk management.

Moving forward, efforts would be directed at building investment banking licensees' capacity in order to narrow the gaps on standard and performance between investment banks and full-fledged banks.

The Insurance Sector

The insurance sector in Labuan demonstrated a strong capacity to adjust to the challenging financial market and economic environment. Supervisory surveillance throughout 2010 revealed that most of the Labuan insurance companies operated within good corporate governance standards and had established effective Enterprise Risk Management functions to manage their insurance business and risk profiles. Given the growing position of insurance related companies particularly life insurance brokers in Labuan IBFC, strategic steps will be taken to ensure these companies are providing comprehensive and professional services to the clients as well as supporting the Labuan IBFC's initiative to be a reputable and credible financial centre.

The insurance companies maintained a comfortable solvency position and favourable financial performance as at end-2010. The sector had a strong aggregate solvency surplus of USD774.9 million (on unaudited basis), with a margin of solvency of five times above the minimum regulatory requirement. In addition, the unaudited pre-tax profit of the industry improved to USD188.2 million (2009: USD132.7 million), representing an increase of 41.0%. Labuan FSA anticipates the prospects for further long-term growth of the insurance sector in Labuan would continue to remain positive. In order to face future challenges, the Labuan insurance companies need to continuously review its capabilities and strategies to manage increasing competition from the other international insurers while ensuring their operation is financially resilient to market conditions and competitive pressures.

Service Providers and Capital Market Entities

The service providers (trust companies) and capital market entities (fund managers) in Labuan IBFC are still emergent in their business. Generally, the level of the corporate governance and risk management practices of many trust companies and fund managers in Labuan IBFC still needed further improvement.

Realising the importance roles of trust companies and fund managers in supporting the overall soundness of Labuan's financial system, Labuan FSA had continuously engaged with these institutions on the need to improve its corporate governance and risk management culture that correspond to the nature, scale and complexity of their business and risks profiles. On the regulatory front, Labuan FSA is considering the issuance of guidelines on the standard of corporate governance practices to be adopted by trust companies and fund managers in order to meet with the international standard and best practices. Among others, the guidelines would emphasise on the requirements to have a sound risk management system and also defining the board's roles and responsibilities including the oversight functions played by the board in safeguarding the safety and soundness of their institutions.

Anti-Money Laundering and Counter-Financing of Terrorism

Although the risk of money-laundering and terrorism-financing activities in Labuan IBFC remained low, Labuan FSA continued to exercise vigilance on any evolving threats that could potentially undermine confidence in Labuan IBFC. The new Labuan legislative framework, which came into force on 11 February 2010, has been designed to ensure the integrity of the IBFC in combating money laundering and terrorism financing as set out in the Financial Action Task Force 40 Recommendations and nine Special Recommendations. At the same time, Labuan FSA aims to provide a conducive environment for financial innovation and growth.

Given the transnational nature of money-laundering and terrorism-financing activities, Labuan FSA enhanced its inter-agency co-operation domestically and regionally to support surveillance and enforcement activities. At the national level, Labuan FSA remained committed to inter-agency co-operation through active and meaningful participation in the National Coordination Committee to Counter Money Laundering. Regionally, Labuan FSA participated in the money laundering and terrorism financing typology initiatives conducted by the Asia/Pacific Group on Money Laundering and continued to be engaged with other jurisdictions in exchanging financial intelligence.

The knowledge level of industry players and enforcement agencies is critical in combating money laundering and terrorist financing. Education programmes were therefore organised to enhance the reporting institutions' Anti-Money Laundering and Counter-Financing of Terrorism (AML/CFT) compliance culture and provide updated information on AML/CFT development. These programmes included compliance workshops, conferences and frequent engagements with compliance officers of Labuan financial institutions. In addition, Labuan FSA conducted a programme for domestic law enforcement agencies to enhance their awareness and understanding of the business and activities of Labuan financial institutions.

Moving forward, priorities in 2011 will be emphasised on reviewing and enhancing the existing AML/CFT Guidelines so that they remain effective and relevant in dealing with the related threats. Further, the first and second Schedules of the Anti-Money Laundering and Anti-Terrorism Financing Act 200 (Act 613) will be updated in line with revised provisions under the new legislative framework for Labuan IBFC.

Business and Organisational Developments

Part I - Business Developments

Part II - Organisational Developments

PART I – BUSINESS DEVELOPMENTS

After two decades as an International Business and Financial Centre (IBFC), Labuan has established itself as well regulated jurisdiction and has continued to record significant growth despite the challenging economic conditions and changes in the world financial landscape. The Labuan Financial Services Authority (Labuan FSA), as the regulatory authority for the international business and financial activities in Labuan has adopted a developmental strategies that focus on enhancing key businesses and building a sound and reputable financial centre.

STRATEGIC INITIATIVES

In 2007, Labuan FSA embarked on a repositioning study of Labuan IBFC to identify the appropriate business model and brand for Labuan IBFC. The study recommended 28 measures to improve Labuan IBFC's attractiveness to the global market which included a holistic review of Labuan IBFC's legislative framework for a more facilitative, flexible and frictionless business environment. These recommendations were divided into five clusters namely marketing framework, legal framework, tax framework, information communication technology and organisational change. By 2010, most of the recommendations under the repositioning study of Labuan IBFC have been completed.

New Legal Framework to Create Business

Four new Acts, together with extensive amendments to four existing Acts, have changed the way in which Labuan carries out its financial services business. The new laws, which came into effect on 11 February 2010, have improved Labuan's competitive edge in the international financial markets. With the enactment of the new laws, the name Labuan Offshore Financial Services Authority (LOFSA) has been changed to Labuan Financial Services Authority (Labuan FSA). This was in line with the strategic direction to reposition Labuan as an international business and financial centre. Hence, all reference to the term "offshore" was deleted from Labuan laws and the distinction between Labuan and domestic markets was made through the term "Labuan" with clear provisions on the applicability of relevant law, domestic or otherwise. The new laws allow for the creation of Labuan foundations, limited liability partnerships, protected cell companies, shipping operations, Labuan special trusts and financial planning activities. These complement the existing range of products and services readily available and provide investors with a wider choice of financial products to maximise investment opportunities.

With the introduction of the new legislation, the first shariah compliant foundation was set up in Labuan IBFC in 2010. By the end of December 2010, Labuan FSA had approved five foundations, which were established to cater for different needs and purposes. In addition, Labuan FSA has approved the establishment of private trust companies and is reviewing applications for protective cell companies. It is anticipated that the number of Labuan companies will increase as a result of the introduction of new products and services under the new legislation.

Guidelines and Fee Structures

Labuan FSA issued the Guideline on Fit and Proper Person in February 2010 as a result of the enactment of new legislation of Labuan IBFC. The guideline serves as a framework for assessing a person's capacity as a fit and proper person. It stipulates the requirements of the appointed persons to perform the regulated activities under the relevant legislations effectively, honestly, fairly and to act in the best interest of their clients. The guideline would instill strong corporate governance among the respective financial institutions to deter persons from using Labuan IBFC as a conduit for any illegal or suspicious transactions. The guideline superseded the previous Guideline on Fit and Proper Persons Acting as Directors/Controllers/Principal Officers in Labuan IOFC, which was issued in 2002.

In addition, Labuan FSA issued a new Guideline on Captive Insurance Business in Labuan IBFC in October 2010 to provide more clarity on captive activities. This new guideline took into account the new provisions of the relevant legislation. The guideline provided the definition of captive business, the fee structure as well as the requirements to undertake captive business. This guideline supersedes the issuance of the previous guideline issued in December 2001.

Eligible Labuan banks and Labuan investment banks were accorded the added flexibility to establish their office or offices in other parts of Malaysia other than their offices in Labuan under the co-location guideline issued in 2010. The policy is targeted to attract more international banks to choose Labuan IBFC as a base for their regional operations and leverage on the offerings of first class infrastructures, facilities, human capital and professional services that are available in Malaysia.

Labuan FSA introduced new fee structures with the introduction of new products namely protected cell companies, foundations, private trust companies, securities licensees, limited liability partnerships and Labuan special trusts. Labuan FSA adopted a moderate and competitive pricing level to attract potential investors to establish presence or re-domicile to Labuan IBFC. In addition, Labuan FSA revised its statutory fees to ensure the fees charged are appropriate and relevant to the current international business environment. The new and revised fees are available in the regulations of the respective legislation, and have been gazetted in December 2010.

Simplify and Streamline Business Requirements

In 2010, Labuan FSA further streamlined its business requirements by introducing several changes to enhance service delivery, improve efficiency, quality and responsiveness. For example, the licensing application process and documentation were simplified to provide clarity and relevance of information required. Labuan FSA also introduced online submission for license application to expedite the process and reduce paper usage.

Labuan IBFC placed on OECD white list

On February 2010, OECD had placed Malaysia (Labuan) on the "White List" of OECD after having implemented the internationally agreed standards on effective exchange of information (EOI) for tax purposes. To date, Malaysia has signed 17 Double Tax Agreements (DTA) with countries from various regions, among others Belgium, Brunei, France, Ireland, Japan, Kuwait, Netherlands, San Marino, Senegal, Seychelles, Turkey, United Kingdom, Lao, Zimbabwe, Australia, Bosnia Herzegovina and Indonesia, incorporating the full provisions of Article 26 of the OECD Model Tax Convention on Income and on Capital.

Malaysia has been appointed as a member of the Global Forum on Transparency and Exchange of Information for Tax Purposes as well as is an active member of the Global Forum's Peer Review Group. This is an attestation of Malaysia's resolute commitment in observing international standards on transparency and EOI. Labuan FSA is committed to ensure that the rules and regulations and business practices in Labuan IBFC are in line with these international standards.

Supervisory Co-operation

The Labuan FSA and Financial Services Commission Mauritius (FSC Mauritius) signed a Memorandum of Understanding (MoU) on Co-operation and Mutual Assistance in April 2010. The objective of the MoU is to enhance collaboration and co-operation between the two regulators in the areas of research and development, staff training, enforcement and regulation administered by both Authorities. This co-operation also includes the exchange of information as well as supervisory and investigation assistance as allowed by the regulatory framework of both jurisdictions.

It is part of a series of strategic initiatives of Labuan FSA to strengthen and foster collaborative relationships with other regulatory bodies and relevant agencies. Such initiative is a further sign of Labuan FSA's commitment towards effective international co-operation to enhance Labuan as a strong and sound IBFC.

Marketing

During the year 2010, the jurisdiction's marketing arm, Labuan IBFC Inc. Sdn Bhd. (LIBFC Inc.) stepped up its promotional and marketing initiatives in efforts to further promote the benefits of conducting business out of Labuan IBFC. A key initiative for the year was the opening of LIBFC Inc.'s representative office in Hong Kong in the third quarter of 2010. Asia Pacific continues to be the jurisdiction's largest customer base and the Hong Kong office has already played a key role in reinforcing Labuan IBFC's presence in the North Asian Market.

During the year, LIBFC Inc. participated in 66 bespoke events, joint seminars and road shows, consisting of 41 domestic and 25 international platforms, with a total audience reach of more than 20,000.

In tandem with these events and various targeted business development initiatives, LIBFC Inc.'s in house database has increased to almost 6,000 contacts, representing intermediaries, C-suite professionals and senior corporate professionals. In addition, extensive editorial coverage was received in both local and international publication agencies, focusing on the introduction to Labuan IBFC's legal framework and the corresponding extension of the products and services.

In order to provide a wider range of technical advice to prospective clients and investors, LIBFC Inc. expanded its product specialist team which now provides advice in the areas of Fund Management, Islamic Finance, Tax and Insurance.

Shipping Business Opportunities

The declaration of Labuan as the port of registry for Malaysia International Ship Registry (MISR) is in line with Labuan IBFC's initiatives to expand the scope of businesses as well as to increase the number of companies in Labuan IBFC. The MISR serves as an alternative ship registration system for Malaysia to the traditional shipping registry and aims to create a competitive shipping registry to those in other parts of the world. MISR will further boost the development and promotion of the maritime industry in the country as well as the financial and business activities in Labuan IBFC.

Following this, the Labuan Business Activity Tax Act 1990 was amended to recognise shipping operations as a Labuan business activity provided the operations are carried out in Labuan and outside Malaysia. Hence, income derived from the shipping operations are eligible to be taxed at the preferential tax rates accorded to other Labuan businesses. In addition, all incentives under the income tax and stamp duty exemptions will be applicable to Labuan companies which undertake these shipping activities. The year 2010 saw the first ship registration under the MISR. To date, there are nine ships owned by Labuan companies that have been registered under the MISR.

The MISR is also expected to generate:

- Economic spin-offs for Labuan and Malaysia due to increased recognition of Labuan as an International Ship Registry;
- Greater employment opportunities for Malaysians in related services such as ship management;
- Bigger pool of Malaysian professionals for the development of Malaysia's shipping industry;
- More activities for support services required by ships plying the surrounding regions, such as repair and bunkering services; and
- Demand for financial services offered in Labuan IBFC including ship financing, leasing and marine insurance.

ISLAMIC FINANCIAL SERVICES

There has been considerable progress in the area of Islamic finance since the inception of Labuan as an IBFC. Islamic finance in Labuan is now taking on a new dimension with the introduction of an increasing range of Shariah-compliant products and services introduced under the new Labuan Islamic Financial Services and Securities Act 2010 (LIFSSA). In 2010, the increase in the number of new entrants undertaking Shariah-compliant financial services through Labuan has created new markets and expanded existing ones. While some new entrants conducted Islamic banking activities, others focused on specialised markets, such as retakaful, sukuk origination and Islamic wealth management. The strategic collaboration with the financial community under the MIFC has enhanced Labuan's position as a credible centre for Islamic financial services. This in turn has given Labuan a greater role in supporting the Malaysian economy and strengthening Malaysia's position in international Islamic finance.

Leveraging on the New Islamic Finance Legislation

The year 2010 witnessed the enactment of an independent and omnibus legislation for Shariah-compliant businesses in Labuan IBFC. The legislation known as Labuan Islamic Financial Services and Securities Act streamlines procedures and requirements of all Shariah-related activities conducted in and via Labuan IBFC. The enactment of this Act made Labuan IBFC the first common law international financial centre to have a specific legislation governing Islamic financial services. LIFSSA contains provisions on the offer of securities, licensing of Islamic banking, takaful and retakaful activities, dealing in Islamic securities and investment advice, establishment of Islamic private and public funds, registration of Islamic trusts, Islamic foundations and formation of Shariah-compliant companies such as Islamic limited partnerships and limited liability partnerships. The enactment of LIFSSA resulted in increasing interest in new Shariah-compliant product structures including formation of Shariah-compliant trusts, foundations and captives. The law would also cater for the growing needs in Shariah-compliant wealth management.

The legislative changes in Labuan IBFC introduced a new type of legal entity called the Protected Cell Company (PCC) that is commonly used for captive insurance. PCC was introduced to promote the growth of captive formation in Labuan. In line with this, Labuan FSA issued the Guidelines on Shariah Compliant Pure Captive in Labuan IBFC in June 2010. The guidelines were issued upon consultation with industry players and Labuan FSA's consultative bodies, the Shariah Supervisory Council (SSC) and the Islamic Finance Committee (IFC). The guidelines facilitate applications for Shariah-compliant captive licences based on the 'Pure Captive' model and ensure that such captives are conducted based on prudent practices and Shariah requirements.

Islamic Finance in the Global Market

There has been an increasing number of international conventional banks having presence in Labuan, offering Islamic financial products and services through dedicated subsidiaries or branches as well as through window operations in Labuan. The increase in the number of players resulted in an increase in market share of Labuan Islamic banking assets against the total Labuan banking industry. The diversity of players in terms of the offerings and access of financing into various sectors created greater cross-border linkages among players in the region.

As of December 2010, there were six full-fledged Islamic banks and nine Islamic banking windows. Players expanded to include banks originating from Malaysia, Indonesia, Middle East and Europe, thus opening greater opportunities and access to Islamic financial services in other regions. Several top international conventional banks have also established dedicated Islamic divisions or regional bases undertaking Shariah-compliant services in Labuan, giving rise to the increase in Labuan Islamic banking assets over the total Labuan banking industry. As of December 2010, total Islamic banking assets in Labuan reached USD1.3 billion, recording a growth of 62.9% as compared to the position in December 2009 of USD794.7 million. Labuan Islamic banking windows contributed significantly to the increase in market share of Labuan Islamic banking assets to 3.8% as at December 2010 (December 2009 : 2.7%). The continuous domination of non-resident business in Islamic financing in 2010 is an indication that Labuan IBFC has remained on its path in developing Labuan as a recognised international financial centre for Islamic banking.

As in the past, the retakaful business in Labuan has shown strong growth. The industry continued to record double digit growth for the fourth consecutive year in 2010 in line with the increasing number of new entrants. The increased contribution was a result of the strengthened regional business portfolio of full-fledged retakaful operators, who captured greater market share from non-resident contributions in the regional markets. The sound retakaful business prospects out of Labuan were manifested when one of the leading retakaful players shifted its head office to Labuan as its global base for its retakaful business operations. Of importance is the role played by Labuan operators as leading regional retakaful players in driving the retakaful market by developing standards and operating models. The ongoing effort to standardise retakaful terminology was led by Labuan players and supported by takaful and retakaful institutions under the banner of MIFC.

Labuan IBFC continued to provide the platform for both sovereign and private issuances supported by an improved business and regulatory framework for sukuk issuance under the new gazetted legal framework. In the year under review, Labuan IBFC was home to the maiden corporate sukuk issuance by a Japanese multinational corporation. This debut sukuk showed that Islamic finance in Labuan has maintained its attraction to global investors seeking to diversify their funding sources for business growth. This issuance would open greater opportunities for corporations in emerging economies in Asia to tap the Islamic finance market through Malaysia. The sukuk's success was also attributed to efforts under the MIFC initiative that created awareness amongst global institutions and investors in using Malaysia as their location for sukuk origination.

The Islamic wealth management business in the region is expected to be a major contributor to the growth of Islamic finance in the future. Labuan IBFC stands to capture this market share by enabling a more business-friendly framework to cater for innovative instruments that are in compliance with Shariah principles. Under the new legal framework, various vehicles for Islamic wealth management were introduced including Labuan Islamic trusts that cover several popular structures, such as special and private trust. The introduction of Labuan Islamic foundations under LIFSSA provided an option for investors not familiar with common law trust to establish a vehicle in Labuan with similar features available in their respective countries, while still being accorded Labuan tax privileges. The year under review witnessed the establishment of new Islamic foundations taking advantage of recently introduced structures, which benefitted investors in providing credible wealth management services in compliance with Shariah principles.

Effective Consultative Approach

The Shariah Supervisory Council (SSC) and Islamic Finance Committee (IFC) of Labuan FSA, comprising Shariah scholars and industry practitioners, continued to play consultative roles to enhance Shariah governance and Islamic business opportunities in Labuan IBFC. Many successful business structures and strategic decisions were put forward by these bodies. The development of the Islamic financial market requires regular engagements with industry players to ensure that strategic actions undertaken are market-oriented. Labuan FSA has been practicing this approach through industry associations for information dissemination and to obtain feedback on the business and regulatory framework for Islamic finance.

Strategic Collaborations in the International Market

To support more prudent and regulated practices in Islamic financial services, Labuan FSA, as an associate member of the Islamic Financial Services Board (IFSB), participates actively in activities organised by IFSB. As a founding member of the International Islamic Financial Market (IIFM), Labuan FSA has also been providing effective support to the initiatives undertaken by IIFM. This included participation in the working groups for the standardisation of Shariah documents for Islamic money market instruments, such as the Tahawwut (Hedging) Master Agreement (TMA). The TMA issued by IIFM in 2010 was the first global cross-border Shariah-compliant standard legal document to facilitate over-the-counter (OTC) derivatives transactions. Collaboration in facilitating Islamic liquidity management would be IIFM's efforts to standardise documents for repurchase contracts in accordance with Shariah principles. The documents would provide a widely acceptable and market-based solution to Islamic liquidity management as well as help to create a more active sukuk secondary market.

Enhancing Visibility of Islamic Finance in Malaysia

To enhance visibility and promote awareness of Islamic financial opportunities in Labuan IBFC, Labuan FSA participated in various promotional activities both at domestic and international levels. The awareness programmes created greater understanding of the value propositions of Islamic finance in Malaysia under MIFC. Participation in such events also provided avenues for market makers and regulators to discuss and exchange views and insights on the growth potential and opportunities in the internationalisation of Islamic finance.

The significant contribution of Labuan FSA as a financial entreport to the Malaysian economy for the global market has been recognised by fellow industry players. In August 2010, Labuan FSA was awarded the "Most Outstanding Institution for Contribution to Islamic Finance" during the Kuala Lumpur Islamic Finance Forum Awards 2010. The award was determined through extensive screenings by a distinguished panel of judges that comprised global experts with academic and Shariah backgrounds in the industry.

Labuan IBFC was honoured with the presence of Tun Dr. Mahathir Mohamad, who presented a lecture on "Islamic Finance as the Means to Revival of Islamic Renaissance" at the Labuan International Islamic Finance Lecture Series 2010. This annual event is organised by Labuan FSA to nurture and enhance awareness and understanding of Islamic finance.

Labuan FSA aims to become a robust and progressive international business and financial centre. The enhancement of regulatory frameworks, improvements in critical internal processes and continuous capability development are among efforts towards this aim. All the strategic initiatives undertaken are complemented by improvements in the areas of governance, risk management, research and development as well as internal and external communication. Labuan FSA remains steadfast in ensuring that Labuan IBFC continues its positive momentum in contributing significantly towards strengthening Malaysia's position as an international Islamic financial centre.

PART II – ORGANISATIONAL DEVELOPMENTS

INFORMATION COMMUNICATION AND TECHNOLOGY

Labuan FSA is in the final phase of implementing two Information Communication and Technology (ICT) projects, MyLofsa2 and Statistical Management Systems (SMS). MyLofsa2 provides a complete and integrated solution for the submission of registry documents by trust companies, thus further facilitating the operations of the registrar. The SMS, which will have comprehensive data validation features, will enable submission of financial and prudential data through the internet by reporting institutions, sending of reminders of submission deadlines and production of relevant reports. These projects are expected to be fully completed in 2011.

During the year under review, Labuan FSA completed several ICT projects:

Disaster Recovery Centre

The Disaster Recovery Centre (DRC) provides backup for Labuan FSA's critical systems and applications and replaces the previous backup systems located at a company data centre outside Labuan. It gives Labuan FSA the flexibility to conduct simulation tests or activate the DRC when necessary, transfer data on a daily basis through the internet as well as perform system upgrades whenever required at minimal cost.

Tape Library System

The Tape Library System (TLS) simplifies the process of backing-up data and transferring data to the DRC so that the back-up site contains the latest data available. It creates copies of data that are used in Labuan FSA's operations. It complements the DRC by providing the facilities for creating complete and accurate back-ups that are critical for business continuity, thus ensuring that Labuan FSA is fully prepared for any disruptions to its day-to-day operations.

Network Monitoring and Intrusion Detection System

The objective of installing the Network Monitoring and Intrusion Detection System (NMID) is to ensure a safe and secure network environment in Labuan FSA and to control and monitor the utilisation of data so that they are not misused. The system provides safeguards against unauthorised access.

HUMAN RESOURCE DEVELOPMENT

Human Resource is a key component in developing and nurturing staff to meet the challenges in support of the new 10 year strategic map for Labuan IBFC. In this regard, Labuan FSA's human capital development and human resource management have been realigned with its organisational goals encompassing effective recruitment, retention and reward strategies, training and development as well as performance management.

As at 31 December 2010, Labuan FSA has a total of 100 full-time employees in various divisions/departments including Licensing and Legal, Supervision and Compliance, Corporate Services and Corporate Planning and Communication. The staffing of key departments such as Supervision and Business Management in particular has been increased to ensure that Labuan FSA has the requisite manpower to effectively perform its core functions.

In the area of training, Labuan FSA conducted an in-house Executive Development Program (EDP) specially designed for the middle management from Assistant Managers to Senior Managers. The programme provided unique work based learning with rigorous tools and approaches to reinforce managerial and leadership qualities thus preparing attendees to become more effective change agents. The programme was conducted in six modules throughout the year comprising the following:

(i) Leadership Mindset Change – broadening perspectives;
(ii) Results Through Relationships – the art of inspiring others;
(iii) Performance Management – an evolutionary approach to work force transformation;
(iv) Strategic Thinking and Planning – for organisational success;
(v) Presentation Skills for Leaders – for effective results; and
(vi) Transformational Leadership – energising human performance.

Apart from in-house programmes conducted by external trainers, Labuan FSA also embarked on an internal Reinforcement Education Program which was organised throughout the year with the objective of providing opportunities for staff to learn from their colleagues who are in-house subject matter experts on various areas such as tax, Islamic finance and financial products. Labuan FSA continuously acknowledges and strives to provide a conducive and caring environment with a desire to optimise employee satisfaction, improve performance and encourage loyalty via various initiatives, such as providing competitive and attractive compensation and benefits plan, safe and healthy work conditions and conducting team related activities.

CORPORATE SOCIAL RESPONSIBILITY

In 2010, Labuan FSA continued to practise good Corporate Social Responsibility (CSR) as part of its commitment to good business practices and standards. During the year, Labuan FSA organised various CSR programmes based on ethical values and respect to employees, the community, environment and stakeholders. The programme includes the following:

Community Outreach

Labuan FSA has continuously supported the cause of various recreational and charitable organisations. In collaboration with Labuan Sports Council and Labuan financial institutions, the annual "Labuan FSA Run" has become one of the landmark events led and co-organised by Labuan FSA. The event has since 2006 attracted wider interests, not only from the Labuan community but also participants outside of Labuan. Throughout the years, proceeds of funds and donations from the annual run have been channeled to and put to good use by charitable organisations such as the Labuan Special Olympic Organisation, Handicapped Children, Senior Citizens Association and Association for the Orphanage.

Education Programmes

Labuan FSA also focuses on education programmes and leadership in economics and finance by organising annual events covering the Labuan International Islamic Lecture Series and training programmes for industry players, aimed at educating and enhancing their skills set based on current development and issues related to the business. In recognition of academic excellence, Labuan FSA accords annual awards to students of University Malaysia of Sabah Labuan International Campus (UMS-KAL), who have excelled in their studies.

Staff Welfare

To achieve work-life balance and promote a healthy lifestyle for employees, Labuan FSA through its Staff Recreational and Welfare Club organises various recreational and sporting activities among its employees.

LABUAN INTERNATIONAL SCHOOL

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

The vision of LIS is to become a premier private and international school with top-notch teaching expertise which will enable the school to provide educational excellence for primary and secondary school-going children in Labuan and its vicinity. Its mission is to institute a high standard of education management 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 moral values, responsible and capable of achieving high levels of personal well-being.

The LIS comprises three components:
- International School, with primary and secondary-level education based on the British National Curriculum for foreign students;
- Sekolah Sri Labuan, a private school that offers both the Malaysian Integrated Primary School and Malaysian Integrated Secondary School curricula; and
- Tadika Manjaria, a preschool for local and foreign children between four to six years old.

Over the past few years, LIS has made strong progress towards becoming a learning institution that equally emphasises the development of co-curricular activities, such as swimming, performing arts and other activities, as well as social capabilities and awareness. LIS complements the educational excellence initiatives in Labuan covering the establishment of UMS-KAL, Labuan Matriculation College and several industrial and vocational institutes. At the end of 2010, the school had 213 students comprising both local and foreign students.

Smart Partnership and Government Support

To provide professionalism and expertise in managing the school, Labuan FSA had in 2006, engaged Cempaka Holdings Sdn Bhd (CHSB), a renowned operator of international schools as the operator of LIS. The services provided by CHSB encompass the general management of LIS as well as academic, non-academic, technology, human resource (recruitment and performance evaluation) and consultancy services.

The support of the Malaysian Government has been critical to the development and improvement of LIS. Under the Ninth Malaysia Plan, the Government has provided a substantial allocation to build a new and modern school which is expected to be completed by the end of 2011. The new school would be equipped with more learning facilities such as auditorium for performing arts and state-of-the-art ICT infrastructure.

BOX ARTICLE

ISLAMIC FINANCE AS THE MEANS TO THE REVIVAL OF ISLAMIC RENAISSANCE

Speech by Tun Dr. Mahathir bin Mohamad at
Labuan International Islamic Finance Lecture Series V

11 November 2010

We talk a lot today about Islamic Finance – especially we who are Muslims. But Islamic finance is still in its infancy, in comparison with conventional banking. While it has been accepted even by non-Muslims, it has not as yet been able to displace significant portion of the conventional banking system.

Islamic banking is basically concerned with elimination of interest or riba in the repayment of loans. But quite obviously the lenders i.e. the banks must earn something from lending money – a process fraught with risks.

It is entirely possible for the whole loan to be lost. Without some means of getting a return from the business, the losses may lead to the bank failing or even closing down.

We are seeing today the most extensive financial catastrophe resulting from the conventional banking system and various practices which are associated with it being abused. We can claim that the Islamic financial system has not contributed to this catastrophe, that it is immune. But nevertheless we can learn much from the mistakes made by the conventional financial system which has resulted in the current crisis. We must take note of the mistakes of the conventional system so that we will not be involved or be the cause of future crisis in our anxiety to provide all the services presently available with conventional banking and finance.

Basically, the cause of the present crisis is due to greed which led to abuses of the system in order to make easy money.

The banking system is principally intended to make money available for business i.e. the production and sale of goods and services to meet the ever growing needs of human society. The sale of goods and services constitute trade, an economic activity requiring financing – domestic and international. The production of goods and services and the trade in them causes wealth to be created and economies to grow. The benefits accrue to everyone from the poor workers to the suppliers and processors of raw material, the manufacturers, distributors, vendors and on to the investors and financiers. Everyone gains from the business involved in the production of goods and services and the trade which are all financed by the banks. The banking service is therefore an essential service to enable wealth to grow and be distributed within human society.

But the power of the banks to create and lend money should be exercised with prudence. Unfortunately the greedy saw in the power of the banks to create money i.e. the possibility of making almost unlimited amounts of money for themselves, not through production of goods, services and trade but through manipulating the banking and financial systems.

For example, without considering the capacities of the borrowers to repay the loans, the banks lent money to the high risk borrowers. To mitigate the risk they insured the loans or sell them to secondary mortgage companies. With this they believed the risky loans were secured. Eventually the amounts of unpaid (non-performing loans) became so big that they had to be recorded in the bank books as losses.

Even the insurance and mortgage companies could not make good the losses, so that they too failed and became bankrupt.

It is much more difficult for Islamic banking to lend beyond prudence because of the requirement for risk sharing between the bank and the borrower. But even then, should Islamic banking, in the interest of greater profit consider and find ways and means of lending beyond prudence? This can happen if Islamic bankers succumb to greed and ignore the tenets of Islam which is clearly against excessive profits.

But there are other practices of conventional banking and finance which may tempt Islamic bankers to copy. Leveraging loans based on amounts invested may enable bigger profits to be made. The loan to hedge funds and currency traders can be 20 – 30 times more than the invested capital. With these bigger amounts, the profits from investment would also be much bigger. But what the managers often fail to stress is that when losses are made, the losses would also be much bigger. It can be so big that the whole amount invested may not be able to cover the losses. Failure of such transactions as carried out by hedge funds and currency traders will bankrupt the funds and the lending banks as well.

With that not only the investors but the fund managers and the banks would be bankrupt. The collapse of the big banks will lead to a financial crisis which can destroy even the richest economies.

Again, Islamic banks may not be open to high leverages because interest is not permitted and the requirement of risk sharing would expose the banks to high risks which they cannot take. Still, Islamic banks may be tempted to indulge in seemingly attractive proposals which promises high returns.

But is there a necessity for Islamic banks to offer the same products as the conventional banks? I don't think there is. Some products maybe. But when the products may have elements of gambling, Islamic banks should avoid offering matching products.

Islamic banks should confine themselves to financing real businesses i.e. the financing of the production and sale of goods and services, and of trade. It may be that limiting Islamic banks to real business will slow down growth and wealth creation. But it is better to have slower growth because of ethical practises than to have high growth which may end up in the kind of crisis we see the rich countries are experiencing today.

The need for capital to fund businesses led to the sale of shares. This in turn led to the setting up of stock markets. While the stock market provides the means to raise funds for business, the demand for shares offered through it can be such that share prices would increase far above the offered prices. This lead to speculation in the expectation of capital gains.

The greater the demand the greater would be the capital gains. Good profits can be made simply by selling-off the shares bought after the prices appreciated. The buying and selling of shares have now developed into a big financial industry which may be quite unrelated to the real business being done.

Very quickly the greedy saw in them a way to make easy profit. If demands can make shares appreciate, it follows that if demands are artificially created by the investor repeatedly purchasing shares, the capital gains can be greatly increased. Then the shares can be sold to give high profits from capital gains. In addition, the investor can buy the lower-priced share to deliver to buyers who had bought at the high price from him.

From this came the concept of short selling when the manipulator goes through a process of selling shares which he does not possess to push up the prices until they are high enough to give a good return. Then the shares would be sold at this high price to make profits from capital gains.

With the dumping of the non-existent shares, the price would fall. Again, the manipulator can purchase the shares to deliver to the investors who had bought at a higher price, previously.

The manipulator would benefit twice, once from selling the shares at the high price and collecting capital gains and once more by buying the shares after the fall in price in order to deliver to the investors who had purchased at a high price.

Much money will be made by the manipulator but it would be at the expense of the small investors who will be left with devalued shares due to the operations of the manipulator.

BOX ARTICLE

The same short selling method can be employed by currency traders. They will make much money from the sales.

Not only will the small investors lose money but the short selling activities create no wealth for anybody else, no jobs for anyone, no business spin-offs and no trade. Latest reports say that daily currency trading involves four trillion dollars. Whereas the four trillion dollars create great wealth for Germany for one year, 4x365 trillion dollars of one year's currency trading create hardly any evidence of economic growth or increasing wealth.

Juggling with money to make money clearly benefits only the jugglers. All the others will lose. Whole economies could be destroyed. This was what happened during the East Asian financial crisis; this is also what is happening today – a crisis of enormous proportions.

Islamic banking in an attempt to compete with conventional banking must never be involved in schemes to use money for gambling to make money. Leveraging, short selling and operating hedge funds and currency trading must not be financed by Islamic banks. They should confine themselves to the real business of the production of goods and services and to trade in these items.

Islamic banks must always obey the injunctions of Islam not only in rejecting riba but also in any form of gambling or profiteering.

By staying strictly ethical Islamic banks may lose business. But in the long run the ethics that Islamic bank adheres to will win it loyal clients. Already we are seeing the clients of the conventional system switching to Islamic banking for certain financing needs. As Islamic banking becomes recognised as least likely to precipitate financial and economic crisis, the acceptance will increase.

The task of making Islamic finance accepted by the international community does not depend on ethical practises alone. Today, we do not see many Muslim countries doing well in their administration and in particular the management of their wealth. There is today not a single Muslim country which can be classified as developed. Yet we know that never in the history of Islam, indeed in the history of the world, have the Muslim countries been so wealthy. But the wealth is fortuitous – conferred on the Muslim countries by Allah SWT through the abundance of natural resources, particularly oil. The Muslims themselves did not create the wealth.

Indeed the extraction of these resources is due to the technology, skills and capital of others. The Muslim people are mere rentiers – collecting royalty without knowing much about the prospecting for and production of their own resources. More than that, they are not capable of developing the usage of their natural products so as to improve sale. The growth of the automotive industry and other engineering products which depends on fossil fuel is not due to the oil-rich Muslims.

The wealth of the Muslims and their banking system should enable the Muslim countries to grow and become fully developed. If they have not been able to develop their countries it is due to their failure to acquire or innovate ways of using their resources and wealth in a productive way.

Wealth is not just for acquiring and enjoying the good things of life. Wealth is capable of creating more wealth through management skills, investments, application of the resources acquired to produce goods and services, and to trade. Wealth also can contribute to the development of good administration, the building of infrastructures etc. Wealth can of course banish poverty. Above all wealth can contribute to the acquisition of knowledge; the knowledge necessary for growing into a developed country.

In all these things, the Islamic banks can be of tremendous help. Banks are particularly skilled in the management of wealth. This skill must be spread among Muslims in general and Muslim Governments in particular.

Islamic banking is particularly suitable for this task. Islamic banking is guided by the Shariah and the ethics of the Islamic religion. What Muslim Governments need in order to develop their countries is the ethical and skilful management of their wealth. Islamic banking can provide this.

The relevance and potential of Islamic banking is very clear. What is needed is for just one rich Muslim country to use the expertise of Islamic banking in order to become a developed country. If only one country succeeds, then the Islamic Renaissance will surely take place.

Islamic bankers and financial experts must consider it their duty to ensure the success of Islamic banking and to help manage the wealth of the Muslims.

Financial Statements

CERTIFICATE OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF LABUAN FINANCIAL SERVICES AUTHORITY FOR THE YEAR ENDED 31 DECEMBER 2010

The financial statements of Labuan Financial Services Authority and the Group for the year ended 31 December 2010 have been audited by my representative. These financial statements are the responsibility of the management. My responsibility is to audit and to express an opinion on these financial statements.

The audit has been carried out in accordance with the Audit Act 1957 and in conformity with approved standards on auditing. Those standards require an audit be planned and performed to obtain reasonable assurance that the financial statements are free of material misstatement or omission. The audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessment of the accounting principles used, significant estimates made by the management as well as evaluating the overall presentation of the financial statements. I believe that the audit provides a reasonable basis for my 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 2010 and of the results of its operations and its cash flows for the year ended in accordance with the approved accounting standards.

I have considered the financial statements and the auditor's 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 these financial statements of the subsidiary companies that have been consolidated with Labuan Financial Services Authority's financial statements are in appropriate form and content, proper for the purposes of the preparation of the consolidated financial statements. I have received satisfactory information and explanations required by me for those purposes.

The auditor's reports on the financial statements of the subsidiary companies were not subjected to any observations that could affect the consolidated financial statements.

(HJH. ZAINUN BINTI TAIB)
for AUDITOR GENERAL
MALAYSIA

PUTRAJAYA
15 April 2011

STATEMENT BY THE MEMBERS OF THE LABUAN FINANCIAL SERVICES AUTHORITY

We, Dr. Zeti Akhtar Aziz and Azizan Abdul Rahman, 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, comprehensive income, cash flows and changes in reserves are properly drawn up in accordance with the provisions of the Labuan Financial Services Authority Act, 1996 and Financial Reporting Standards in Malaysia so as to give a true and fair view of the state of affairs of the Group and of the Authority at 31 December 2010 and of the results of their operations and cash flows for the year ended on that date.

On behalf of the Members of the Authority

Dr. Zeti Akhtar Aziz
CHAIRMAN

Azizan Abdul Rahman
DIRECTOR-GENERAL

Labuan, Malaysia
11 April 2011

STATUTORY DECLARATION

I, Danial Mah Abdullah (600626-07-5151), being the officer primarily responsible for the financial management of Labuan Financial Services Authority, do solemnly and sincerely declare that the accompanying statements of financial position, comprehensive income, cash flows and changes in reserves are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Danial Mah Abdullah

Subscribed and solemnly declared by the above named **Danial Mah Abdullah** at LABUAN, MALAYSIA on this 11 day of April 2011

Before me,

COMMISSIONER FOR OATHS
L 006
NORMALA MAT JALI
MALAYSIA

COMMISSIONER FOR OATHS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 31 December 2010

	Note	2010	2009
		RM	RM
Revenue	4	24,138,349	24,222,798
Other item of income			
Government grant	13	20,088,797	17,269,952
Income from other investments	5	707,878	691,198
Other income	6	499,183	599,044
Other item of expense			
Staff costs	7	(21,008,697)	(18,719,512)
Depreciation of property, plant and equipment	9	(2,600,591)	(2,594,335)
Other expenses	6	(20,688,898)	(20,452,777)
Surplus before tax		1,136,021	1,015,850
Tax expense	8	-	-
Net Surplus for the year		**1,136,021**	**1,015,850**

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

STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 31 December 2010

	Note	2010	2009
		RM	RM
Revenue	4	22,994,746	23,192,550
Other item of income			
Government grant	13	19,593,320	17,186,751
Income from other investments	5	679,828	678,990
Other income	6	367,036	531,056
Other item of expense			
Staff costs	7	(15,568,679)	(14,636,760)
Depreciation of property, plant and equipment	9	(911,410)	(1,006,003)
Other expenses	6	(28,098,802)	(25,659,090)
(Deficit)/Surplus before tax		(943,961)	287,494
Tax expense	8	-	-
Net (deficit)/surplus for the year		**(943,961)**	**287,494**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	Note	2010	2009
		RM	RM Restated
ASSETS			
Non-current assets			
Property, plant and equipment	9	6,300,757	7,972,301
Other receivables	11	9,986,085	8,756,426
		16,286,842	16,728,727
Current assets			
Fees and other receivables	11	8,723,441	8,417,316
Cash and bank balances	12	31,624,512	30,438,138
		40,347,953	38,855,454
Total assets		**56,634,795**	**55,584,181**
RESERVES AND LIABILITIES			
Current liabilities			
Deferred income	13	7,998,393	10,587,190
Other payables	14	8,797,302	6,019,739
Government loans	16	3,000,000	-
		19,795,695	16,606,929
Non-current liabilities			
Employee benefits	15	395,000	386,000
Government loans	16	10,000,000	13,000,000
		10,3 95,000	13,386,000
Total liabilities		**30,190,695**	**29,992,929**
Reserves			
Accumulated surplus		26,444,100	25,591,252
Total reserves and liabilities		**56,634,795**	**55,584,181**

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

STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	Note	2010	2009
		RM	RM Restated
ASSETS			
Non-current assets			
Property, plant and equipment	9	2,316,072	3,065,989
Investments in subsidiaries	10	1	1
Other receivables	11	9,986,085	8,756,426
		12,302,158	11,822,416
Current assets			
Fees and other receivables	11	12,014,774	11,939,577
Cash and bank balances	12	25,914,961	28,150,967
		37,929,735	40,090,544
Total assets		**50,231,893**	**51,912,960**
RESERVES AND LIABILITIES			
Current liabilities			
Deferred income	13	2,980,971	5,074,291
Other payables	14	5,735,056	4,104,669
Government loans	16	3,000,000	-
		11,716,027	9,178,960
Non-current liabilities			
Employee benefits	15	395,000	386,000
Government loans	16	10,000,000	13,000,000
		10,395,000	13,386,000
Total liabilities		**22,111,027**	**22,564,960**
Reserves			
Accumulated surplus		28,120,866	29,348,000
Total reserves and liabilities		**50,231,893**	**51,912,960**

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

STATEMENT OF CHANGES IN RESERVES

For the financial year ended 31 December 2010

	Accumulate Surplus
	RM
GROUP	
Opening balance at 1 January 2009	24,575,402
Net surplus for the year	1,015,850
Closing balance at 31 December 2009	**25,591,252**
Opening balance at 1 January 2010	25,591,252
Effect of adopting FRS 139	(283,173)
Net surplus for the year	1,136,021
Closing balance at 31 December 2010	**26,444,100**

	RM
AUTHORITY	
Opening balance at 1 January 2009	29,060,506
Net surplus for the year	287,494
Closing balance at 31 December 2009	**29,348,000**
Opening balance at 1 January 2010	29,348,000
Effect of adopting FRS 139	(283,173)
Net deficit for the year	(943,961)
Closing balance at 31 December 2010	**28,120,866**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year ended 31 December 2010

	2010	2009
	RM	RM
Operating activities		
Surplus before tax	1,136,021	1,015,850
Adjustments for:		
Depreciation of property, plant and equipment	2,600,591	2,594,853
Government grant	(20,088,797)	(17,269,952)
Gain on disposal of property, plant and equipment	-	(14)
Other long term employee benefits/ (written back)	9,000	(50,000)
Property, plant and equipment written off	96,257	433,300
Interest income	(899,322)	(882,489)
Operating Deficit Before Working Capital Changes	(17,146,250)	(14,158,452)
Changes in working capital:		
Fees receivable	(296,377)	(1,092,470)
Other receivables	(1,583,267)	(818,223)
Fees received in advance	40,628	273,799
Refundable deposits	100,000	(100,000)
Other payables and accruals	2,636,935	(2,034,232)
Cash Used In Operations	(16,248,331)	(17,929,578)
Interest received	191,444	191,290
Net Cash Used In Operating Activities	(16,056,887)	(17,738,288)
Investing activities		
Proceeds from disposal of property, plant and equipment	-	3,651
Additions to property, plant and equipment	(1,025,304)	(1,012,513)
Interest received	768,565	827,881
Net Cash Used In Investing Activities	(256,739)	(180,981)
Financing activity		
Government grant received	17,500,000	16,000,000
Cash From Financing Activity	17,500,000	16,000,000
Net increase/(decrease) in cash and cash equivalents	1,186,374	(1,919,269)
Cash and cash equivalents at 1 January	30,438,138	32,357,407
Cash and cash equivalents at 31 December (note 12)	**31,624,512**	**30,438,138**

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

STATEMENT OF CASH FLOWS

For the financial year ended 31 December 2010

	2010 RM	2009 RM
Operating activities		
(Deficit)/Surplus before tax	(943,961)	287,494
Adjustments for:		
Depreciation of property, plant and equipment	911,410	1,006,003
Government grant	(19,593,320)	(17,186,751)
Other long term employee benefits/ (written back)	9,000	(50,000)
Property, plant and equipment written off	-	6,345
Interest income	(871,272)	(870,281)
Operating Deficit Before Working Capital Changes	(20,488,143)	(16,807,190)
Changes in working capital:		
Fees receivable	(214,172)	(1,013,105)
Other receivables	(1,436,557)	(765,317)
Amounts due from subsidiaries	3,201	(2,832)
Fees received in advance	40,628	273,799
Refundable deposits	100,000	(100,000)
Other payables and accruals	1,401,673	(1,229,071)
Amount owing to a subsidiary	88,086	(785,397)
Cash Used In Operations	(20,505,284)	(20,429,113)
Interest received	191,444	191,290
Net Cash Used In Operating Activities	(20,313,840)	(20,237,823)
Investing activities		
Additions to property, plant and equipment	(161,493)	(176,397)
Interest received	739,327	817,171
Net Cash From Investing Activities	577,834	640,774
Financing activity		
Government grant received	17,500,000	16,000,000
Net Cash From Financing Activity	17,500,000	16,000,000
Net decrease in cash and cash equivalents	(2,236,006)	(3,597,049)
Cash and cash equivalents at 1 January	28,150,967	31,748,016
Cash and cash equivalents at 31 December (note 12)	**25,914,961**	**28,150,967**

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

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 is 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 of the Authority have been prepared in accordance with the provisions of the Labuan Financial Services Authority Act, 1996 and Financial Reporting Standards (FRSs) in Malaysia. At the beginning of the current financial year, the Group and the Authority adopted new and revised FRS which are mandatory for financial periods beginning on or after 1 January 2010 as described fully in Note 2.2.

The financial statements of the Group and of the Authority have also been prepared on a historical basis, except as disclosed in the accounting policies below.

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 2010, the Group and the Authority adopted the following new and amended FRS and IC Interpretations mandatory for annual financial periods beginning on or after 1 January 2010.

- FRS 7 Financial Instruments: Disclosures
- FRS 8 Operating Segments
- FRS 101 Presentation of Financial Statements (Revised)
- FRS 123 Borrowing Costs
- FRS 139 Financial Instruments: Recognition and Measurement
- Amendments to FRS 1 First-time Adoption of Financial Reporting Standards and FRS 127 Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
- Amendments to FRS 2 Share-based Payment – Vesting Conditions and Cancellations
- Amendments to FRS 132 Financial Instruments: Presentation
- Amendments to FRS 139 Financial Instruments: Recognition and Measurement, FRS 7 Financial Instruments: Disclosures and IC Interpretation 9 Reassessment of Embedded Derivatives
- Improvements to FRS issued in 2009
- IC Interpretation 9 Reassessment of Embedded Derivatives

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Changes in accounting policies (Cont'd)

- IC Interpretation 10 Interim Financial Reporting and Impairment
- IC Interpretation 11 FRS 2 – Group and Treasury Share Transactions
- IC Interpretation 13 Customer Loyalty Programmes
- IC Interpretation 14 FRS 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

FRS 4 Insurance Contracts and TR i-3 Presentation of Financial Statements of Islamic Financial Institutions will also be effective for annual periods beginning on or after 1 January 2010. There FRS are, however, not applicable to the Group or the Authority.

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

FRS 7 Financial Instruments: Disclosures

Prior to 1 January 2010, information about financial instruments was disclosed in accordance with the requirements of FRS 132 Financial Instruments: Disclosure and Presentation. FRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk.

The Group and the Authority have applied FRS 7 prospectively in accordance with the transactional provisions. Hence, the new disclosures have not been applied to the comparatives. The new disclosures are included throughout the Group's and the Authority's financial statements for the year ended 31 December 2010.

FRS 101 Presentation of Financial Statement (Revised)

The revised FRS 101 introduces changes in the presentation and disclosures of financial statements. The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. The Standard also introduces the statement of comprehensive income, with all items of income and expense recognised in directly in equity, either in one single statement, or in two linked statements. The Group and the Authority have elected to present this statement as one single statement.

In addition, a statement of financial position is required at the beginning of the earliest comparative period following a change in accounting policy, the correction of an error or the classification of items in the financial statements.

The revised FRS 101 also requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital.

The revised FRS 101 was adopted retrospectively by the Group and the Authority.

FRS 139 Financial Instruments: Recognition and Measurement

FRS 139 established principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. The Group and the Authority have adopted FRS 139 prospectively on 1 January 2010 in accordance with the transitional provisions. The effects arising from the adoption of this Standard has been accounted for by adjusting the opening balance of accumulated surplus as at 1 January 2010. Comparatives are not restated. The details of the changes in accounting policies and the effects arising from the adoption of FRS 139 are discussed below:

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Changes in accounting policies (Cont'd)

FRS 139 Financial Instruments: Recognition and Measurement (Cont'd)

Impairment of trade receivables

Prior to 1 January 2010, provision for doubtful debts was recognised when it was considered uncollectible. Upon the adoption of FRS 139, an impairment loss is recognised when there is objective evidence that an impairment loss has been incurred. The amount of the loss is measured as the difference between the receivable's carrying amount and the present value of the estimated future cash flows discounted at the receivable's original effective interest rate.As at 1 January 2010, the Group has remeasured the allowance for impairment losses as at that date in accordance with FRS 139 and the difference is recognised as adjustments to the opening balance of accumulated surplus as at that date.

The following are effects arising from the above changes in accounting policies:

	Decrease As at 1 January 2010 RM
Statement of financial position	
Group	
Fees and other receivables	(283,173)
Accumulated surplus	(283,173)
Authority	
Fees and other receivables	(283,173)
Accumulated surplus	(283,173)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Changes in accounting policies (Cont'd)

Amendments to FRS 117 Leases

Prior to January 2010, for all leases of land and buildings, if the title is not expected to pass to the lease by the end of the lease term, the lessee normally does not receive substantially all of the risks and rewards incidental to ownership. Hence, all leasehold land held for own use was classified by the Group and the Authority and where necessary, the minimum lease payments or the up-front payments made were allocated between the land and the buildings element in proportion to the relative fair values for leasehold interests in the land element and building element of the lease at the inception of the lease. The up-front payment represented prepaid lease payments and were amortised on a straight-line basic over the lease term.

The amendments to FRS 117 Leases clarify that lease of land and buildings are classified as operating or finance leases in the same way as leases of other assets. They also clarify that the present value of the residual value of the property in a lease with a term of several decades would be negligible and accounting for the land element as a finance lease in such circumstances would be consistent with the economic position of the lessee. Hence, the adoption of the amendments to FRS 117 has resulted in certain unexpired land leases to be reclassified as finance leases. The Group and the Authority have applied this change in accounting policy retrospectively and certain comparatives have been restated.

The following are effects to the statements of financial position as at 31 December 2010 arising from the above change in accounting policy:

	GROUP	AUTHORITY
	2010 RM	2010 RM
Increase/(decrease) in:		
Property, plant and equipments	435,782	435,782
Prepaid land lease payments	(435,782)	(435,782)

	As previously stated RM	Adjustments RM	As restated RM
Statement of financial position			
Group			
31 December 2009			
Property, plant and equipment	7,536,001	436,300	7,972,301
Prepaid land lease payments	436,300	(436,300)	-
Authority			
31 December 2009			
Property, plant and equipment	2,629,689	436,300	3,065,989
Prepaid land lease payments	436,300	(436,300)	-

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.3 Standards issued but not yet effective

The Group and the Authority has not adopted the following standards and interpretations that have been issued but not yet effective:

Descriptions	Effective for annual periods beginning on or after
FRS 1 *First-time Adoption of Financial Reporting Standards*	1 July 2010
FRS 3 *Business Combinations (revised)*	1 July 2010
Amendments to FRS 2 *Share-based Payment*	1 July 2010
Amendments to FRS 5 *Non-current Assets Held for Sale and Discontinued Operations*	1 July 2010
Amendments to FRS 127 *Consolidated and Separate Financial Statements*	1 July 2010
Amendments to FRS 138 *Intangible Assets*	1 July 2010
Amendments to IC Interpretation 9 *Reassessment of Embedded Derivatives*	1 July 2010
IC Interpretation 12 *Service Concession Arrangements*	1 July 2010
IC Interpretation 16 *Hedges of a Net Investment in a Foreign Operation*	1 July 2010
IC Interpretation 17 *Distributions of Non-cash Assets to Owners*	1 July 2010
Amendments to FRS 132: Financial instruments: Presentation	1 July 2010
IC Interpretation 15: Agreements for the Construction of Real Estate (Amendments to IC Interpretation 15)	1 March2010
Amendments to FRS 1: *Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters*	30 August 2010
Amendments to FRS 1: Additional Exemption for First-time Adopters	1 January 2011
Amendments to FRS 2: Group Cash-settled Share-based Payment Transactions	1 January 2011
Amendments to FRS 7: *Improving Disclosures about Financial Instruments*	1 January 2011
IC Interpretation 4: Determining whether an Arrangement contains a Lease	1 January 2011
IC Interpretation 18: Transfers of Assets from Customers	Effective for transfer of assets from customers received on or after 1 January 2011
Technical Release 3: Guidance on Disclosures of Transition to IFRSs	1 January 2011
Amendments to FRSs "Improvements to FRSs (2010)"	1 January 2011
IC Interpretation 19: Extinguishing Financial Liabilities with Equity Instruments	1 July 2011
Prepayments of a Minimum Funding Requirement (Amendments to IC Interpretation 14)	1 July 2011
FRS 124 Related Party Disclosures	1 January 2012
IC Interpretation 15: Agreements for the Construction of Real Estate	1 January 2012

Except for the new disclosures required under the Amendments to FRS 7, the Members of the Authority expect that the adoption of the other standards and interpretations above will have no material impact on the financial statements in the period of initial application.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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 to like transactions and events in similar circumstances. All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Acquisitions of subsidiaries are accounted for by applying the purchase method. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Adjustments to those fair values relating to previously held interests are treated as a revaluation and recognised in other comprehensive income. The cost of a business combination is measured as the aggregate of the fair values, at the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued, plus any costs directly attributable to the business combination. Any excess of the cost of business combination over the Group's share in the net fair value of the acquired subsidiary's identifiable assets, liabilities and contingent liabilities is recorded as goodwill on the statement of financial position. Any excess of the Group's share in the net fair value of the acquired subsidiary's identifiable assets, liabilities and contingent liabilities over the cost of business combination is recognised as income in profit or loss on the date of acquisition. When the Group acquires a business, embedded derivatives separated from the host contract by the acquiree are reassessed on acquisition unless the business combination results in a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

2.5 Foreign currency

a) Functional and presentation currency

The individual financial statements of the Authority are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Ringgit Malaysia (RM), which is also the Authority's functional currency.

b) Foreign currency transactions

Transactions in foreign currencies are measured in the respective functional currencies of the Authority and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items denominated in foreign currencies measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the reporting date are recognised in profit or loss except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operations, which are recognised initially in other comprehensive income and accumulated under foreign currency translation reserve in equity. The foreign currency translation reserve is reclassified from equity to profit or loss of the Group on disposal of the foreign operation.

Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss for the period except for the differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in equity. Exchange differences arising from such non-monetary items are also recognised directly in equity.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.6 Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. The cost of an item of property, plant and equipments is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Subsequent to recognition, property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively. 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 profit or loss as incurred.

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

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

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The residual value, useful life and deprecation method are reviewed at each financial year-end, and adjusted prospectively, if appropriate.

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 on derecognition of the asset is included in the profit or loss in the year the asset is derecognised.

2.7 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when an annual impairment assessment for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units ("CGU")).

In assessing value in use, the estimated future cash flows expected to be generated by the asset 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. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to those units or groups of units and then, to reduce the carrying amount of the other assets in the unit or groups of units on a pro-rata basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.7 Impairment of non-financial assets (Cont'd)

Impairment losses are recognised in profit or loss.

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. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss.

2.8 Subsidiaries

A subsidiary is an entity over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities.

In the Authority's separate financial statements, investments in subsidiaries are accounted for at cost less impairment losses.

2.9 Financial assets

Financial assets are recognised in the statements of financial position when, and only when, the Group and the Authority become a party to the contractual provisions of the financial instrument.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

The Group and the Authority determine the classification of their financial assets at initial recognition, and the categories include financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets.

Loan and receivables

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as receivables.

Subsequent to initial recognition, receivables are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

Receivables are classified as current assets, except for those having maturity dates later than 12 months after the reporting date which are classified as non-current.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.10 Impairment of financial assets

The Group and the Authority assess at each reporting date whether there is any objective evidence that a financial asset is impaired.

Trade and other receivables and other financial assets carried at amortised cost

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group and the Authority considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments. For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis based on similar risk characteristics. Objective evidence of impairment for a portfolio of receivables could include the Group's and the Authority 's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

If any such evidence exists, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The impairment loss is recognised in profit or loss.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable becomes uncollectible, it is written off against the allowance account.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

2.11 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits, and short-term, highly liquid investments that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value. These also include bank overdrafts that form an integral part of the Group's cash management.

2.12 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.13 Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all conditions attached will be met. Where the grant relates to an asset, the fair value is recognised as deferred capital grant in the statement of financial position and is amortised to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

The benefits of government loans procured at below-market interest rates are treated as government grants. The loans shall be recognised and measured at their fair value where the benefits of the below-market interest rates are measured as the difference between the initial carrying value of the loans and the proceeds received. Government loans at below-market interest rates received prior to 1 January 2010 are a form of government assistance but the relevant FRS standard does not require the benefits to be quantified by the imputation of interest.

2.14 Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

Financial liabilities, within the scope of FRS 139, are recognised in the statement of financial position when, and only when, the Group and the Authority become a party to the contractual provisions of the financial instrument. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

The Group's and the Authority's financial liabilities include trade payables, other payables and loans and borrowings.

Trade and other payables are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

Loans and borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method. Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

For financial liabilities, gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

A financial liability is derecognised when the obligation under the liability is extinguished. 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, and the difference in the respective carrying amounts is recognised in profit or loss.

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.

Liability for other long term employee benefits

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

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.16 Leases

a) As lessee

Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Any initial direct costs are also added to the amount capitalised.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss. Contingent rents, if any, are charged as expenses in the periods in which they are incurred.

Leased assets are depreciated over the estimated useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life and the lease term.

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

b) As lessor

Leases where the Group retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income.

2.17 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be realiably measured. Revenue is measured at the fair value of consideration received and receivable.

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.

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.

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

Rental income
Rental income is recognised on an accrual basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.18 Income taxes

Tax expense comprises current and deferred tax. Tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the reporting method, providing for temporary differences between the carrying amounts of assets and liabilities for reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit (tax loss). Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax liability is recognised for all taxable temporary differences.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Key sources of estimation uncertainty

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

a) Impairment of fee receivables

The Group 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 considers factors such as the probability of insolvency or significant financial difficulties of the debtor 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.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

4. REVENUE

	GROUP		AUTHORITY	
	2010 RM	2009 RM	2010 RM	2009 RM
Fee income	22,994,746	23,192,550	22,994,746	23,192,550
Other fees	1,143,603	1,030,248	-	-
	24,138,349	**24,222,798**	**22,994,746**	**23,192,550**

5. INCOME FROM OTHER INVESTMENTS

	GROUP		AUTHORITY	
	2010 RM	2009 RM	2010 RM	2009 RM
Interest received from:				
Fixed deposits	673,810	649,269	645,760	637,061
Money at call	34,068	41,929	34,068	41,929
	707,878	**691,198**	**679,828**	**678,990**

6. OTHER INCOME/(EXPENSE)

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

	GROUP		AUTHORITY	
	2010 RM	2009 RM	2010 RM	2009 RM
Interest income from staff loans:				
- Key management personnel	22,759	35,283	22,759	35,283
- Others	168,685	156,008	168,685	156,008
Rental income	79,244	80,661	76,484	78,217
Miscellaneous income	147,467	322,578	99,108	257,048
Gain on disposal of property, plant & equipment	-	14	-	-
Waiver of debts	81,028	-	-	-
Reversal of allowance for impairment loss on Other receivables	1,500	19,500	1,500	19,500
Other operating expenses:				
Project expenditure incurred under the Ninth Malaysia Plan government grant*	(18,622,041)	(15,680,430)	(19,593,320)	(17,186,751)
Audit fees				
- current year	(29,000)	(24,665)	(20,000)	(16,665)
- over provision in prior year	-	345	1,345	1,345
Members' remuneration:				
- Executive	(814,070)	(891,947)	(814,070)	(891,947)
- Non-executive	(115,000)	(99,000)	(115,000)	(99,000)
Other key management personnel compensation:				
- Short term employee benefits	(2,649,974)	(2,500,845)	(2,649,974)	(2,500,845)
Reversal/(Expense) relating to long term employee benefit	(9,000)	50,000	(9,000)	50,000
Rental expenses	(1,084,272)	(1,183,764)	(1,084,272)	(1,084,272)
Fees and trade receivable written off	(155,705)	(176,003)	-	(143,100)
Amount owing by subsidiary companies written off	-	-	(13,577)	(769,891)
Property, plant and equipment written off	(96,257)	(433,300)	-	(6,345)
Contributions to Labuan FSA Staff Welfare Fund	(300,000)	(317,000)	(300,000)	(317,000)
Lease of machinery and equipment	(61,200)	(71,955)	(61,200)	(71,955)
Tuition fees paid to a subsidiary	-	-	(190,432)	(177,395)
Allowance for impairment loss on fees receivables	(1,218,287)	(781,061)	(1,218,287)	(781,061)

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

6. OTHER INCOME/(EXPENSE)

* These included the following expenditures:

	GROUP		AUTHORITY	
	2010 RM	2009 RM	2010 RM	2009 RM
Research and development expenses	(1,010,552)	(1,432,157)	(1,010,552)	(1,432,157)
Expenses for Information Technology System upgrade	(1,399,432)	(993,660)	(1,399,432)	(993,660)
Management fees	(1,500,000)	(1,500,000)	-	-
Staff costs	(5,137,605)	(2,504,101)	-	-
Auditors' remunerations	(15,200)	(13,500)	-	-
Professional fees	(26,642)	(1,370,690)	-	-
Promotional and marketing expenses	(4,706,253)	(4,135,428)	-	-
Repair and maintenance expenses	(897,866)	(1,837,860)	-	-
Operational expenses	(633,427)	-	-	-
Ninth Malaysia Plan expenses paid to subsidiaries	-	-	(15,615,002)	(13,951,272)

7. STAFF COSTS

	GROUP		AUTHORITY	
	2010 RM	2009 RM	2010 RM	2009 RM
Staff costs	21,008,697	18,719,512	15,568,679	14,636,760

Included in staff costs are the Group's and the Authority's contributions to the Employees Provident Fund of RM2,233,792 (2009: RM2,004,355) and RM1,885,148 (2009: RM1,723,042) respectively.

8. INCOME TAX EXPENSE

Group

Domestic current income tax is calculated at the statutory tax rate of 25% (2009: 25%) of the estimated assessable profit for the year.

The Authority

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 2010.

On 18 February 2010, Ministry of Finance granted a further extension of ten years on the exemption period until the year of assessment 2020.

8. INCOME TAX EXPENSE (CONT'D)

Reconciliation between tax expense and accounting profit

The reconciliation between tax expense and the product of accounting surplus/(deficit) multiplied by the applicable corporate tax rate for the years ended 31 December 2010 and 2009 are as follows:

	GROUP		AUTHORITY	
	2010 RM	2009 RM	2010 RM	2009 RM
Surplus/(Deficit) before tax	1,136,021	1,015,850	(943,961)	287,494
Taxation at Malaysian statutory tax rate of 25% (2009: 25%)	284,005	253,963	(235,990)	71,874
Effect of income not subject to tax	(1,785,685)	(576,084)	-	(71,874)
Effect of expenses not deductible for tax purposes	1,610,216	451,317	235,990	-
Utilisation of previously unrecognised unabsorbed capital allowance	(143,174)	-	-	-
Deferred tax assets not recognised/ (utilised)	34,638	(129,196)	-	-
Tax expense for the year	-	-	-	-

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

	GROUP 2010 RM	GROUP 2009 RM
Property, plant and equipment	-	(192,835)
Provisions	542,636	270,000
Unutilised tax losses	3,288,828	6,024,829
Accelerated capital allowances	(148,061)	-
Unabsorbed capital allowances	863,264	538,640
	4,546,667	6,640,634

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 (cont'd)

9. PROPERTY, PLANT AND EQUIPMENT

Group	Leasehold Land RM	Buildings RM	Motor Vehicles RM	Computers RM	Furniture, fittings, office equipment & renovation RM	Total RM
Cost						
At 1 January 2009						
As previously stated	-	688,000	1,370,469	2,784,446	12,591,380	17,434,295
Effects of adopting the amendments to FRS 117	442,000	-	-	-	-	442,000
Additions	-	-	-	194,974	817,539	1,012,513
Disposal	-	-	-	(6,879)	-	(6,879)
Write-off	-	-	-	(81,814)	(499,740)	(581,554)
At 31 December 2009/1 January 2010	442,000	688,000	1,370,469	2,890,727	12,909,179	18,300,375
Additions	-	-	-	188,964	836,340	1,025,304
Write-off	-	-	-	-	(347,741)	(347,741)
At 31 December 2010	442,000	688,000	1,370,469	3,079,691	13,397,778	18,977,938
Accumulated depreciation						
At 1 January 2009						
As previously stated	-	148,453	812,278	2,106,929	4,811,875	7,879,535
Effects of adopting the amendments to FRS 117	5,182	-	-	-	-	5,182
Charge for the year	518	13,750	185,372	375,526	2,019,687	2,594,853
Disposal	-	-	-	(3,242)	-	(3,242)
Write-off	-	-	-	(78,488)	(69,766)	(148,254)
At 31 December 2009/1 January 2010	5,700	162,203	997,650	2,400,725	6,761,796	10,328,074
Charge for the year	518	13,750	165,344	330,008	2,090,971	2,600,591
Write-off	-	-	-	-	(251,484)	(251,484)
At 31 December 2010	6,218	175,953	1,162,994	2,730,733	8,601,283	12,677,181

9. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Group	Leasehold Land RM	Buildings RM	Motor Vehicles RM	Computers RM	Furniture, fittings, office equipment & renovation RM	Total RM
Carrying amounts						
At 1 January 2009	436,818	539,547	558,191	677,517	7,779,505	9,991,578
At 31 December 2009/1 January 2010	436,300	525,797	372,819	490,002	6,147,383	7,972,301
At 31 December 2010	435,782	512,047	207,475	348,958	4,796,495	6,300,757

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

9. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

The Authority	Leasehold Land RM	Buildings RM	Motor Vehicles RM	Computers RM	Furniture, fittings, office equipment & renovation RM	Total RM
Cost						
At 1 January 2009						
As previously stated	-	688,000	920,166	2,514,407	5,247,464	9,370,037
Effects of adopting the amendments to FRS 117	442,000	-	-	-	-	442,000
Additions	-	-	-	112,899	63,498	176,397
Write-off	-	-	-	(76,126)	(62,474)	(138,600)
At 31 December 2009/1 January 2010	442,000	688,000	920,166	2,551,180	5,248,488	9,849,834
Additions	-	-	-	140,144	21,349	161,493
At 31 December 2010	442,000	688,000	920,166	2,691,324	5,269,837	10,011,327
Accumulated depreciation						
As previously stated						
At 1 January 2009	-	148,453	729,771	2,076,695	2,949,996	5,904,915
Effects of adopting the amendments to FRS 117	5,182	-	-	-	-	5,182
Charge for the year	518	13,750	76,616	277,346	637,773	1,006,003
Write-off	-	-	-	(76,119)	(56,136)	(132,255)
At 31 December 2009/1 January 2010	5,700	162,203	806,387	2,277,922	3,531,633	6,783,845
Charge for the year	518	13,750	56,588	211,726	628,828	911,410
At 31 December 2010	6,218	175,953	862,975	2,489,648	4,160,461	7,695,255

9. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

	Leasehold Land RM	Buildings RM	Motor Vehicles RM	Computers RM	Furniture, fittings, office equipment & renovation RM	Total RM
The Authority						
Carrying amounts						
At 1 January 2009	436,818	539,547	190,395	437,712	2,297,468	3,901,940
At 31 December 2009/1 January 2010	436,300	525,797	113,779	273,258	1,716,855	3,065,989
At 31 December 2010	435,782	512,047	57,191	201,676	1,109,376	2,316,072

10. INVESTMENT IN SUBSIDIARIES

	AUTHORITY	
	2010 RM	2009 RM
Unquoted shares, at cost	1	1

The subsidiaries, all incorporated in Malaysia, are as follows:

Name	Country of Incorporation	Principal Activities	Proportion (%) of Ownership Interest 2010	2009
Held by the Authority:				
LabuanFSA Incorporated Sdn. Bhd. (formally known as LOFSA 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 Inc. Sdn. Bhd.	Malaysia	Marketing & promoting Labuan International Business and Financial Centre	100	100

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

11. FEES AND OTHER RECEIVABLES

	GROUP		AUTHORITY	
	2010 RM	2009 RM	2010 RM	2009 RM
Current				
Fees receivables	7,592,813	7,196,649	7,344,764	7,030,805
Less: Allowance for impairment	(1,043,760)	(660,800)	(1,043,760)	(660,800)
Fees receivables, net	6,549,053	6,535,849	6,301,004	6,370,005
Other receivables				
Amount due from subsidiary	-	-	3,999,631	4,002,832
Staff housing loans	598,661	463,537	598,661	463,537
Staff vehicle loans	372,272	266,803	372,272	266,803
Staff advances/ sundry debtors	248,461	296,265	229,875	221,127
Refundable deposits	480,082	295,675	198,261	191,017
Interest receivable	456,225	515,723	456,225	515,723
Prepaid expenses	35,536	114,427	27,055	78,243
Others	151,361	98,747	-	-
	2,342,598	2,051,177	5,881,980	5,739,282
Less: Allowance for impairment	(168,210)	(169,710)	(168,210)	(169,710)
	2,174,388	1,881,467	5,713,770	5,569,572
	8,723,441	8,417,316	12,014,774	11,939,577
Non-current				
Other receivables:				
Staff housing loans	8,485,731	7,024,393	8,485,731	7,024,393
Staff vehicle loans	1,500,354	1,732,033	1,500,354	1,732,033
	9,986,085	8,756,426	9,986,085	8,756,426
Total fees and other receivables (current and non-current)	18,709,526	17,173,742	22,000,859	20,696,003
Add: Cash and bank balances	31,624,512	30,438,138	25,914,961	28,150,967
Total loans and receivables	50,334,038	47,611,880	47,915,820	48,846,970

11. FEES AND OTHER RECEIVABLES (CONT'D)

a) Fees receivable (continued)

Aging analysis of fees and trade receivables

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

	GROUP	
	2010 RM	2009 RM
Neither past due nor impaired	6,301,004	6,370,005
1 to 90 days past due not impaired	107,918	68,142
More than 91 days past due not impaired	140,131	97,702
	248,049	165,844
Impaired	1,043,760	660,800
	7,592,813	7,196,649

	AUTHORITY	
	2010 RM	2009 RM
Neither past due nor impaired	6,301,004	6,370,005
Impaired	1,043,760	660,800
	7,344,764	7,030,805

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

11. FEES AND OTHER RECEIVABLES (CONT'D)

a) Fees receivable (continued)

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. All of the Group's and the Authority's fees receivables arise from customers with more than four years of experience with the Authority and losses have occurred infrequently.

None of the Group's and the Authority's fees 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 and the Authority have fees and trade receivables amounting to RM248,049 and Nil (2009: RM165,844 and Nil) respectively that are past due at the reporting date but not impaired.

Receivables that are impaired

The Group's and the Authority's 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	
	2010	2009	2010	2009	2010	2009
Group	RM	RM	RM	RM	RM	RM
Trade receivables - nominal amounts	387,960	-	655,800	660,800	1,043,760	660,800
Less: Allowance for impairment	(387,960)	-	(655,800)	(660,800)	(1,043,760)	(660,800)
	-	-	-	-	-	-

	Collectively impaired		Individually impaired		Total	
	2010	2009	2010	2009	2010	2009
Authority	RM	RM	RM	RM	RM	RM
Trade receivables - nominal amounts	387,960	-	655,800	660,800	1,043,760	660,800
Less: Allowance for impairment	(387,960)	-	(655,800)	(660,800)	(1,043,760)	(660,800)
	-	-	-	-	-	-

11. FEES AND OTHER RECEIVABLES (CONT'D)

a) Fees receivable (continued)

Movement in allowance account

	2010 RM	2009 RM
At 1 January	660,800	655,800
Effect of adopting FRS 139	283,173	-
Net charged for the year	99,787	5,000
At 31 December	1,043,760	660,800

Trade receivables that are individually determined to be impaired at the reporting date relate to debtors that are in significant financial difficulties and have defaulted on payments.

b) Staff housing and vehicle loans

Staff housing and vehicle loans are repayable over a maximum period of 25 years and 7 years respectively. The interest charged on these loan ranges from 2% to 3% (2009: 2% to 3%) per annum.

c) Amount due from subsidiary

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

12. CASH AND CASH EQUIVALENTS

	GROUP		AUTHORITY	
	2010 RM	2009 RM	2010 RM	2009 RM
Fixed deposits with licensed banks	25,800,000	21,845,000	24,000,000	20,000,000
Money at call with licensed banks	-	7,205,756	-	7,205,756
Cash on hand and at banks	5,824,512	1,387,382	1,914,961	945,211
	31,624,512	30,438,138	25,914,961	28,150,967

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

12. CASH AND CASH EQUIVALENTS (CONT'D)

The effective interest rates are as follows:

	GROUP		AUTHORITY	
	2010	2009	2010	2009
	% p.a	% p.a	% p.a	% p.a
Fixed deposits	2.94	2.82	2.94	2.94
Money at call	1.15	1.15	1.15	1.15

The fixed deposits have maturity of 1 year (2009: 1 year) while money at call have maturity of 1 day (2009: 1 day).

13. DEFERRED INCOME

During the year, the Authority received a government grant of RM17.5 million (2009: RM16.0 million) from the Ministry of Finance for the purpose of projects to be undertaken by the Authority under the Ninth Malaysia Plan. The grant forms part of the total allocation of RM80 million for the duration of the Ninth Malaysia Plan from 2006 to 2010.

The government grant received is recognised in the income statement on the basis of the expenses incurred, or a systematic basis over the useful lives of assets relating to projects undertaken by the Group under the Ninth Malaysia Plan.

	GROUP		AUTHORITY	
	2010 RM	2009 RM	2010 RM	2009 RM
Deferred income at 1 January	10,587,190	11,857,142	5,074,291	6,261,042
Government grant received	17,500,000	16,000,000	17,500,000	16,000,000
Less: Amount recognised in income statement	(20,088,797)	(17,269,952)	(19,593,320)	(17,186,751)
Deferred income at 31 December	7,998,393	10,587,190	2,980,971	5,074,291

14. OTHER PAYABLES

	GROUP		AUTHORITY	
	2010 RM	2009 RM	2010 RM	2009 RM
Current				
Amount due to subsidiary	-	-	245,324	157,238
Fees received in advance	2,013,403	1,972,775	2,013,403	1,972,775
Refundable deposits	1,200,000	1,100,000	1,200,000	1,100,000
Accruals	1,993,369	649,892	427,250	78,978
Other payables	3,590,530	2,297,072	1,849,079	795,678
Total other payables representing financial liabilities carried at amortised cost	8,797,302	6,019,739	5,735,056	4,104,669

a) **Amount due to subsidiary**

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

b) **Fees received in advance**

Fees received in advance comprise annual and licence fees paid in advance by Labuan banks, insurance companies and other Labuan entities.

c) **Refundable deposits**

Refundable deposits 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**

Other payables comprise amounts outstanding for ongoing costs.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

15. EMPLOYEE BENEFITS

Movements in the liability for other long term employee benefits:

GROUP and the AUTHORITY	2010 RM	2009 RM
At 1 January	386,000	436,000
Settled during the year	-	-
Recognised in income statement	9,000	(50,000)
At 31 December	395,000	386,000

Assumptions

Principal assumptions at the reporting date:

GROUP and the AUTHORITY	2010 %	2009 %
Discount rate at 31 December	4.38	4.38
Future salary increases	5.11	5.80

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

As at year end, other long term benefit is calculated based on the number of unutilised leave available of each entitled staff as at 31 December 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 31 December is the market yield at the reporting date on high quality corporate bonds or government bonds.

16. GOVERNMENT LOANS

Government loans represent the balance of RM3 million out of a RM6 million loan and a RM10 million loan obtained in 1996 and 2000 respectively from Bank Negara Malaysia. The loans represent government assistances and are unsecured and interest-free. The balance of the first loan and the second loan are repayable in the year 2010. During the financial year, the Authority had been granted an extension of the loan for another 10 years until 10 June 2019 with staggered repayment term.

The maturities of the Government loans as at 31 December are as follows

GROUP and the THE AUTHORITY		
	2010 RM	2009 RM
Within 12 months	3,000,000	-
After 12 months	10,000,000	13,000,000

17. RELATED PARTIES DISCLOSURES

a) Services rendered

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

		AUTHORITY
	2010 RM	2009 RM
Tuition fees paid to a subsidiary	190,432	177,395
Project expenditure incurred under the Ninth Malaysia Plan under government grant to subsidiary	15,615,002	13,951,272

For the purposes of these financial statements, parties are considered to be related to the Group or the Authority if the Group or 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 Group or the Authority and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

17. RELATED PARTIES DISCLOSURES (CONT'D)

b) Compensation of key management personnel

GROUP and the AUTHORITY		
	2010	2009
	RM	RM
Key management personnel		
- Staff housing loans	689,362	856,679
- Staff vehicle loans	184,424	207,013
- Personal loans	3,889	7,222
- Computer loans	3,352	276
	881,027	1,071,190

18. COMMITMENTS

a) Capital commitments

Capital expenditure as at the reporting date is as follows:

GROUP and the AUTHORITY		
	2010	2009
	RM	RM
- Approved but not contracted for property, plant and equipment	-	1,554,330
	-	1,554,330

b) Operating leases commitments – as lease

The Group has entered into commercial leases on office equipment and an office premise. These leases have an average tenure of between three and five years with renewal option and no contingent rent provision included in the contracts. The Group is restricted from subleasing the leased equipment to third parties.

18. COMMITMENTS (CONT'D)

b) Operating leases commitments – as lease (Cont'd)

Future minimum rentals payable under non-cancellable operating leases at the reporting date are as follows:

	GROUP		AUTHORITY	
	2010 RM	2009 RM	2010 RM	2009 RM
Later than 1 year	44,268	115,668	-	71,400
Later than 1 year but not later than 5 years	-	101,500	-	101,500
	44,268	217,168	-	172,900

19. FAIR VALUE OF FINANCIAL INSTRUMENTS

Determination of fair value

Financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximation 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
Fees and other receivables	11
Cash and bank balances	12
Other payables	14

The carrying amounts of these financial assets and liabilities are reasonable approximation of their fair values, due to their short-term nature.

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

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

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

a) Credit risk

The financial instruments which potentially subject the Group 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 fee income in suspense at year end related to this credit risk is remote.

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

b) Liquidity risk

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

Analysis of financial instruments by remaining contractual maturities

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

	On Demand or within one year	One to five years	Over five years	Total
	RM	RM	RM	RM
GROUP				
Total undiscounted financial liabilities:				
Other payables	8,797,302	-	-	8,797,302
Employee benefits	613,091	-	-	613,091
AUTHORITY				
Total undiscounted financial liabilities:				
Other payables	5,735,056	-	-	5,735,056
Employee benefits	613,091	-	-	613,091

21. AUTHORISATION OF FINANCIAL STATEMENTS FOR ISSUE

The financial statements were authorised for issue by the Members of the Authority on 11 April 2011.

Appendices

APPENDICES

CORPORATE EVENTS IN 2010

JANUARY	
19	Announcement allowing Labuan banks and investment banks the flexibility to establish their office or offices in other parts of Malaysia other than in Labuan.
20 - 24	Participated in the Trade and Investment Mission to India in conjunction with the official visit by the Honourable Prime Minister of Malaysia to New Delhi and Chennai.
FEBRUARY	
5	Meeting of the 11th Shariah Supervisory Council (SSC) in Kuala Lumpur to discuss issues and endorse Shariah-compliant financial products and services.
11	The new legislation of Labuan IBFC came into effect. Labuan Offshore Financial Services Authority (LOFSA) was renamed Labuan Financial Services Authority (Labuan FSA).
22	The Organisation for Economic Cooperation and Development (OECD) listed Malaysia in the "White List".
23	Participated in MIDA's and SME Corp's domestic investment seminar in Kuala Lumpur.
MARCH	
18 - 20	Labuan FSA co-organised the International Islamic Finance Conference 2010 with Universiti Malaysia Sabah, Labuan campus, as part of its firm commitment and continuous efforts in developing Islamic finance.
APRIL	
16	Briefing to Mr Ghanim Saad Al-Saad, CEO Qatari Diar Real Estate Investment Co, on the developments and investment opportunities in Labuan IBFC.
23	Labuan FSA and the Financial Services Commission Mauritius (FSC Mauritius) signed a Memorandum of Understanding on Co-operation and Mutual Assistance. This co-operation also includes the exchange of information as well as supervisory and investigation assistance as allowed by the regulatory framework of both jurisdictions.
26	Participated in the Malaysia International Islamic Finance roadshow to United Arab Emirates and Kingdom of Saudi Arabia headed by HRH Raja Nazrin Shah Ibni Sultan Azlan Muhibbuddin Shah, the Regent of Perak Darul Ridzuan, Malaysia.
MAY	
3 - 5	Participated in Showcase Malaysia and Islamic Financial Services Board Summit in Bahrain.
25	Briefing on the development of Labuan IBFC to heads of government departments and agencies in Labuan.
JUNE	
17	Briefing to Ambassadors and High Commissioners in Malaysia on the development of Labuan IBFC by Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz, Chairman of Labuan FSA.
20	Briefing to ASEAN Young Diplomats on International Affairs on the development of Labuan IBFC.

APPENDICES - CORPORATE EVENTS IN 2010

JULY	
1	Participated in MIDA's and SME Corp's domestic investment seminar in Kota Kinabalu, Sabah.
17	Opening of City Credit Investment Bank Limited (CCIBL) in the People's Republic of China. CCIBL is the first Labuan-based bank to set up a representative office in the Republic.
27	Meeting of the 12th Shariah Supervisory Council in Kuala Lumpur to discuss issues and endorse Shariah-compliant financial products and services.
AUGUST	
3	Labuan FSA received the award for "Most Outstanding Contribution to Islamic Finance" in conjunction with the 7th Kuala Lumpur Islamic Finance Forum 2010.
9	Briefing to the Minister of Federal Territories and Urban Wellbeing, the Honourable Dato' Raja Nong Chik Dato' Raja Zainal Abidin, and senior officials on the developments of Labuan IBFC.
SEPTEMBER	
20 - 23	Participated in the OGBS meeting and International Central Banking Supervisors (ICBS) conference in Singapore.
28	Participated in the International Islamic Financial Market (IIFM) Exco meeting in Bahrain.
OCTOBER	
7	Study visit by Samsung Economic Research Institute (SERI), Korea, to carry out a consulting project assigned by the Jeju local government for the development of Jeju Island.
8	Participated in MIDA's and SME Corp's domestic investment seminar in Kuching, Sarawak.
25 - 27	Participated in the Global Islamic Financial Forum 2010 (GIFF 2010) entitled "Opportunities for Tomorrow" organised by Bank Negara Malaysia.
NOVEMBER	
11 Nov 2010	Hosted the Labuan International Islamic Finance Lecture Series V 2010. The speech entitled "Islamic Finance as the Means to the Revival of Islamic Renaissance" was delivered by the Honourable Tun Dr. Mahathir Mohamed.
DECEMBER	
10 Dec 2010	• Signing ceremony between Salama Group and Labuan FSA in conjunction with the relocation of BEST RE headquarters from Tunisia to Labuan. With this initiative, the company has established two subsidiaries with an initial capital of USD150 million. • Organised MISR Seminar in collaboration with the Marine Department Malaysia for Labuan industry players. The main objective of the seminar was to increase awareness and provide details on the operation of MISR to Labuan financial players.

APPENDICES

LISTINGS OF LABUAN FINANCIAL INSTITUTIONS as at 15 April 2011

LABUAN BANKS (COUNTRY OF ORIGIN)

1. Affin Bank Berhad, Labuan Branch (Malaysia)
   Tel : 087-411931
   Fax : 087-411973
   E-mail : kttan@affinbank.com.my
   Mr Tan Kok Toon

2. AmBank (M) Berhad, Labuan Offshore Branch (Malaysia)
   Tel : 087-413133
   Fax : 087-425211
   E-mail : iskandar-hafidz@ambankgroup.com
   Mr Mohamad Iskandar Hafidz

3. AmInternational (L) Ltd (Malaysia)
   Tel : 087-413133
   Fax : 087-425211
   E-mail : iskandar-hafidz@ambankgroup.com
   Mr Mohamad Iskandar Hafidz

4. Bank Islam Malaysia Berhad, Labuan Offshore Branch (Malaysia)
   Tel : 087-451802
   Fax : 087-451800
   E-mail : jaafar@bankislam.com.my
   Mr Jaafar Abu

5. Bank Muamalat Malaysia Berhad, Labuan Offshore Branch (Malaysia)
   Tel : 087-412898
   Fax : 087-451164
   E-mail : ahmadnajib@mualamat.com.my
   Mr Ahmad Najib Nazlan

6. Bank of America National Association, Labuan Branch (United States of America)
   Tel : 087-411778
   Fax : 087-424778
   E-mail : joanne.oh@bankofamerica.com
   Ms Joanne Oh Phaik Ean

7. Barclays Bank Plc, Labuan Branch (United Kingdom)
   Tel : 087-425571
   Fax : 087-425575
   E-mail : siawloong.miaw@barcap.com
   Mr Miaw Siaw Loong

8. BNP Paribas, Labuan Branch (France)
   Tel : 087-422328
   Fax : 087-419328
   E-mail : krishna.chetti@asia.bnpparibas.com
   Mr Dayakrishna Vaidynatha Chetti

9. Cathay United Bank, Labuan Branch (Taiwan)
   Tel : 087-452168
   Fax : 087-453678
   E-mail : pce@cathaybk.com.tw
   Mr Pan Chung-En

10. CIMB Bank Berhad, Labuan Offshore Branch (Malaysia)
    Tel : 087-410302
    Fax : 087-410313
    E-mail : jemima.haziz@cimb.com
    Ms Jemima Haziz

11. CIMB Bank (L) Limited (Malaysia)
    Tel : 087-410302
    Fax : 087-410313
    E-mail : jemima.haziz@cimb.com
    Ms Jemima Haziz

12. **Citibank Malaysia (L) Limited (United States of America)**
    Tel : 087-421181
    Fax : 087-419671
    E-mail : clara.ac.lim@citi.com
    Ms Clara Lim Ai Cheng

13. **Crédit Agricole Corporate and Investment Bank (France)**
    Tel : 087-408334
    Fax : 087-408335
    E-mail : hoimeng.chew@ca-cib.com
    Mr Chew Hoi Meng

14. **Credit Suisse, Labuan Branch (Switzerland)**
    Tel : 087-425381
    Fax : 087-425384
    E-mail : alfred.lee@credit_suisse.com
    Mr Lee Chee Meng

15. **DBS Bank Ltd, Labuan Branch (Singapore)**
    Tel : 087-595500
    Fax : 087-423376
    E-mail : jeffreyling@dbs.com
    Mr Jeffrey Ling Hee Keong

16. **Deutsche Bank AG, Labuan Branch (Germany)**
    Tel : 087-439811
    Fax : 087-439866
    E-mail : raymond.yeoh@db.com
    Mr Raymond Yeoh Cheng Seong

17. **First East Export Bank (P.L.C) (Iran)**
    Tel : 087-413188
    Fax : 087-411088
    E-mail : afzali@bankmellat.co.kv
    Dr Ali Afzali

18. **ING Bank N.V., Labuan Branch (Netherlands)**
    Tel : 087-425733
    Fax : 087-425734
    E-mail : milly.tan@asia.ing.com
    Ms Milly Tan

19. **JP Morgan Chase Bank N.A. (United States of America)**
    Tel : 087-424384
    Fax : 087-424390
    E-mail : ishammudin.mansor@jpmorgan.com
    Mr Ishammudin Mansor

20. **J.P. Morgan Malaysia Ltd (United States of America)**
    Tel : 087-459000
    Fax : 087-451328
    E-mail : ishammudin.mansor@jpmorgan.com
    Mr Ishammudin Mansor

21. **Kuwait Finance House (Labuan) Berhad (Kuwait)**
    Tel : 087-418777
    Fax : 087-418666
    E-mail : Azahari.abdulkudus@kfh.com.my
    Mr Azahari Abd Kudus

22. **Lloyds TSB Bank Plc, Labuan Branch (United Kingdom)**
    Tel : 087-418918
    Fax : 087-411928
    E-mail : labuan@lloydstsb.com.my
    Mr Barry Francis Lea

23. **Maybank International (L) Ltd (Malaysia)**
    Tel : 087-414406
    Fax : 087-414806
    E-mail : punjau@maybank-intl.com
    Mr Punjau Sepoi

LISTINGS OF LABUAN FINANCIAL INSTITUTIONS as at 15 April 2011

24. Mega International Commercial Bank Co., Ltd, Labuan Branch (Taiwan)
Tel : 087-581688
Fax : 087-581668
E-mail : icbc@tm.net.my
Mr Tsai, Chun-Seng

25. Mizuho Corporate Bank Ltd., Labuan Branch (Japan)
Tel : 087-417766
Fax : 087-419766
E-mail : kyoichi.nagata@mizuho-cb.com
Mr Kyoichi Nagata

26. Natixis, Labuan Branch (France)
Tel : 087-581009
Fax : 087-583009
E-mail : rizal.abdullah@ap.natixis.com
Mr Rizal Abdullah

27. Nomura Bank International PLC, Labuan Branch (United Kingdom)
Tel : 087-451248
Fax : 087-451251
E-mail : philip.chow@nomura.com
Mr Philip Chow Wing Lun

28. Oversea-Chinese Banking Corporation Limited, Labuan Branch (Singapore)
Tel : 087-423381
Fax : 087-423390
E-mail : leongwm@ocbc.com
Mr Leong Wai Mun

29. Public Bank (L) Ltd (Malaysia)
Tel : 087-411898
Fax : 087-413220
E-mail : pb11@streamyx.com
Mr Alexander Wong

30. Rabobank Nederland (Netherlands)
Tel : 087-451128
Fax : 087-452328
E-mail : clement.wong@rabobank.com
Mr Clement Wong

31. Raiffeisen Zentralbank Oesterreich Aktiengesellschaft, Labuan Branch (Austria)
Tel : 087-419330
Fax : 087-419331
E-mail : jimmy.lee@sg.rzb.at
Mr Lee Jim Yong

32. RHB Bank (L) Ltd (Malaysia)
Tel : 087-417480
Fax : 087-417484
E-mail : rhbl@streamyx.com
Ms Toh Ay Leng

33. Standard Chartered Bank Offshore, Labuan Branch (United Kingdom)
Tel : 087-417200
Fax : 087-417202
E-mail : Edward.cs.ng@my.standardchartered.com
Mr Edward Ng Chin Swee

34. Sumitomo Mitsui Banking Corporation, Labuan Branch (Japan)
Tel : 087-410955
Fax : 087-410959
E-mail : hitoshi_suyama@my.smbc.co.jp
Mr Hitoshi Suyama

35. The Bank of East Asia, Ltd, Labuan Offshore Branch (Hong Kong)
Tel : 087-451145
Fax : 087-451148
E-mail : arraisag@hkbea.com
Mr Alvin Gerard Arrais

36. The Bank of Nova Scotia, Labuan Branch (Canada)
    Tel : 087-451101
    Fax : 087-451099
    E-mail : serene.quek@scotiabank.com
    Ms Quek Chin Xian

37. The Bank of Tokyo-Mitsubishi UFJ, Ltd., Labuan Branch (Japan)
    Tel : 087-410487
    Fax : 087-410476
    E-mail : kiyoshi-waki@my.mufg.jp
    Mr Kiyoshi Waki

38. The Hongkong and Shanghai Banking Corporation Limited, Offshore Banking Unit (United Kingdom)
    Tel : 087-419680
    Fax : 087-417169
    E-mail : leechoofoo@hsbc.com.my
    Ms Foo Lee Choo

39. The Royal Bank of Scotland N.V. (Labuan) Branch (Netherlands)
    Tel : 087-423008
    Fax : 087-421078
    E-mail : Poh.Leng.Wong@rbs.com
    Ms Wong Poh Leng

40. The Royal Bank of Scotland Plc (Scotland)
    Tel : 087-423008
    Fax : 087-425078
    E-mail : poh.leng.wong@rbs.com
    Ms Wong Poh Leng

41. UBS AG, Labuan Branch (Switzerland)
    Tel : 087-421743
    Fax : 087-421746
    E-mail : zelie.ho@ubs.com
    Ms Zelie Ho Swee Lum

42. United Overseas Bank Limited, Labuan Branch (Singapore)
    Tel : 087-424388
    Fax : 087-424389
    E-mail : lai.takkong@uob.com.my
    Mr Lai Tak Kong

LABUAN INVESTMENT BANKS (COUNTRY OF ORIGIN)

1. Al-Hidayah Investment Bank (Labuan) Ltd (Malaysia)
   Tel : 087-451660
   Fax : 087-451662
   E-mail : ismail@alhidayahbank.com
   Mr Ismail Mustaffa

2. AmanahRaya Investment Bank Ltd (Malaysia)
   Tel : 087-582011
   Fax : 087-582013
   E-mail : zanariah@arinvestmentbank.com
   Ms Zanariah Ja'afar

3. Asia Development & Investment Bank Ltd. (The People's Republic of China)
   Tel : 087-429196
   Fax : 087-429182
   E-mail : natzgan@gmail.com
   Mr Lu Chong Chun

4. Asian Trade Investment Bank Ltd. (Switzerland)
   Tel : 087-451688
   Fax : 087-453688
   E-mail : atibbank@yahoo.com
   Mr Venugopalan Cherchattil

5. Capital Investment Bank (Labuan) Limited (Malaysia)
   Tel : 087-581488
   Fax : 087-583488
   E-mail : megatmizan@kenanga.com.my
   Mr Megat Mizan Nicholas Denney

LISTINGS OF LABUAN FINANCIAL INSTITUTIONS as at 15 April 2011

6. City Credit Investment Bank Limited
(Hong Kong)
Tel : 087-582268
Fax : 087-581268
E-mail : admin@cccapital.net
Dato' Abdul Rahman Abdullah

7. ECM Libra Investment Bank Limited
(Malaysia)
Tel : 087-408525
Fax : 087-408527
E-mail : slchan@ecmlibra.com
Ms Chan Soon Lee

8. European Credit Investment Bank Ltd.
(Malaysia)
Tel : 087-412886
Fax : 087-410886
E-mail : kokchee.kong@ecibl.com
Mr Kong Kok Chee

9. First Islamic Investment Bank Ltd
(Indonesia)
Tel : 03-21649255
Fax : 03-21643255
E-mail : sacred_27@yahoo.com
Mr Said Credenda Arismunandar

10. Goldman Sachs (Labuan) Investment Bank Limited
(United States of America)
Tel : 087-426081
Fax : 087-426080
E-mail : jane.maund@gs.com
Ms Jane Maund

11. IBH Investment Bank Limited
(Malaysia)
Tel : 087-421663
Fax : 087-421662
E-mail : howard@ibhinvestmentbank.com
Dato' Choo Kah Hoe

12. Kenanga Investment Bank Berhad, Labuan Branch
(Malaysia)
Tel : 03-21649080
Fax : 03-21643701
E-mail : daniel.low@kenanga.com.my
Mr Daniel Low Thien Su

13. Middle East Investment Bank Ltd
(United Arab Emirates)
Tel : 087-411100
Fax : 087-413100
E-mail : mohsen_hos27@yahoo.com
Mr Mohsen Hosseini Hossein Pour

14. Morgan Stanley Labuan Investment Bank Limited
(Singapore)
Tel : 087-423828
Fax : 087-424878
E-mail : kate.g.richdale@morganstanley.com
Ms Kate G. Richdale

15. OSK Investment Bank (Labuan) Limited
(Malaysia)
Tel : 087-414801
Fax : 087-414802
E-mail : irc.koh@my.oskgroup.com
Mr Koh Wai Chee

16. RUSD Investment Bank Inc.
(Saudi Arabia)
Tel : 087-452100
Fax : 087-453100
E-mail : labuan@rusdbank.com
Mr Naseeruddin A. Khan

REINSURER (COUNTRY OF ORIGIN)

1. ACE Tempest Reinsurance Ltd.
(Bermuda)
Tel : 087-442899
Fax : 087-451899
E-mail : Mumtaz.Ali@acegroup.com
Mr Mumtaz Farzand Ali

2. Al Fajer Retakaful Insurance Company K.S.C.C
(Labuan Branch)
(Kuwait)
Tel : 087-442899
Fax : 087-451899
E-mail : jdavis@alfajerre.com
Mr Janek Davis

3. Allianz SE General Reinsurance Branch Labuan
(Germany)
Tel : 087-442899
Fax : 087-451899
E-mail : Janet.truong@allianzre.com.sg
Ms Janet Truong

4. Allianz SE Life Reinsurance Branch Labuan
(Germany)
Tel : 087-442899
Fax : 087-451899
E-mail : Chong.koh@allianzre.com.sg
Mr Chong Koh Wil

5. Arab Insurance Group (B.S.C.)-Labuan Branch
(Bahrain)
Tel : 087-442899
Fax : 087-451899
E-mail : lee.w@arig.com.sg
Mr Lee Yew Wing

6. BEST RE (L) Limited
(Malaysia)
Tel : 087-451600
Fax : 087-452600
E-mail : rkarray@bestre-family.com.my
Mr Riadh Karray

7. BEST RE Family (L) Limited
(Malaysia)
Tel : 087-421900
Fax : 087-426900
E-mail : rkarray@bestre-family.com.my
Mr Riadh Karray

8. C.C.R., Labuan Branch
(France)
Tel : 087-417672
Fax : 087-417675
E-mail : atertzakian@ccr.com.my
Mr Alain Tertzakian

9. FM Insurance Company Limited,
Labuan Branch
(United Kingdom)
Tel : 087-442899
Fax : 087-451899
E-mail : peter.madeley@fmglobal.com
Mr Peter Charles Madeley

10. General Insurance Corporation of India,
Labuan Branch
(India)
Tel : 087-427018/428018
Fax : 087-429018
E-mail : charles@gicofindia.com
Mr Charles Gunaraj Asirvatham

11. General Reinsurance, Labuan Branch
(Formerly known as Cologne Reinsurance Company Plc)
(Germany)
Tel : 087-417672
Fax : 087-417675
E-mail : fmciner@genre.com
Mr Frank Matthew McInerney

12. General Reinsurance, Labuan Branch
(Life/Health)
(Germany)
Tel : 087-417672
Fax : 087-417675
E-mail : fmciner@genre.com
Mr Frank Matthew McInerney

APPENDICES

LISTINGS OF LABUAN FINANCIAL INSTITUTIONS as at 15 April 2011

13. **IAG Re Labuan (L) Berhad**
    (Australia)
    Tel : 087-442899
    Fax : 087-451899
    E-mail : nick.hartry@iag.com.au
    Mr Nicholas John Hartry

14. **International General Insurance Company Ltd, Labuan Branch**
    (Jordan)
    Tel : 087-426829
    Fax : 087-426830
    E-mail : wsj@iginsure.com
    Mr Wasef S. Jabsheh

15. **Jerneh Asia Reinsurance Limited**
    (Malaysia)
    Tel : 087-427818
    Fax : 087-426818
    E-mail : bkteoh@jab.com.my
    Ms Teoh Boon Kiaw

16. **Kuwait Reinsurance Company-Far East Regional Office**
    (Kuwait)
    Tel : 087-442899
    Fax : 087-451899
    E-mail : zabidi@kuwaitre-my.com
    Encik Ahmad Zabidi Ismail

17. **Labuan Reinsurance (L) Ltd**
    (Malaysia)
    Tel : 087-452886
    Fax : 087-425070
    E-mail : mdrais@labuanre.com.my
    Mr Mohamad Rais Abu Noh

18. **Mitsui Sumitomo Insurance Co., Ltd.**
    (Japan)
    Tel : 087-452748
    Fax : 087-452750
    E-mail : m-okabe@ms-ins.com
    Mr Kurao Onouchi

19. **Mitsui Sumitomo Reinsurance Limited**
    (Ireland)
    Tel : 087-452748
    Fax : 087-452750
    E-mail : t-tsuchiya@msre.com.my
    Mr Takashi Tsuchiya

20. **Paris Re Asia Pte. Ltd. (Labuan Branch)**
    (France)
    Tel : 087-427018
    Fax : 087-429018
    E-mail : daniel.lim@paris-re.com
    Mr Daniel Lim Teck Choon

21. **Partner Reinsurance Company Ltd.**
    (Bermuda)
    Tel : 087-417672
    Fax : 087-417675
    E-mail : emil.bergundthal@partnerre.com
    Mr Emil Bergundthal

22. **RGA Global Reinsurance Company Ltd, Labuan Branch**
    (United States of America)
    Tel : 087-427018
    Fax : 087-429018
    E-mail : ptan@hk.rgare.com
    Mr Peter Tan Hock Hwee

23. **SCOR Global Life SE, Labuan Branch**
    (France)
    Tel : 087-417672
    Fax : 087-417675
    E-mail : LYEW@scor.com
    Mr Lawrence Yew

24. **SCOR Reinsurance Asia-Pacific Pte Ltd, Labuan Branch**
    (France)
    Tel : 087-422004
    Fax : 087-422005
    E-mail : kliu@scor.com
    Mr Liu Kim Hock

25. Singapore Reinsurance Corporation Limited
(Singapore)
Tel : 087-417672
Fax : 087-417675
E-mail : theresa.wee@singre.com.sg
Ms Theresa Wee Sui Ling

26. Sirius International Insurance Corporation
(publ), Labuan Branch
(Sweden)
Tel : 087-417672
Fax : 087-417675
E-mail : songkng.yap@siriusgroup.com
Mr Yap Song Kng

27. Sompo Japan Insurance Inc. Labuan Branch
(Japan)
Tel : 087-417672
Fax : 087-417675
E-mail : funai@sompojapanre.com.hk
Mr Yasuhiro Funai

28. Taiping Reinsurance Co., Ltd., Labuan Branch
(Hong Kong)
Tel : 087-417672
Fax : 087-417675
E-mail : Joe_Ng@tpre.cntaiping.com
Mr Ng Wo Chung

29. Takaful Re Limited, Labuan Branch
(United Arab Emirates)
Tel : 087-442899
Fax : 087-451899
E-mail : Abouzaid.C@Takaful-Re.ae
Mr Mohammed Chakib Abouzaid

30. Tokio Marine Global Re Limited
(Ireland)
Tel : 087-583001
Fax : 087-583002
E-mail : keith.maruyama@tmgre.com
Mr Keiichi Maruyama

31. Trust International Insurance and Reinsurance
Co.B.S.C. (C) Trust Re, Labuan
(Bahrain)
Tel : 087-428981
Fax : 087-428982
E-mail : gmaltegard@trustgroup.net.bh
Mr Harry Gunnar Maltegard

32. Virginia Surety Company, Labuan Branch
(United States of America)
Tel : 087-423680
Fax : 087-421843
E-mail : viswanath.kandasamy@my.thewg.com
Mr Viswanath C Kandasamy

33. XL Re Ltd Labuan
(Bermuda)
Tel : 087-442899
Fax : 087-451899
E-mail : ann.chua@xlgroup.com
Ms Chua Lee Li

GENERAL INSURERS
(COUNTRY OF ORIGIN)

1. Etiqa Offshore Insurance (L) Ltd
(Malaysia)
Tel : 087-417672
Fax : 087-417675
E-mail : nazriw.a@etiqa.com.my
Mr Nazri Wong Abdullah

2. Federal Insurance Company, Labuan Branch
(United States of America)
Tel : 087-417672
Fax : 087-417675
E-mail : sblasina@chubb.com
Mr Stephen Julian Blasina

LISTINGS OF LABUAN FINANCIAL INSTITUTIONS as at 15 April 2011

3. **HIH Casualty and General Insurance (Labuan) Limited (Australia)**
   Tel : 03-77213388
   Fax : 03-77217699

4. **Liberty Mutual Insurance Europe Limited, Labuan Branch (United Kingdom)**
   Tel : 087-429799
   Fax : 087-429788
   E-mail : Andrew.So@libertyiu.com
   Mr Andrew Soh Jo Han

5. **PT. Asuransi Jasa Indonesia, Labuan Branch (Indonesia)**
   Tel : 087-417672
   Fax : 087-417675
   E-mail : erwin.noekman@jasindonet.com
   Mr Erwin Hanapi Noekman

6. **Swiss National Insurance Company (Labuan Branch) Ltd (Switzerland)**
   Tel : 087-442899
   Fax : 087-451899
   E-mail : phekchoo.cheah@nationalesuisse.com.my
   Ms Cheah Phek Choo

7. **XL Insurance Company Limited (Labuan Branch) (United Kingdom)**
   Tel : 087-442899
   Fax : 087-451899
   E-mail : andrew.vigar@xlgroup.com
   Mr Andrew Vigar

LIFE INSURERS (COUNTRY OF ORIGIN)

1. **Etiqa Life International (L) Ltd (Malaysia)**
   Tel : 087-582588
   Fax : 087-583588
   E-mail : nazriw.a@etiqa.com.my
   Mr Nazri Wong Abdullah

2. **Hansard International Limited, Far East (Isle of Man)**
   Tel : 087-442899
   Fax : 087-451899
   E-mail : gordon.marr@hansard.com
   Mr Gordon Stuart Marr

COMPOSITE INSURERS (COUNTRY OF ORIGIN)

1. **ASEAN Retakaful International (L) Ltd (Malaysia)**
   Tel : 087-451301
   Fax : 087-451300
   E-mail : izzuddin_tajudin@aseanretakaful.com
   Mr Izzuddin Tajudin

2. **MAA International Assurance Ltd (Malaysia)**
   Tel : 087-422007
   Fax : 087-422008
   E-mail : richardgoh@maa.com.my
   Mr Goh Ah Hong

CAPTIVES (COUNTRY OF ORIGIN)

1. **AirAsia Corporate Services Limited (Malaysia)**
   Tel : 087-442899
   Fax : 087-451899
   Email : mustaffaramly@airasia.com
   Mr Rozman Omar

2. **Advance International Insurance Limited**
   (formerly known as NWS International Insurance Limited)
   (British Virgin Islands)
   Tel : 087-416122
   Fax : 087-416128
   Email : heiwong@nova-insure.com
   Mr Wong Hei

3. **AKT Co., Ltd.**
   (Japan)
   Tel : 087-427018
   Fax : 087-429018
   E-mail : t_miyake@fournine.co.jp
   Mr Takaharu Miyake

4. **Asian Forum Inc**
   (Indonesia)
   Tel : 087-417672
   Fax : 087-417675
   E-mail : erwin.noekman@jasindonet.com
   Ms Erwin Hanapi Noekman

5. **AWCK International Insurance Company Limited**
   (Hong Kong)
   Tel : 087-427018
   Fax : 087-429018
   E-mail : dw1668@hkstar.com
   Mr Dickson Lai Hong Yu

6. **BGC Insurance (L) Limited**
   (Australia)
   Tel : 087-417672
   Fax : 087-417675
   E-mail : srobertson@bgcinsurance.com
   Mr Stephen Robertson

7. **BIB Asia (L) Berhad**
   (Malaysia)
   Tel : 087-427018
   Fax : 087-429018
   E-mail : pmun@bib.com.my
   Ms Mun Peck Yee

8. **Blakford Insurance Ltd.**
   (Malaysia)
   Tel : 087-427018
   Fax : 087-429018
   E-mail : jos-kcw@tm.net.my
   Dato' Henry Lau Lee Kong

9. **Byrnecut Insurance Malaysia Ltd**
   (British Virgin Islands)
   Tel : 087-442899
   Fax : 087-451899
   Email : Stuart.Herbert@marsh.com
   Mr Stuart Sidney Herbert

10. **Challenge Group Underwriters & Managers (L) Inc**
    (Formerly known as ARS Captive Insurance Corporation)
    (Malaysia)
    Tel : 087-583816
    Fax : 087-583814
    E-mail : f.aripen@challenge-gi.com
    Mr Ahmed Farouk Aripen

11. **Energas Insurance (L) Limited**
    (Malaysia)
    Tel : 087-417672
    Fax : 087-417675
    E-mail : raziya@petronas.com.my
    Ms Raziyah Yahya

12. **GAP Cover Insurance Inc**
    (Malaysia/Australia)
    Tel : 087-453858
    Fax : 087-453616
    E-mail : management@ectrust.com.my
    Mr Peter Kent Searle

13. **General Captive International Ltd**
    (Malaysia)
    Tel : 087-427018
    Fax : 087-429018
    E-mail : maksiewfong@gmail.com
    Mr Mak Siew Fong

LISTINGS OF LABUAN FINANCIAL INSTITUTIONS as at 15 April 2011

14. Genting (Labuan) Limited
(Malaysia)
Tel : 087-427018
Fax : 087-429018
E-mail : azmi.abdullah@genting.com
Mr Azmi Abdullah

15. GHR Risk Management (Labuan) Limited
(Malaysia)
Tel : 087-427018
Fax : 087-429018
E-mail : azmi.abdullah@genting.com
Mr Azmi Abdullah

16. Gulf Atlantic and Pacific Insurance Company Ltd.
(United States of America)
Tel : 087-417672
Fax : 087-417675
E-mail : johnnyk105@sbcglobal.net
Mr John Joseph Khoury

17. IRM Limited
(Malaysia)
Tel : 087-442899
Fax : 087-451899
E-mail : raymond.wong@asia.equitytrust.com
Mr Raymond Wong Wai Bun

18. KLK Assurance (Labuan) Limited
(Malaysia)
Tel : 087-442899
Fax : 087-451899
E-mail : wm.har@klk.com.my
Mr Tham Chee Phing

19. Lion Insurance Company Limited
(Malaysia)
Tel : 087-427018
Fax : 087-429018
E-mail : gohkb@lion.com.my
Mr Wang Wing Ying

20. MED RE Sdn. Bhd.
(Japan)
Tel : 087-427018
Fax : 087-429018
E-mail : t_miyake@fournine.co.jp
Mr Tatsuo Kanaji

21. Pacific Insurance (L) Ltd
(Indonesia)
Tel : 087-442899
Fax : 087-451899
E-mail : benny_setiawan@rgni.com
Mr Benny Setiawan

22. Paragon Insurance Company Limited
(British Virgin Islands)
Tel : 087-416122
Fax : 087-422122
E-mail : rebeccaau@nwriskmgt.com
Ms Anita Cheng Shum Yuk Ming

23. R H Insurance Ltd
(Malaysia)
Tel : 087-427018
Fax : 087-429018
E-mail : cjng@rhgrp.com.my
Mr Tiong Chiong Ong

24. Sime Darby Insurance Pte. Ltd.
(Malaysia)
Tel : 087-417672
Fax : 087-417675
E-mail : ci.cheibrahim@SDLockton.simedarby.com
Mr Che Ibrahim Che Idris

25. Something Re. Co., Ltd
(Japan)
Tel : 087-427018
Fax : 087-429018
E-mail : kasahara@s-thing.co.jp
Mr Atsushi Kasahara

26. Sunway Captive Insurance Ltd
(Malaysia)
Tel : 087-427018
Fax : 087-429018
E-mail : ngel@sunway.com.my
Mr Ng Eng Lee

27. Sunway City Captive Insurance Ltd
(Malaysia)
Tel : 087-427018
Fax : 087-429018
E-mail : tommyt@sunway.com.my
Mr Tan Boon Leong

28. The Four Nine Asia Sdn Bhd
(Japan)
Tel : 087-427018
Fax : 087-429018
E-mail : t_miyake@fournine.co.jp
Mr Takaharu Miyake

29. The Mutual Assurance Co. Plc
(Malaysia)
Tel : 087-442899
Fax : 087-451899
E-mail : raymond.wong@asia.equitytrust.com
Mr Raymond Wong Wai Bun

30. Tune Insurance (Labuan) Ltd
(Malaysia)
Tel : 087-442899
Fax : 087-451899
E-mail : koksan@mpib.com.my
Mr Ong Kok San

31. Twenty-One Insurance Company (Labuan) Ltd.
(Bermuda)
Tel : 087-442899
Fax : 087-451899
E-mail : tmimura@cosmos-international.co.jp
Mr Kenjiro Noda

32. Warisan Captive Incorporated
(Malaysia)
Tel : 087-427018
Fax : 087-429018
E-mail : chuihar.lee@tanchong.com.my
Mr Lee Chui Har

INSURANCE BROKERS (COUNTRY OF ORIGIN)

1. Absolute Financial Solutions Limited
(United Kingdom)
Tel : 087-442899
Fax : 087-451899
Email : helenbarbarasmith@gmail.com
Mr David Alexender George Riggs

2. Advisers Worldwide (Malaysia) Limited
(Australia)
Tel : 087-427018
Fax : 087-429018
E-mail : clivem@advisersworldwide.com
Mr Clive Graham Macdonald

3. AFR Asia Pacific Limited
(Singapore)
Tel : 087-442899
Fax : 087-451899
E-mail : aff@pws.com.my
Mr Ahmad Farouk Faizi B Dato' Abd Karim

4. Al Wasl Insurance Brokers Limited
(United Arab Emirates)
Tel : 087-442899
Fax : 087-451899
E-mail : hassan@al-wasl.com
Mr Syed Hassan Mujtaba Kazmi

5. Aon Benfield Malaysia Limited
(United Kingdom)
Tel : 087-417672
Fax : 087-417675
E-mail : phaikhar.lim@benfieldgroup.com
Ms Lim Phaik Har

LISTINGS OF LABUAN FINANCIAL INSTITUTIONS as at 15 April 2011

6. ARL International Limited
(Indonesia)
Tel : 087-427018
Fax : 087-429018
E-mail : rahman@agilentlimited.com
Mr Abdul Rahman Aminuddin

7. ArmenWoodBerg Incorporated
(Sweden)
Tel : 087-417672
Fax : 087-417675

8. Asia Reinsurance Brokers (Labuan) Ltd.
(United States of America)
Tel : 087-417672
Fax : 087-417675
E-mail : roy_sharma@ajg.com
Mr Gerard Roy Suresh Sharma

9. Asure Re Broker Pte Ltd
(Korea)
Tel : 087-427018
Fax : 087-429018
E-mail : asurekl@streamyx.com
Mr Kang Sok Un

10. BIB Asia (L) Berhad
(Malaysia)
Tel : 087-427018
Fax : 087-429018
E-mail : PMUN@bib.com.my
Ms Mun Peck Yee

11. Cameron Asia Reinsurance Brokers Ltd.
(United States of America)
Tel : 087-442899
Fax : 087-451899
E-mail : tom.Curtis@cameronasire.com
Mr Witold Thomas Buller Curtis

12. Challenge Group Inc
(Russia)
Tel : 087-583816
Fax : 087-583814
E-mail : charles_catt@challenge-gi.com
Mr Charles James Catt

13. Citystate Risk Management (L) Bhd
(Singapore)
Tel : 087-417672
Fax : 087-417675
E-mail : julianrh@crml.com.my
Mr Julian Robert Hodge

14. ClubkeyOffshore Financial Services
(Labuan) Ltd.
(United Kingdom)
Tel : 087-427018
Fax : 087-429018
E-mail : ron.buckley@ckosfareast.com
Mr Ronald Derek Buckley

15. Colemont Asia Limited
(United States of America)
Tel : 087-442899
Fax : 087-451899
E-mail : skip.cooper@amwins.com
Mr Wiley Howard Cooper IV

16. Commonwealth Re Ltd
(Malaysia)
Tel : 087-442899
Fax : 087-451899
E-mail : fredp@commonwealthre.biz
Mr Frederick Paul Pereira

17. Delphi International Insurance Broker Ltd.
(Sweden)
Tel : 087-427018
Fax : 087-429018
E-mail : delphi@pd.jaring.my
Mr Hans Lennart Bjornered

18. deVere and Partners (L) Ltd
(British Virgin Islands)
Tel : 087-427018
Fax : 087-429018
E-mail : nigel.green@devereandpartners.com
Mr Nigel Green

19. **deVere and Partners (M) Ltd (British Virgin Islands)**
Tel : 087-427018
Fax : 087-429018
E-mail : nigel.green@devereandpartners.com
Mr Nigel Green

20. **Eco Partners International Limited (United Kingdom)**
Tel : 087-442899
Fax : 087-451899
E-mail : john@ecopartnerslimited.com
Mr Jonathan Wayne Markes

21. **EuroAsian Reinsurance Broker Corporation (Russia)**
Tel : 087-417672
Fax : 087-417675
E-mail : irina.golovatch@euroasian-broker.com
Ms Irina Golovatch

22. **Falcon International Financial Services Limited (United Kingdom)**
Tel : 087-417672
Fax : 087-417675
E-mail : dmacqueen@falcon.my
Mr Daniel James Sydney Macqueen

23. **Faramond (Labuan) Ltd (United Kingdom)**
Tel : 087-417672
Fax : 087-417675
E-mail : warren.r@faramond.com
Mr Warren Bruce Rodrigues

24. **Farringdon Group Ltd. (United Kingdom)**
Tel : 087-442899
Fax : 087-451899
E-mail : abartlett@farringdongroup.com
Mr Andrew Peter Bartlett

25. **FEIC (Asia) Limited (United Kingdom)**
Tel : 087-417672
Fax : 087-417675
E-mail : colin@seic-asia.com
Mr Colin Richard Irwin

26. **Financial Partners Limited (United Kingdom)**
Tel : 087-427018
Fax : 087-429018
E-mail : martin.bignell@financial-partners.biz
Mr Martin Harold Bignell

27. **GAA Direct Limited (United Kingdom)**
Tel : 087-427018
Fax : 087-429018
E-mail : carl@gaafunds.com
Mr Carl Butler

28. **Greenwood Private Wealth Management Ltd. (United Kingdom)**
Tel : 087-427018
Fax : 087-429018
E-mail : jackie.evans@abg-my.com
Ms Jacqueline Evans

29. **GS Wealth (L) Ltd (United Kingdom)**
Tel : 087-417672
Fax : 087-417675
E-mail : ndavies@elitecapitalsolutions.com
Mr Neal Davies

30. **Guy Carpenter & Co Labuan Ltd (United States of America)**
Tel : 087-417672
Fax : 087-417675
E-mail : Richard.H.Jones@guycarp.com
Mr Richard Huw Jones

APPENDICES

LISTINGS OF LABUAN FINANCIAL INSTITUTIONS as at 15 April 2011

31. Haakon (Asia) Ltd.
(Switzerland)
Tel : 087-442899
Fax : 087-451899
E-mail : asia@haakon.com.my
Mr Paul Karl Ludwig Oeschger

32. Hansard Development Services
(Asia Pacific) Limited
(Isle of Man)
Tel : 087-442899
Fax : 087-451899
E-mail : gordon.marr@hansard.com
Mr Gordon Stuart Marr

33. HHH Insurance Brokers Co., Ltd
(Taiwan)
Tel : 087-442899
Fax : 087-451899
E-mail : yhhuang@hhhinsbroker.com
Mr Huang Yun-Hsiang

34. HLAP Ltd.
(United Kingdom)
Tel : 087-417672
Fax : 087-417675
E-mail : lee@hlap.com.my
Mr Lee Jeffrey Warner

35. Infinity Financial Solutions Ltd.
(United Kingdom)
Tel : 087-427018
Fax : 087-429018
E-mail : benbennet@infinsolutions.com
Mr Benjamin Bennet

36. Intelligent Investments Limited
(British Virgin Islands)
Tel : 087-427018
Fax :087-429018
E-mail : stuart@intelligentinvestments.biz
Mr Stuart Leslie Shrimpton

37. International Insurance Brokers Limited
(Singapore)
Tel : 087-427018
Fax : 087-429018
E-mail : wunph@singnet.com.sg
Mr Wun Pak Hay

38. IPP Wealth Managers Ltd
(United Kingdom)
Tel : 087-427018
Fax : 087-429018
E-mail : ianpryor@ippfa.com
Mr Ian James Pryor

39. J.B. Boda Insurance Services (L) Bhd.
(Singapore)
Tel : 087-427018
Fax : 087-429018
E-mail : office@jbboda.com.my
Mr Sachis Chakravorty

40. JLT Re Labuan Ltd
(Hong Kong)
Tel : 087-427018
Fax : 087-429018
E-mail : david_philips@jltasia.com
Mr David Brian Gerard Philips

41. K.M.Dastur & Company Private Limited
(India)
Tel : 087-442899
Fax : 087-451899
E-mail : ashok@kmd-my.com
Mr Ashok Kumar Sharma

42. Lighthouse Financial Solutions Ltd
(United Kingdom)
Tel : 087-442899
Fax : 087-451899
E-mail : andy.blandford@lighthouse.asia
Mr Andrew Robert Blandford

43. **M1 Malaysia Ltd.**
(United Kingdom)
Tel : 087-427018
Fax : 087-429018
E-mail : chris@m1malaysia.com
Mr Christopher John Rossall Clegg

44. **Miller Insurance Services (Labuan) Ltd**
(United Kingdom)
Tel : 087-417672
Fax : 087-417675
E-mail : faris.davidson@miller-insurance.com
Mr Faris Salim Davidson

45. **Montpelier (Labuan) Ltd.**
(United Kingdom)
Tel : 087-419661
Fax : 087-419662
E-mail : efshqkl@po.jaring.my
Mr Stuart Robert Williamson

46. **Montpelier Nordic Ltd.**
(Sweden)
Tel : 087-411236
Fax : 087-411235
E-mail : roger.spetz@iiafs.com
Mr Roger Eric Spetz

47. **Nova Risk Management (L) Limited**
(formerly known as New World Risk Management (L) Limited)
(British Virgin Islands)
Tel : 087-416122
Fax : 087- 422122
E-mail : heiwong@nova-insure.com
Mr Wong Hei

48. **Orion International Ltd.**
(United Kingdom)
Tel : 087-427018
Fax : 087-429018
E-mail : stevenb@orioninternational.net
Mr Steven Robert John Baker

49. **Pacific World Reinsurance Brokers Limited**
(Bermuda)
Tel : 087-593828
Fax : 087-417242

50. **PAIB Company Limited**
(Indonesia)
Tel : 087-427018
Fax : 087-429018
E-mail : knlee@paibasia.com
Mr Lee Kyoo Nam

51. **Pana Harrison (Labuan) Ltd**
(Singapore)
Tel : 087-427018
Fax : 087-429018
E-mail : panakl@tm.net.my
Mr Yee San Siong

52. **Passion Global (Labuan) Ltd**
(Singapore)
Tel : 087-417672
Fax : 087-417675
E-mail : evelynloh@passion-global.com
Mr Sebastian Tan Yuan Yew

53. **PI Ltd**
(United Kingdom)
Tel : 087-417672
Fax : 087-417675
E-mail : admin1@pioffshore.com
Mr Roger Gumbrell

54. **PWS Labuan Ltd**
(United Kingdom)
Tel : 087-442899
Fax : 087-451899
E-mail : jeremy@pwslabuan.com
Mr Jeremy Christopher Camps

APPENDICES

LISTINGS OF LABUAN FINANCIAL INSTITUTIONS as at 15 April 2011

55. Questor Capital Limited
(formerly known as Questor Capital (Labuan) Ltd)
(Malaysia)
Tel : 087-417672
Fax : 087-417675
E-mail : paul.j@questor-capital.com
Mr Paul Robert Rhys James

56. RH Investment Services Labuan Limited
(United Kingdom)
Tel : 087-427018
Fax : 087-429018
E-mail : richard@rhinvestmentservices.com
Mr Richard Hull

57. Shine Re International Ltd.
(Malaysia)
Tel : 087-442899
Fax : 087-451899
E-mail : shine@streamyx.com
Mr Wong Kuan Fatt

58. Sompo Japan Reinsurance Co. Ltd,
Labuan branch
(Japan)
Tel : 087-417672
Fax : 087-417675
E-mail : funai@sompojapanre.com.hk
Mr Yasuhiro Funai

59. Sovereign Global Limited
(Malaysia)
Tel : 087-442899
Fax : 087-451899
E-mail : kanesnaidu@sovereigngloballimited.com
Mr P A Kanes Naidu A/L Athinaidu

60. Tenbridge Group Limited
(United Kingdom)
Tel : 087-442899
Fax : 087-451899
E-mail : ckirkpatrick@tenbridge.com
Mr Colin Robert Kirkpatrick

61. Three Sixty Financial Inc
(United Kingdom)
Tel : 087-427018
Fax : 087-429018
E-mail : justinmoorhouse@threesixtyfinancial.net
Mr Justin Moorehouse

62. Trinity Solutions Ltd
(Sweden)
Tel : 087-417672
Fax : 087-417675
E-mail : info@trinitysolutionsltd.com
Mr Sven Tommy Lagerhjelm

63. UIB Asia Labuan Ltd
(United Kingdom)
Tel : 087-427018
Fax : 087-429018
E-mail : andrew@uibasia.com
Mr Chua Hua Tiew

64. Uni Financial Reinsurance Services (L) Ltd
(Singapore)
Tel : 087-427018
Fax : 087-429018
E-mail : services@unifinancialre.com
Mr Leong Wee Kee

65. Willis Re Labuan Limited
(Bermuda)
Tel : 087-417672
Fax : 087-417675
E-mail : jonesan@willis.com
Mr Adrian Nicholas Jones

INSURANCE MANAGERS (COUNTRY OF ORIGIN)

1. Brighton Management Limited
(Malaysia)
Tel : 087-442899
Fax : 087-451899
E-mail : AnnieU@brightonmanager.com
Ms Annie Undikai

2. **Etiqa Offshore Insurance (L) Ltd (Malaysia)**
   Tel : 087-417672
   Fax : 087-417675
   E-mail : nazriw.a@etiqa.com.my
   Mr Nazri Wong Abdullah

3. **Labuan Insurance Management Services Limited (Malaysia)**
   Tel : 087-427018
   Fax : 087-429018
   E-mail : jocelyn_yeo@labuancaptiveinsurance.com.my
   Ms Jocelyn Yeo

4. **Mitsui Sumitomo Reinsurance Limited (Ireland)**
   Tel : 087-452748
   Fax : 087-452750
   E-mail : t-tsuchiya@msre.com.my
   Mr Takashi Tsuchiya

5. **Nova Insurance Management (L) Limited**
   (formerly known as New World Insurance Management (L) Limited)
   (British Virgin Islands)
   Tel : 087-416122
   Fax : 087-422122
   E-mail : heiwong@nova-insure.com
   Mr Wong Hei

6. **Pacific World Insurance Managers Limited (Bermuda)**
   Tel : 087-593828
   Fax : 087-417242

UNDERWRITING MANAGERS (COUNTRY OF ORIGIN)

1. **AMLIN Labuan Limited (United Kingdom)**
   Tel : 087-442899
   Fax : 087-451899
   E-mail : simon.clarke@amlin.sg
   Mr Simon Garrett Clarke

2. **Argenta Underwriting Labuan Ltd (United Kingdom)**
   Tel : 087-442899
   Fax : 087-451899
   E-mail : des.carbery@argentaplc.com
   Mr Desmond Carbery

3. **Brighton Management Limited (Malaysia)**
   Tel : 087-442899
   Fax : 087-451899
   E-mail : AnnieU@brightonmanager.com
   Ms Annie Undikai

4. **Canopius Labuan Pte Limited (United Kingdom)**
   Tel : 087-442899
   Fax : 087-451899
   E-mail : Linus.phoon@CanopiusLabuan.com
   Mr Linus Phoon Han Meng

5. **Catlin Labuan Limited (Bermuda)**
   Tel : 087-417672
   Fax : 087-417675
   E-mail : raymond.wong@catlin.com
   Mr Raymond Wong Shu Yoon

6. **Challenge Group Underwriters & Managers (L) Inc (Malaysia)**
   Tel : 087-583816
   Fax : 087-583814
   E-mail : f.aripen@challenge-gi.com
   Mr Ahmed Farouk Aripen

7. **Etiqa Offshore Insurance (L) Ltd (Malaysia)**
   Tel : 087-417672
   Fax : 087-417675
   E-mail : nazriw.a@etiqa.com.my
   Mr Nazri Wong Abdullah

LISTINGS OF LABUAN FINANCIAL INSTITUTIONS as at 15 April 2011

8. Fincorp Ltd.
(United Kingdom)
Tel : 087-427018
Fax : 087-429018
E-mail : philrowc@aol.com
Mr Philip Stephen Rowcliffe

9. Kraken Reinsurance Insurance Services Limited
(United Kingdom)
Tel : 087-442899
Fax : 087-451899
E-mail : Paul@pwslabuan.com
Mr Paul John Murphy

10. Labuan Insurance Management Services Limited
(Malaysia)
Tel : 087-427018
Fax : 087-429018
E-mail : jocelyn_yeo@labuancaptiveinsurance.com.my
Ms Jocelyn Yeo

11. Lloyd's Labuan Limited
(United Kingdom)
Tel : 087-442899
Fax : 087-451899
E-mail : Jon.Song@lloyds.com.sg
Mr Song Jurn Foong

12. Markel International Labuan Limited
(United States of America)
Tel : 087-442899
Fax : 087-451899
E-mail : peter.phillips@markelintl.com
Mr Peter Jeffrey Phillips

13. Marsh Management Services (L) Ltd.
(Bermuda)
Tel : 087-417672
Fax : 087-417675
E-mail : vic.pannuzzo@marsh.com
Mr Vittorio Pannuzzo

14. Mitsui Sumitomo Reinsurance Limited
(Ireland)
Tel : 087-452748
Fax : 087-452750
E-mail : t-tsuchiya@msre.com.my
Mr Takashi Tsuchiya

15. Nova Insurance Management (L) Limited
(formerly known as New World Insurance Management (L) Limited
(British Virgin Islands)
Tel : 087-416122
Fax : 087-422122
E-mail : heiwong@nova-insure.com
Mr Wong Hei

16. Pacific World Insurance Managers Limited
(Bermuda)
Tel : 087-593828
Fax : 087-417242

17. Starr Underwriting Agents (Labuan) Limited
(United States of America)
Tel : 087-442899
Fax : 087-451899
E-mail : philip.finley@cvstarr.com
Mr Philip Finley

18. Willis Management (Labuan) Pte Ltd
(Bermuda)
Tel : 087-442899
Fax : 087-451899
E-mail : Ongg@willis.com
Mr Ong Chee Soon

LABUAN TRUST COMPANIES

1. Al-Aman Trust Services Limited
(Malaysia)
Tel : 087-593828
Fax : 087-417242
E-mail : raymond.wong@asia.equitytrust.com
Mr Raymond Wong Wai Bun

2. **Amanah Raya (Labuan) Limited**
(Malaysia)
Tel : 087-421663
Fax : 087-421662
E-mail : cttrust@streamyx.com
Mr Zainuddin Suhaimi

3. **Bank Islam Trust Company (Labuan) Ltd**
(Malaysia)
Tel : 087-451806
Fax : 087-451808
E-mail : rumaizi@bankislamtrust.com.my
Mr Rumaizi Mohd Tejeri

4. **CIMB Trust Limited**
(Malaysia)
Tel : 087-414252
Fax : 087-411855
E-mail : pauyun.cheng@cimb.com
Ms Cheng Pau Yun

5. **Credence Trust (Labuan) Limited**
(British Virgin Islands)
Tel : 087 - 416518
Fax : 087 – 417655
E-mail : itmc@itmcfiduciary.com
Mr Kuan Chee Hoong

6. **EC Trust (Labuan) Bhd.**
(Malaysia)
Tel : 087-452858
Fax : 087-453616
E-mail : management@ectrustco.com
Mr Peter Kent Searle

7. **Equity Trust (Labuan) Limited**
(Malaysia)
Tel : 087-593828
Fax : 087-417242
E-mail : raymond.wong@asia.equitytrust.com
Mr Raymond Wong Wai Bun

8. **Ernst & Young Trust Ltd.**
(Malaysia)
Tel : 087-413524
Fax : 087-414526
E-mail : chee-min.yong@my.eyi.com
Mr Yong Chee Min

9. **Hans Advisory & Trust Co Ltd**
(Malaysia)
Tel : 087-427745
Fax : 087-428845
E-mail : sue@hansworldwide.com
Ms Tang Kae Sue

10. **IFS Trust Labuan Limited**
(Hong Kong)
Tel : 087-427408
Fax : 087-427409
E-mail : gefchang@ifslabuan.com.my
Mr Geoffrey Chang

11. **Integrated Agents Trust Ltd.**
(Malaysia)
Tel : 087-417810
Fax : 087-424220
E-mail : joyce.ng@iatl.com.my
Ms Joyce Ng Lai Fong

12. **ITMC Fiduciary Limited**
(Malaysia)
Tel : 087-416518
Fax : 087-417655
E-mail : itmc@itmcfiduciary.com
Mr Colin Paul Seah

13. **KPMG Labuan Trust Company Limited**
(Malaysia)
Tel : 087-415467
Fax : 087-414781
E-mail : sfchong@kpmg.com.my
Mr Arthur Chin Shoon Chong

APPENDICES

LISTINGS OF LABUAN FINANCIAL INSTITUTIONS as at 15 April 2011

14. Labuan Borneo Trustees Limited
(Panama)
Tel : 087–417577
Fax : 087–423577
E-mail : rajasegaran@btopenworld.com
Mr Raja Segaran S Krishnan

15. Law & Commerce Trust Limited
(Malaysia)
Tel : 087-421644
Fax : 087-421646
E-mail : lctrust@tm.net.my
Mr Ahmad Kamil Mohd Yusop

16. Mayban International Trust Ltd
(Malaysia)
Tel : 087-414406
Fax : 087-410741
E-mail : maytrust@tm.net.my
Mr Punjau Sepoi

17. Noblehouse International Trust Ltd.
(Malaysia)
Tel : 087-410745
Fax : 087-419755
E-mail : cck@noblehouse-labuan.com
Mr Chin Chee Kee

18. PB Trust (L) Ltd
(Malaysia)
Tel : 087-412336
Fax : 087-451193
E-mail : pbtrust@streamyx.com
Mr Fabian Teo Hock Chye

19. Portcullis Trustnet (Labuan) Limited
(Malaysia)
Tel : 087-439191
Fax : 087-439193
E-mail : cheethongfoo@portcullis-trustnet.com
Mr Foo Chee Thong

20. RHB International Trust (L) Ltd
(Malaysia)
Tel : 087-417480
Fax : 087-417484
E-mail : rhbit@streamyx.com
Ms Toh Ay Leng

21. Shearn Skinner Trust Company Ltd.
(Malaysia)
Tel : 087-414073
Fax : 087-413281
E-mail : sstc@tm.net.my
Ms Lillian Chau Siew Ha

22. SiTiTRUST & Administrator Limited
(Malaysia)
Tel : 087-421663
Fax : 087-421662
E-mail : cttrust@streamyx.com
Ms Siti Hawa Saat

23. Tricor Trustco (Labuan) Ltd
(Malaysia)
Tel : 087-453288
Fax : 087-451288
E-mail : info@my.tricorglobal.com
Mr Moritz Gubler

24. ZI Labuan Trust Company Limited
(Malaysia)
Tel : 087-451688
Fax : 087-453688
E-mail : azizan.som@ziltco.com.my
Mr Azizan Mohd Som

LABUAN COMPANY MANAGEMENT

1. EQ Funds Services (Asia) Limited
Tel : 087-593828
Fax : 087-417242
E-mail : raymond.wong@asia.equitytrust.com
Mr Raymond Wong Wai Bun

2. **EQ Management and Consultancy Limited**
   Tel : 087-593828
   Fax : 087-417242
   E-mail : raymond.wong@asia.equitytrust.com
   Mr Raymond Wong Wai Bun

3. **MAA International Investment Ltd**
   Tel : 087-421644
   Fax : 087-421646
   E-mail : lctrust@tm.net.my
   Mr Ahmad Kamil Mohd Yusop

FUND MANAGERS (COUNTRY OF ORIGIN)

1. **AmanahRaya Asset Management (Labuan) Ltd (Malaysia)**
   Tel : 087-421663
   Fax : 087-421662
   E-mail : haniff@arim.com.my
   Mr Mohd Haniff bin Mohd Adnan

2. **Arcap Inssef Ltd (Malaysia)**
   Tel : 087-414252
   Fax : 087-411855
   E-mail : rashdan.ibrahim@arcap-inssef.com
   Mr Rashdan Ibrahim

3. **Aurex Management & Investment Labuan Ltd (Switzerland)**
   Tel : 087-421663
   Fax : 087-421662
   E-mail : m@aurex.ch
   Mr Roger Notter

4. **Avenue Asset Management Services (L) Ltd (Malaysia)**
   Tel : 087-416518
   Fax : 087-417655
   E-mail : tllye@rcmlibra.com
   Mr Lye Thim Loong

5. **Balanced Capital Inc. (Malaysia / Japan)**
   Tel : 087-421644
   Fax : 087-421646
   E -mail : peter@balancedcapital.net
   Mr Katsuhiko Abe

6. **Bayt Al Mal Asset Management Company Limited (United Kingdom)**
   Tel : 087-421664
   Fax : 087-421646

7. **Better Place Strategic Investment Ltd. (Japan)**
   Tel : 087-421644
   Fax : 087-421646
   E-mail : takata@sngcapital.com
   Mr Kentaro Takata

8. **CCIB Asset Management Limited (Hong Kong)**
   Tel : 087-418868
   Fax : 087-418858
   E-mail : clement.tung@stiwealth.com
   Mr Clement Tung Sun Tat

9. **EAssetManagement (Labuan) Pte. Ltd (Malaysia)**
   Tel : 087-417810
   Fax : 087-424220
   E-mail : eassetmanagement@gmail.com
   Mr Lance Warreb Roberts

10. **Fulton Capital Management Ltd (Singapore)**
    Tel : 087-451806
    Fax : 087-451808
    E-mail : glenlau@fultoncapital.com.sg
    Mr Glen Lau Lian Seng

LISTINGS OF LABUAN FINANCIAL INSTITUTIONS as at 15 April 2011

11. SJS Markets Ltd
(Singapore)
Tel : 087-582802
Fax : 087-428802
E-mail : raymond.wong@asia.equitytrust.com
Mr Raymond Wong Wai Bun

12. SunGlobe International Investments Ltd.
(British Virgin Islands)
Tel : 087-418318
Fax : 087-419318
E-mail : jameskirby@sunglobeasia.com
Mr James Kirby

13. Washington Square Investment Management (Asia Pacific) Limited
(United Kingdom)
Tel : 087-451688
Fax : 087-453688
E-mail : steve.basirdin@wsqim.com
Mr Steve Shaiful Hamidi Basirdin

LABUAN MONEY BROKER (COUNTRY OF ORIGIN)

1. City Credit Capital (Labuan) Ltd
(Hong Kong)
Tel : 087-582268
Fax : 087-581268
E-mail : admin@cccapital.net
Dato' Abdul Rahman Abdullah

2. Interlink Co., Ltd
(Japan)
Tel : 087-429190
Fax : 087-429177
E-mail : info@interlink.fm
Mr Meigetsu Miyashiro

3. MonexPro S.A.
(Denmark)
Tel : 087-417802
Fax : 087-419802
E-mail : charles@finenz.com
Mr Charles Villeneuve

4. Topworth Investments Ltd.
(Hong Kong)
Tel : 087-583818
Fax : 087-428336
Mr Joseph Chan Kai Chung

LABUAN ASSOCIATIONS

1. Association of Labuan Banks
Level 8(D), Main Office Tower Financial Park Labuan
Jalan Merdeka 87000 F T Labuan, Malaysia
Tel : 087-452778
Fax : 087-452779
E-mail : aoblbu@tm.net.my
Chairman : Ms Foo Lee Choo
Secretary : Ms Clara Lim Ai Cheng

2. Association of Labuan Trust Companies
Tiara Labuan, Jalan Tanjung Batu
87000 F T Labuan, Malaysia
Tel : 087-416518
Fax : 087-417655
E-mail : itmc@itmcfiduciary.com
Chairman : Mr Colin Paul Seah

3. Labuan International Insurance Association
c/o Brighton Management Limited
Brighton Place Ground Floor,
Shop Lot No: U0215
Jalan Bahasa, P.O.Box 80431
87014 F T Labuan, Malaysia
Tel : 087-426489
Fax : 087-426652
E-mail : liia@streamyx.com
Chairman : Dato' Ahmad Farouk Faizi
Secretary : Mr Gary Cane

4. **Labuan Investment Banks Group**
   c/o AmanahRaya Investment Bank Ltd
   Kuala Lumpur Marketing Office
   Level 8, Wisma AmanahRaya, No.2, Jalan Ampang
   50508 Kuala Lumpur, Malaysia.
   Tel : 03-20547251
   Fax : 03-20722120
   Chairman : Dato' Choo Kah Hoe
   Secretary : Ms Zanariah Ja'afar

LABUAN INTERNATIONAL FINANCIAL EXCHANGE

1. **Labuan International Financial Exchange Inc**
   Unit Level 7(B), Main Office Tower
   Financial Park Labuan
   Jalan Merdeka
   87000 F T Labuan, Malaysia
   Tel : 087-451359
   Fax : 087-451379
   E-mail : cust-mgmt@lfx.com.my
   Mr Mohd Adha Thangarajah Abdullah

LISTING SPONSORS

1. **AmInternational (Labuan) Ltd**
   Tel : 087-413133
   Fax : 087-425211
   E-mail : iskandar-hafidz@ambankgroup.com
   Mr Mohd Iskandar Hafidz

2. **CIMB Bank (L) Limited**
   Tel : 087-410305
   Fax : 087-410313
   E-mail : jemima.haziz@cimb.com
   Ms Jemima Haziz

3. **ECM Libra Investment Bank Berhad**
   Tel : 03-21781888
   Fax : 03-20319826
   E-mail : azlin_a@ecmlibra.com
   Ms Azlin Arshad

4. **EQ Funds Services (Asia) Limited**
   Tel : 087-423828
   Fax : 087-417242
   E-mail : emily.liew@asia.equitytrust.com
   Ms Emily Liew

5. **Maybank Investment Bank Berhad**
   Tel : 03-20591829
   Fax : 03-20706521
   E-mail : jiannliang@maybank-ib.com
   Mr Lee Jiann Liang

6. **OSK Investment Bank (Labuan) Limited**
   Tel : 087-414801
   Fax : 087-414802
   E-mail :ric.koh@my.oskgroup.com
   Mr Ric Koh Wai Chee

TRADING AGENTS

1. **CIMB Bank (L) Limited**
   Tel : 087-410305
   Fax : 087-410313
   E-mail : jemima.haziz@cimb.com
   Ms Jemima Haziz

FEES FOR SETTING-UP BUSINESS IN LABUAN IBFC

Labuan Companies (General Fees)	RM	USD
Reservation of Name of a Labuan Company (One time)	50	16
Supporting Documents Required to set-up a Labuan Company:-		
a) Memorandum and Articles (Labuan Company)	100	32
b) Memorandum and Articles (Foreign Labuan Company)	200	64

Type of Companies / Type of Fees	Registration		Annual Fees	
	RM	USD	RM	USD
A) Labuan Company				
i) **Labuan Company**				
a) Paid-up Capital of RM0 - RM50,000	1,000	322	1,500	483
b) Paid up Capital of RM50,001 to RM999,999	2,000	645	1,500	483
c) Paid-up Capital of RM1 million and above	5,000	1,612	1,500	483
ii) **Labuan Foreign Company**	6,000	1,935	5,300	1,865
iii) **Labuan Company**				
a) Labuan Limited Partnership, Labuan Limited Liability Partnership and Recognized Liability Partnership	1,000	322		
b) Labuan Limited Partnership / Labuan Limited Liability Partnership			1,000	322
iv) **Labuan Protected Cell Company (PCC)**				
a) Formation of Labuan protected cell company registered under Part VIIIB of Labuan Companies Act 1990: to carry on insurance business or Labuan captive insurance business				
- On the general assets of the Labuan PCC			30,000	9,677
- On each of its registered cell			10,000	3,225
b) Formation of Labuan protected cell registered under Part VIIIB of Labuan Companies Act 1990: to carry on mutual fund business				
- On the general assets of the Labuan PCC			5,000	1,613
- On each of its registered cell			2,000	645
B) Service Providers*				
a) Approved auditor	150	48	1,000	322
b) Approved liquidator	1,050	339	**1,000	322

FEES FOR SETTING-UP BUSINESS IN LABUAN IBFC

Type of Companies / Type of Fees	Registration		Annual Fees	
	RM	USD	RM	USD
C) Labuan Products				
a) Labuan Trust / Special Trust	750	241		
b) Approved liquidator	750	241	750	241
D) Labuan Bank				
Labuan Bank / Labuan Investment Bank			80,000	25,806
E) Labuan Insurance and Insurance-Related				
i) **Labuan Insurance Activities**				
a) General Insurance			30,000	9,677
b) Life Insurance			30,000	9,677
c) Captive Insurance			10,000	3,225
d) Master rent-a-captive			13,000	4,193
e) Subsidiary rent-a-captive			3,000	967
ii) **Labuan Insurance-Related Activities**				
a) Underwriting Manager			10,000	3,225
b) Insurance Manager			10,000	3,225
c) Broker			10,000	3,225
F) Labuan Trust Company				
a) Full-fledge Labuan Trust Company	200	64	8,000	2,580
b) Labuan Managed Trust Company	50	16	8,000	2,580
c) Labuan Private Trust Company			5,000	1,612
G) Securities				
i) **Private fund**	2,000	645	2,000	645
ii) **Public fund**	2,000	645	2,000	645
iii) **Fund Manager**				
a) Without place of business in Labuan			10,000	3,225
b) With place of business in Labuan			5,000	1,612
iv) **Fund Administrator**				
a) Without place of business in Labuan			5,000	1,612
b) With place of business in Labuan			2,000	645
v) **Securities Licensees**			5,000	1,612

FEES FOR SETTING-UP BUSINESS IN LABUAN IBFC

Type of Companies / Type of Fees	Registration		Annual Fees	
	RM	USD	RM	USD
H) Labuan Financial Business*				
i) Leasing				
a) Single transaction with a Malaysian resident			40,000	12,903
b) Subsequent transaction with a Malaysian resident			20,000	6,451
c) Leasing business / subsequent transaction transacted with non-Malaysian resident			Nil	Nil
ii) Factoring Business				
a) Without physical presence in Labuan			60,000	19,354
b) With physical presence in Labuan			40,000	12,903
iii) Building Credit Business			40,000	12,903
iv) Credit Token Business			40,000	12,903
v) Development Finance Business			40,000	12,903
vi) Money Broking			5,000	1,612
I) Labuan Company Management*			5,000	1,612
J) Others				
a) Establishment of Kuala Lumpur / Johor Bahru Marketing Office			5,000	1,612
b) Establishment of Co-Located office within Malaysia apart from Labuan			7,000	2,258

Note:

* Not applicable for Islamic entities.
** To be paid upon renewal of licence.

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

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CONNECTED
CONVENIENT
COST-EFFICIENT

Labuan Financial Services Authority
Level 17, Main Office Tower
Financial Park Complex
Jalan Merdeka
87000 Federal Territory Labuan
Malaysia
Tel : (+6 087) 591 200
Faks : (+6 087) 428 200
communication labuanfsa.gov.my

www.labuanfsa.gov.my