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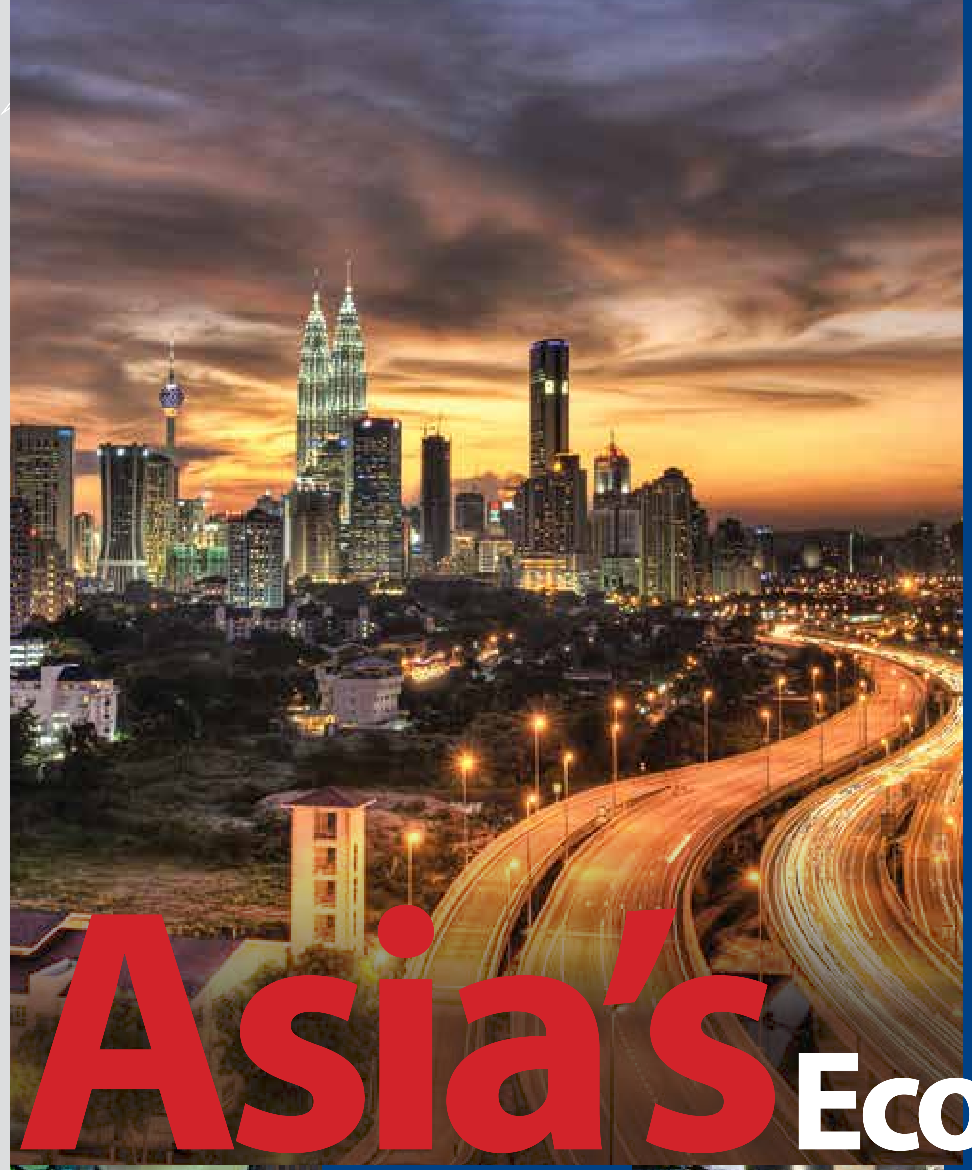
Labuan Financial Services Authority

Annual Report 2012

Labuan FSA
Financial Services Authority



Connecting Asia's Economies

Connecting Asia's Economies
Asia's economies are progressively getting more connected via trade, direct investment, financial transactions, technology, labour and tourist flow as well as other economic endeavours. ASEAN leaders have consolidated this fact via their commitment to work together more closely and have already taken significant measures to ensure this further materialises.

Labuan Financial Services Authority (FSA) is finding new and flexible means to encourage cooperation that reflects the region's diversity and economic pragmatism, whilst ensuring that all parties adhere to the appropriate guidelines. It intends to propel Asia's regional initiatives, which are not intended to replace global relationships, but rather to complement them by building bridges to connect Asian economies and its subregions together as well as to the rest of the world. Labuan FSA believes that through the creation of production networks and the implementation of initiatives for financial cooperation, both South East Asian and ASEAN countries will be able to harness the benefits of regional cooperation and integration by sharing their knowledge and experience.

Annual Report 2012

corporate values

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

mission statement

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

2012 ANNUAL REPORT

what's inside ...


33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AT BER


26


8

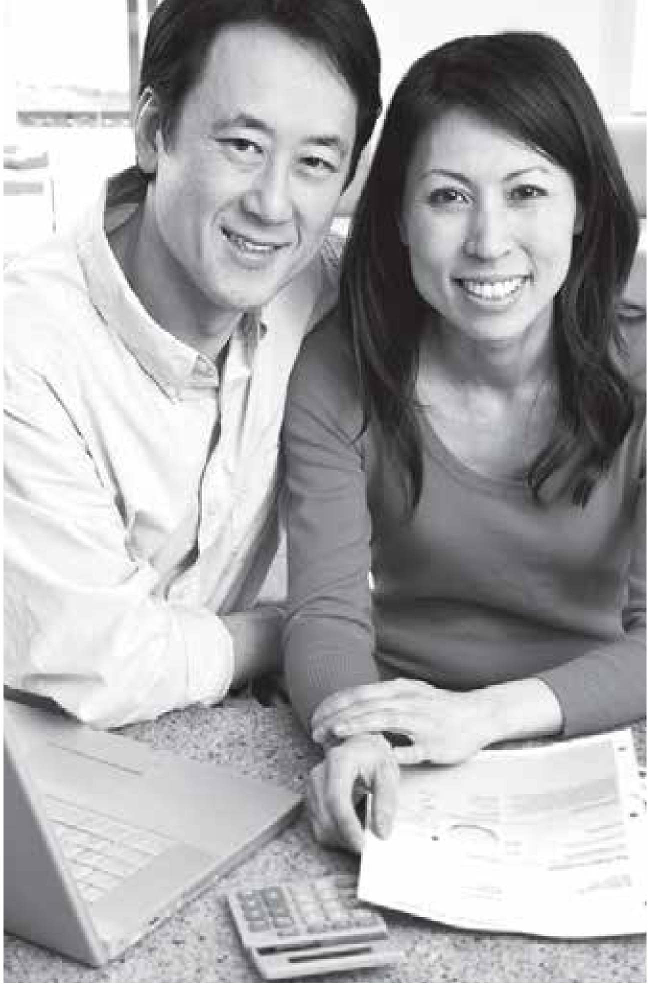
LABUAN COMPANIES

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 which provides for the incorporation, registration and administration of Labuan companies. The Labuan companies can carry out either trading or non-trading activities in, from or through Labuan.

BANKING

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

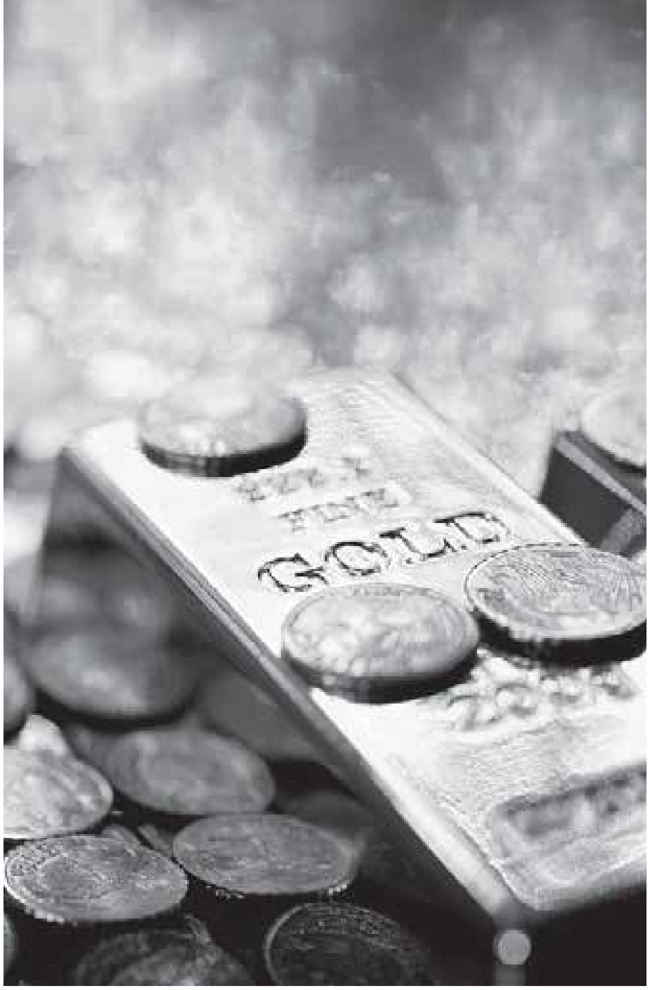
Banks licensed to operate in Labuan IBFC can conduct transactions with Malaysian residents and have the option of operating a marketing office in either Kuala Lumpur or Johor Bahru. Under the co-location guidelines, Labuan banks may co-locate their offices in any parts of Malaysia.



INSURANCE

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

The Labuan insurance activities are governed by the Labuan Financial Services and Securities Act 2010. Effective March 2011, Labuan insurance and takaful entities, with the exception of insurance manager and underwriting manager, may co-locate their offices in any parts of Malaysia.



WEALTH MANAGEMENT

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

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

OTHER LABUAN FINANCIAL BUSINESS

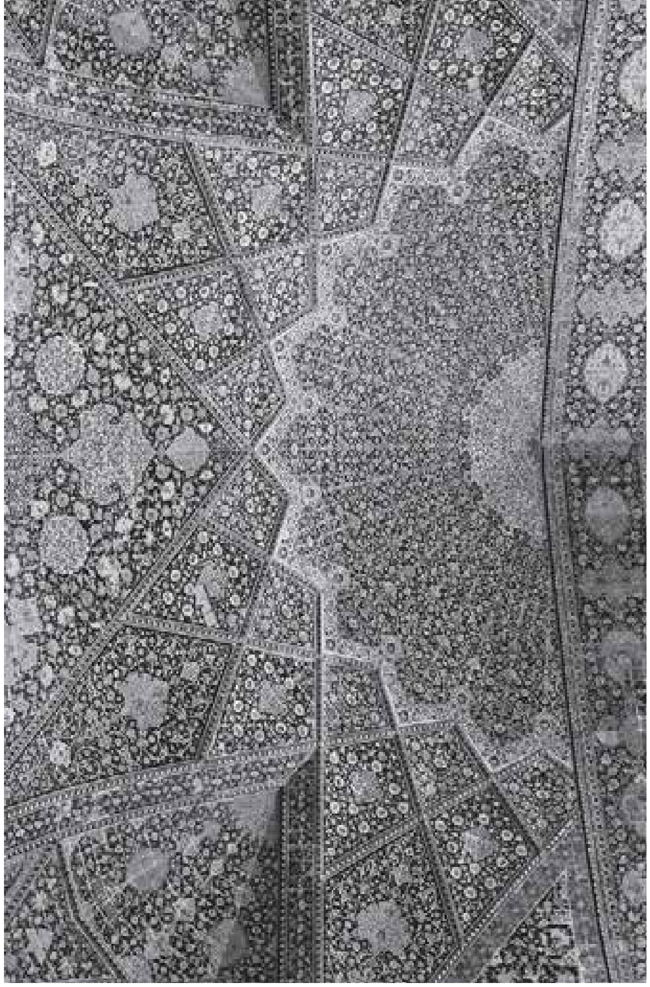
Labuan IBFC also offers other financial business besides banking and insurance products to cater for the needs of potential investors. These includes leasing, factoring, money-broking, credit token, building credit business, development finance, international commodity trading business (LITC) and Islamic financial business.

The LITC offered in the Labuan IBFC is for the trading of commodities such as petroleum, petroleum-related products, agriculture, refined raw materials, chemicals and base minerals.

The Labuan financial business is governed by the Labuan Financial Services and Securities Act 2010.

LISTING OF FINANCIAL INSTRUMENTS

The Labuan International Financial Exchange offers unlimited opportunities for global investors and companies by providing an efficient and cost-effective access to the capital market through the listing of both multi-currency conventional and Islamic instruments.



ISLAMIC FINANCE

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

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

Chairman's Statement

The pace of the global economic recovery continues to remain modest due to the prevailing conditions related to fiscal sustainability, financial sector impairment and structural issues in several major advanced economies. Notwithstanding the uncertainties in those economies, the emerging economies have performed well, largely supported by the resilience of their domestic demand and stronger intra-regional trade and investment activities. Structural changes and reforms undertaken by emerging economies in the recent decade, especially in Asia have reinforced the strength and capacity of these economies to withstand the pressures emanating from the ongoing global financial crisis.

The performance of the Labuan International Business and Financial Centre (IBFC) has continued to remain strong. Its strategic focus towards the Asia Pacific region over the years has sheltered the Labuan IBFC from the direct impact of financial storms from the Eurozone. In the aftermath of the global financial crisis, a fundamental shift in the economic growth from the advanced economies to the emerging economies is evident. This trend has presented significant opportunities for Labuan to serve as the facilitative platform for businesses that are emerging from this fast expanding region of Asia Pacific, particularly ASEAN – an economic region with a combined GDP of about USD2.2 trillion and a population of 600 million. The strategic location of the Labuan IBFC will position the centre to connect trade, business and finance in the region, further enhancing Malaysia's financial and economic linkages with other economies to support mutually-reinforcing growth.


Tan Sri Dato' Sri Dr Zeti Akhtar Aziz
Chairman

Being central to the Asian countries has enabled Labuan IBFC to position itself as the economic conduit to connect trade, business and finance in the region.

Chairman's Statement

The year 2012 was a particularly significant year for the international financial system. There was an intensification of the regulatory reforms. Regulators and supervisors around the world have made significant strides to create a more resilient financial system in the aftermath of the global financial crisis. Changes have also taken place resulting in the strengthening of the legal and regulatory environment in both domestic and international financial sectors. Similarly, the Labuan FSA has undertaken a programme of definitive actions to enhance its regulatory capacity and capability. The Labuan FSA has established the Financial Stability Committee (FSC), comprising representatives from Labuan FSA, Bank Negara Malaysia and the Securities Commission Malaysia. The objective of the FSC is to collaborate with the Authorities in areas relating to the financial stability and integrity of the Labuan IBFC with specific focus on market surveillance, regulatory and prudential policies as well as risk assessment of key sectors in the Labuan IBFC. A dedicated market surveillance and compliance function of the Labuan FSA was also established to closely monitor global and regional economic and financial developments.

Since its inception, the Labuan FSA has continued to strengthen its regulatory framework, including enhancing its stringent entry requirements for financial institutions to establish operations in Labuan IBFC, close collaboration with home regulators to strengthen the supervisory oversight over financial institutions operating in the Labuan IBFC and building on the more robust anti money-laundering policies that is in place. Moving forward, as the Labuan IBFC grows into a vibrant and sizeable centre, the Labuan FSA will correspondingly evolve the regulatory and supervisory framework for financial institutions in Labuan to also be in line with international standards and best practices. Towards achieving this, several key prudential guidelines were introduced and key supervisory actions taken in 2012. The Labuan FSA has also intensified its supervisory oversight with the Labuan institutions including banks, insurance companies and trusts companies. To ensure that standards are adhered to by the Labuan institutions, the Labuan FSA has conducted more rigorous supervisory oversight through more regular on-site examinations. Enforcement and intervention actions were taken, where necessary, to address the supervisory concerns.

In response to the increasingly dynamic operating environment, the Labuan FSA has also increased its efforts to strengthen its cooperation arrangements with other international regulatory authorities and multilateral organisations to collaborate and exchange information and technical knowledge in the areas of financial surveillance, regulation and supervision. The Labuan FSA continues to be an active participant in international standard-setting bodies including the Group of International Finance Centre Supervisors, the International Organisation of Securities Commission and the International Association of Insurance Supervisors. In 2012, the Labuan FSA became a full signatory to the International

"2012 was particularly a significant year for the financial institutions where there was intensification of regulatory transformation in the financial system globally. Regulators and supervisors around the world are making strides to create a more resilient financial system in response to the risk of financial downturn."

Organisation of Securities Commission's (IOSCO) Multilateral Memorandum of Understanding (MMoU) Concerning Consultation and Cooperation and the Exchange of Information, signifying the Authority's commitment to international cooperation on regulatory issues relating to capital markets. In addition, the Labuan FSA is proactively forging stronger relationships with home country supervisors of financial institutions operating in the Labuan IBFC. Towards this objective, two Memorandum of Understandings (MOUs) on regulatory cooperation have been signed with international regulatory financial authorities. These are complemented by ongoing efforts to enhance the home-host supervisory framework to facilitate more effective exchange of information and cooperation on supervisory work.

The Labuan IBFC has again registered another successful year in 2012, with a continuous strengthening of business performance across the key business sectors in Labuan IBFC including leasing, insurance-related business and foundations. Moving forward, the Labuan IBFC will continue its progress in complementing the growth of the Asia Pacific region and other regional financial centres. The Labuan FSA will also ensure that the Labuan IBFC's strong reputation as a well-regulated and robust IBFC is preserved through the wider adoption of international standards, including enhancement to disclosure and transparency standards and the strengthening of its regulatory and supervisory framework to contribute towards financial stability.

On behalf of the Members of the Authority, I would like to take this opportunity to thank the Members of the Financial Stability Committee, the Shariah Supervisory Council, the International Advisory Panel, the Islamic Finance Committee and other government departments and agencies as well as the industry for their invaluable support and contributions towards the success of the Labuan IBFC. I also extend my appreciation to the management and staff of the Labuan FSA for their hard work, commitment and dedication.

Director-General's Report

Mr Ahmad Hizzad Baharuddin
Director General

The year 2012 has been another successful year for Labuan IBFC. Amidst continuing weaknesses in the external market environment, Labuan IBFC continued its growth trajectory on several fronts and strengthen its position as a viable international business and financial centre in the region.

The jurisdiction is now home to 59 banks, 203 insurance and insurance-related companies, 257 leasing companies, 37 trust companies and 65 foundations. The total number of Labuan companies is 9,487, fast reaching the 10,000 milestone. A shift in strategic focus towards wealth management products and services yielded positive results, with 29 private trusts and 65 foundations established in Labuan IBFC as at 31 December 2012. The number of wealth management vehicles in the form of private trusts and foundations grew by 81.1% in 2012 from the previous year. These positive growth trends are testimonies to the strong value proposition of the Labuan IBFC's laws and regulations, including its tax incentives and business facilities.

The Labuan banking sector remained strong with high quality assets and continued its loan expansion in tandem with the regional economic growth. The total deposits rose to USD10.4 billion with a majority of the deposits originating from non-residents, while the total banking assets grew 9.9% to USD42.1 billion as at end 2012. The sector registered a significant increase in its pre-tax profits of USD647.6 million in 2012, 41.2% higher than the last reporting year. Generally, the Labuan banks are sound and healthy with the gross non-performing loan ratio improving to 1.3% from 1.5% last year, and the industry's average risk-weighted capital ratio and core capital ratio stood at 20.6% and 20.5%, respectively.

The Labuan insurance sector exhibited strong growth in all aspects including in the number of new licencees, level of capitalisation, asset size and premiums written. Twenty nine new insurance licences were approved during the year and the Labuan IBFC saw the entrance of reputable international insurance companies to carry on regional insurance business out of the jurisdiction. The increase in diversity of players in the Labuan IBFC would further enhance the centre's ability to serve the insurance needs of the growing economies in the Asia Pacific region, in line with the strategic focus envisaged under the Financial Sector Blueprint (Blueprint) 2011-2020 to enhance the role of Labuan IBFC in the reinsurance sector.

The total asset of the Labuan insurance industry stood at USD4.4 billion as at 31 December 2012 with fixed deposits placement and money market instruments contributing to the largest share of the assets composition. The gross premiums written by the Labuan

Director-General's Report

general insurers and reinsurers totalled USD1.7 billion in 2012, representing a 10.3% year-on-year increase. The fire sector continued to be the main sector insured by the Labuan institutions.

The number of Labuan companies posted an increase of 779 in 2012 making the total number of Labuan companies registered for the year to 9,487. The increase is in tandem with the favourable economic growth and conditions in the Asia Pacific region with a majority of the Labuan companies originating from the region. The diversification on the types of Labuan companies, including Labuan pre-incorporated companies and Labuan protected cell companies, has contributed to the growth in the total number of Labuan companies.

Labuan leasing continued to grow with 41 new entrants, bringing the total of Labuan leasing companies to 257. For 2012, the total amount of assets leased increased to USD32.4 billion from USD27.6 billion in 2011. Oil and gas industry and the aviation sector remained the two top leasing business activities in Labuan IBFC, reflective of the robust economic activities of the sectors generated out of Labuan IBFC.

In the area of wealth management, Labuan foundation is a popular private wealth financial planning vehicle and solution to cater for the demands of growing affluent population, demanding legal certainty in a common law setting. In 2012, a total of 25 new Labuan foundations were registered, an increase of 62.5% from last year. Conventional foundations make up the majority, while Labuan Islamic foundations are gaining footings among the investors. More than 60% of the Labuan foundations originated from the Asia Pacific region and this bodes well with the positioning of Labuan IBFC as the preferred choice of wealth management centre in this region.

During the year, Labuan FSA has undertaken a number of developmental initiatives to further enhance the business environment, including the regulatory and supervisory framework in the Labuan IBFC. In 2012, Labuan FSA underwent the Financial Sector Assessment Programme by the IMF/World Bank. The assessment covered the evaluation of Labuan FSA's policies and practices in prudential supervision and regulation of the Labuan financial institutions based on internationally accepted standards and practices. In meeting the international standards and practices and in line with the strategic intent outlined in the Blueprint, new prudential guidelines were issued during the year namely, on classification and impairment provisions for loans/financing for Labuan banks, as well as guidelines on credit transactions and exposures with connected parties. Efforts were also directed to reviewing and updating the existing guidelines to be aligned with latest changes in the Labuan legislation. A number of new business guidelines were also issued during the year to facilitate businesses in Labuan IBFC.

In a move towards a more proactive engagement with home supervisors, a number of Memorandum of Understandings (MoUs) on supervisory cooperation had been signed with several regulatory authorities. Efforts also have been taken to enhance the home host supervisory framework to enable Labuan FSA to exchange information with regard to the Labuan institutions' operations. In 2012, Labuan FSA became a full signatory to the International Organisation of Securities Commission's (IOSCO) Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information, signifying the Authority's commitment to international co-operation in a more globalised financial market.

In 2012, the Hong Kong Stock Exchange Limited (HKEx) accepted Labuan IBFC as a recognised jurisdiction under the Hong Kong Listing Rules of the HKEx for the companies incorporated in Labuan IBFC seeking to list on the Exchange. This development positioned Labuan at par with other international financial centres which have already been recognised as accepted jurisdictions by the HKEx. As Hong Kong is an attractive market for issuers and a well-recognised gateway for inward and outward capital flows to China, the listing in the HKEx would give Labuan companies better access to capital in the Hong Kong financial market. The Malaysian government has also signed a double taxation agreement (DTA) with Hong Kong in 2012 where Labuan IBFC is recognised under the agreement. With the DTA in place, Labuan's position as a corporate domicile for Asian business is further enhanced especially for business owners looking to offer pre-IPO investments in China with the aim of eventually listing on the HKEx. These, among others, are strategic initiatives aimed at enhancing the business opportunities in the region and the value propositions of Labuan IBFC as a business platform to international investors wishing to tap the growing opportunities in China.

In support of this objective, the liberal exchange control rules which have been accorded to the Labuan IBFC, has been a critical policy measure that continues to be in place. Bank Negara Malaysia, in its latest liberalisation measures, has also automatically deemed Labuan registered companies as non-resident for exchange control purposes, further heightening the liberal exchange control environment and the ease of doing business in Labuan IBFC.

"During the year, Labuan FSA has undertaken a number of developmental initiatives to further enhance the business environment including regulatory and supervisory improvement in the Labuan IBFC."

As the businesses of Labuan IBFC become more complex and diversified, there is a need to ensure continual talent development in the centre, particularly in area of technical competency. In its efforts to continue upgrading the competency level of the existing workforce in Labuan IBFC, the Authority has collaborated with Labuan associations and other training institutions to provide professional certification programmes to elevate the competency level of professionals in the Labuan IBFC.

Moving Forward

As we turn the calendar page to 2013, Labuan FSA will continue to enhance the legislative framework of the Labuan IBFC to accommodate changes in international regulatory standards and to enhance the cooperation among financial regulators and supervisors. This is important as effective laws and regulations would increase the attractiveness of the centre and preserve the soundness of the financial institutions in Labuan IBFC.

Moving forward, it is envisioned that Labuan IBFC will play a more significant role in the Asian regional financial and economic linkages in facilitating connectivities in international and regional trade and investment. Strategic initiatives going forward would continue to focus on harnessing and improving the financial eco-system of Labuan IBFC to enable different investors to thrive in a conducive and facilitative business environment, without compromising high professionalism and healthy market conduct practices.

When the economies in Asia becoming more connected and integrated, the emergence of distinct advantages in various business and financial market centres would become more prominent. It is with this view that the Labuan IBFC would largely focus its future attention to areas that complement the other centres in the region, in the areas of services which are largely untapped and under-developed such as in wealth preservation products and services. A clearly differentiated set of initiatives would be put in place to strengthen this objective.

On the financial performance of the Authority, I am pleased to announce that for the year ended 31 December 2012, Labuan FSA recorded an increase in operating income of RM28.8 million while the total reserves in 2012 amounted to RM27.6 million.

I would like to conclude by thanking the Board of Authority of Labuan FSA for their unwavering support given to me and the management team. I also like to thank the staff of Labuan FSA for their commitment and contribution in the year 2012 to enable Labuan IBFC sailed through with yet another year of success.

CONNECTING
INSIG

Being at the centre of dynamic regional growth, Labuan IBFC serves as a microcosm for Southeast Asian growth prospects, providing global players with local knowledge and insights.

HTS

Corporate Information

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

Objectives of Labuan FSA

Labuan FSA was established:

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

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

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

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

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

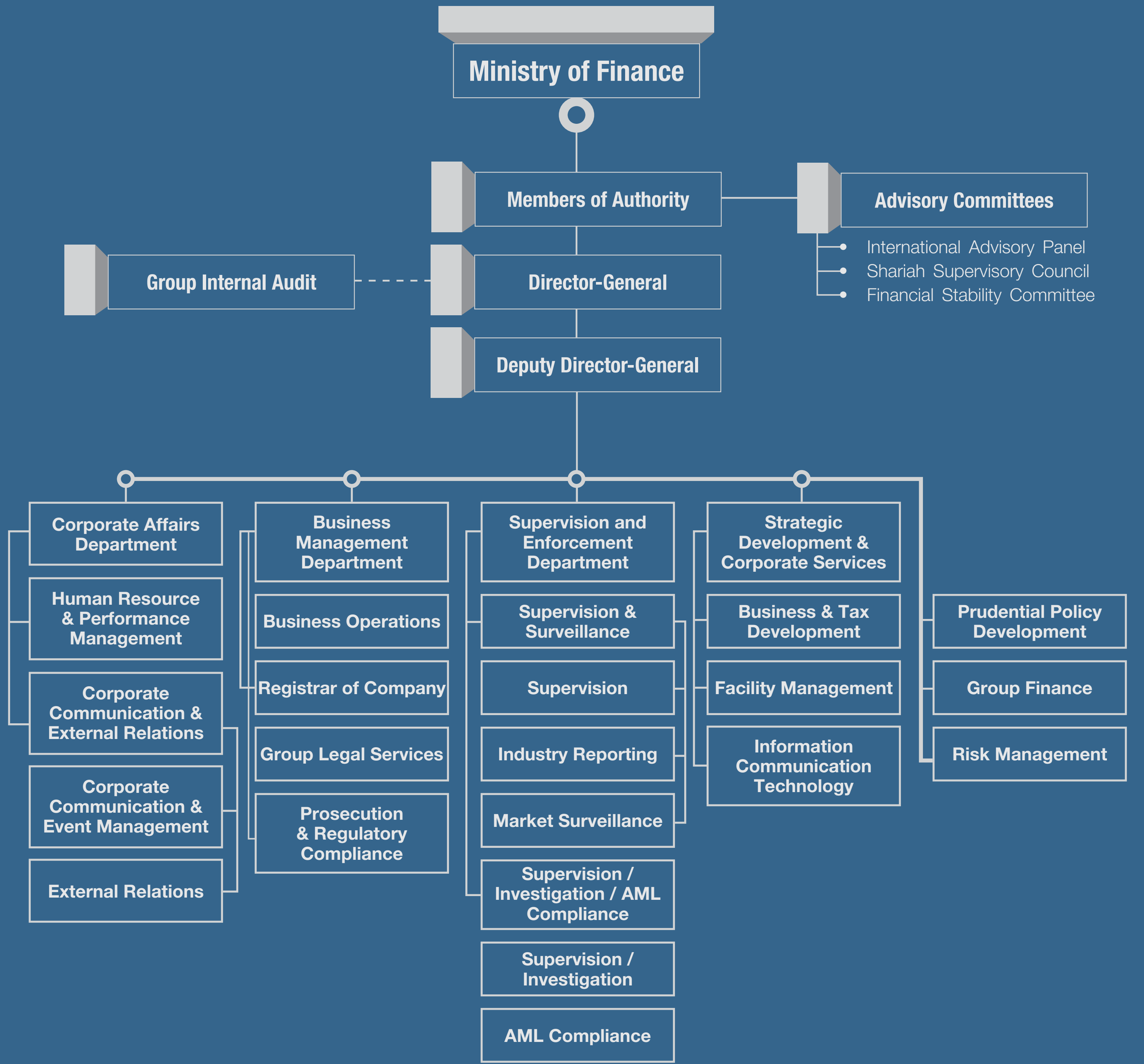
Functions of Labuan FSA

Labuan FSA has been entrusted with the following functions:

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

Authority Structure

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



Authority Subsidiaries

Labuan FSA owns the Labuan FSA 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 Labuan FSA Incorporated Sdn. Bhd.

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

100%
Labuan FSA Incorporated Sdn. Bhd.
(established 1 December 1999)

100%
Labuan IBFC Inc. Sdn. Bhd.
(established 14 May 2008)

100%
Pristine Era Sdn. Bhd.
(established 7 September 1995)

International Memberships

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

a. International Association of Insurance Supervisors (IAIS)

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

b. Group of International Finance Centre Supervisors (GIFCS)

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

c. Offshore Group of Insurance Supervisors (OGIS)

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

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

e. International Islamic Financial Market (IIFM)

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

f. International Organisation of Securities Commissions (IOSCO)

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

g. Islamic Financial Services Board (IFSB)

IFSB is an international standard-setting 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 prudent and transparent Islamic financial services through the introduction of new, or adaptation of existing international standards consistent with Shariah principles. *(Member since 2003)*

Event Highlights 2012

14 Feb

Briefing on OECD Global Forum on "Transparency and Exchange of Information for Tax Purposes", jointly organised by Labuan FSA, Tax Analysis Division of Ministry of Finance and the Inland Revenue Board.

1 Apr

Appointment of Y. Bhg. Datuk Ranjit Ajit Singh, Chairman of Securities Commission Malaysia as an Authority Member of Labuan FSA.

11 – 12 May

Labuan FSA in collaboration with the Central Bank of Malaysia and the Credit and Counseling And Debt Management Agency conducted the Prudent Financial Management seminar to create awareness and enhance financial literacy amongst the members of Labuan community.

16 May

Labuan FSA became a full signatory to the International Organisation of Securities Commission's Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information.

7 Jun

The Labuan FSA released its Annual Report 2011 by Y. Bhg. Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz, Chairman of Labuan FSA.

15 Jun

Labuan FSA witnessed the signing of a Memorandum of Understanding between Labuan International Insurance Association, Malaysia Insurance Institute and the Chartered Institute of Insurance, to implement a certification programme for the financial advisers of Labuan life insurance brokers.

17 Jun

Labuan FSA participated in the Academic Excellence Students Award Programme where the awards were given to students from university, secondary and primary schools in Labuan.

3 July

Briefing to foreign Ambassadors and High Commissioners in Malaysia on the latest developments of Labuan IBFC in conjunction with the release of Labuan FSA's annual report 2011.

Event Highlights 2012

20 Sept

A forum on *Labuan IBFC: Islamic Wealth Management Opportunities* was organised, in conjunction with the Global Islamic Finance Forum 2012 in Kuala Lumpur.

2 Oct

A Memorandum of Understanding was signed between Labuan FSA and the Maldives Monetary Authority to foster cooperation on supervision and regulation of financial institutions.

8 – 10 Oct

Participation in seminars on *Labuan IBFC: Asia Pacific's Preferred International and Financial Centre* in Hong Kong and Shanghai.

20 Oct

The Labuan Run 2012 (formerly known as Labuan FSA Run) was organised in collaboration with the Persatuan Olahraga Amatur Labuan.

30 Oct

Official opening of the Labuan International School, Tanjung Aru campus by Y. Bhg. Dato' Sri Dr. Mohd Irwan Serigar bin Abdullah, Secretary-General of Treasury, Ministry of Finance Malaysia.

30 Oct – 1 Nov

Labuan IBFC participated in the ASEAN Oil and Gas Expo 2012 and delivered a talk on *"Labuan IBFC: Financial Services in Oil & Gas"*.

1 Nov

Participation in the Labuan IBFC Leasing Symposium 2012 in Kuala Lumpur.

23 Nov

The 7th Labuan International Finance Lecture Series themed *"ASEAN Economic and Financial integration: Moving Forward"* was delivered by YB Tan Sri Rafidah Aziz.

The Labuan Industry Annual Dinner 2011 was hosted by the Labuan International Insurance Association.

27 Nov

Labuan FSA in collaboration with the Institute of Bankers Malaysia organised a forum on Anti-Money Laundering and Anti-Terrorism Financing – A Global and Labuan Perspective.

30 Nov

Labuan IBFC was accepted as a jurisdiction by the Stock Exchange of Hong Kong Limited Listing Committee where Labuan companies can seek listing on The Stock Exchange of Hong Kong.

4 Dec

Labuan FSA signed a Memorandum of Understanding with the National Bank of Tajikistan to foster cooperation on supervision and regulation of financial institutions.

5-Year Highlights of Accomplishments and Awards

2008

- Repositioning and rebranding of Labuan as an International Business and Financial Centre
- Review and enhancement of the legislative framework
- Review of tax laws in relation to Labuan IBFC
- Establishment of Labuan IBFC Inc. Sdn. Bhd., a marketing arm for the Labuan IBFC

2009

- The Labuan IBFC new legislation was passed in Parliament
- Issuance of the first global US Dollar corporate sukuk out of Labuan IBFC
- Labuan FSA was accepted as a signatory to Appendix B of the IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and EOI
- Signing of MoU between Labuan FSA & the Companies Commission of Malaysia to enhance inter-agency cooperation
- Embarked on several ICT projects to enhance delivery systems including Statistic Management System and Web Content Management System

2010

- Labuan IBFC celebrated its 20th anniversary
- The Labuan IBFC new Legislation came into force
- Malaysia (Labuan) was placed on the "White List" of the OECD at par with other well-regulated international financial centres
- Flexibility to allow Labuan banks and investment banks to co-locate in other parts of Malaysia other than in Labuan
- Labuan FSA received the award for "Most Outstanding contribution to Islamic Finance" by the Kuala Lumpur Islamic Finance Forum
- Issuance of world's first Japanese corporate sukuk out of Labuan IBFC
- Labuan FSA signed a MoU on co operation and Mutual Assistance with the Financial Services Commission Mauritius.

2011

- Labuan IBFC was given an important role under the Financial Sector Blueprint (2011-2020) to enhance regional and international trade and investment as well as to facilitate cross-border financial linkages
- Establishment of the ASEAN Infrastructure Fund in Labuan IBFC reflects its strategic capabilities to facilitate cross-pollination of infrastructure investments in the Asian region
- Flexibility to allow Labuan insurance/takaful companies to co-locate their offices onshore
- Implemented the Statistical Management System to enhance the collection, process and analysis of data for effective surveillance
- Launch of the Global Incentive for Trading Programme for oil and gas traders to use Labuan IBFC as their regional hub for oil and gas trading activities
- Labuan FSA received the "Excellent Financial Statement" award by the Auditor-General

2012

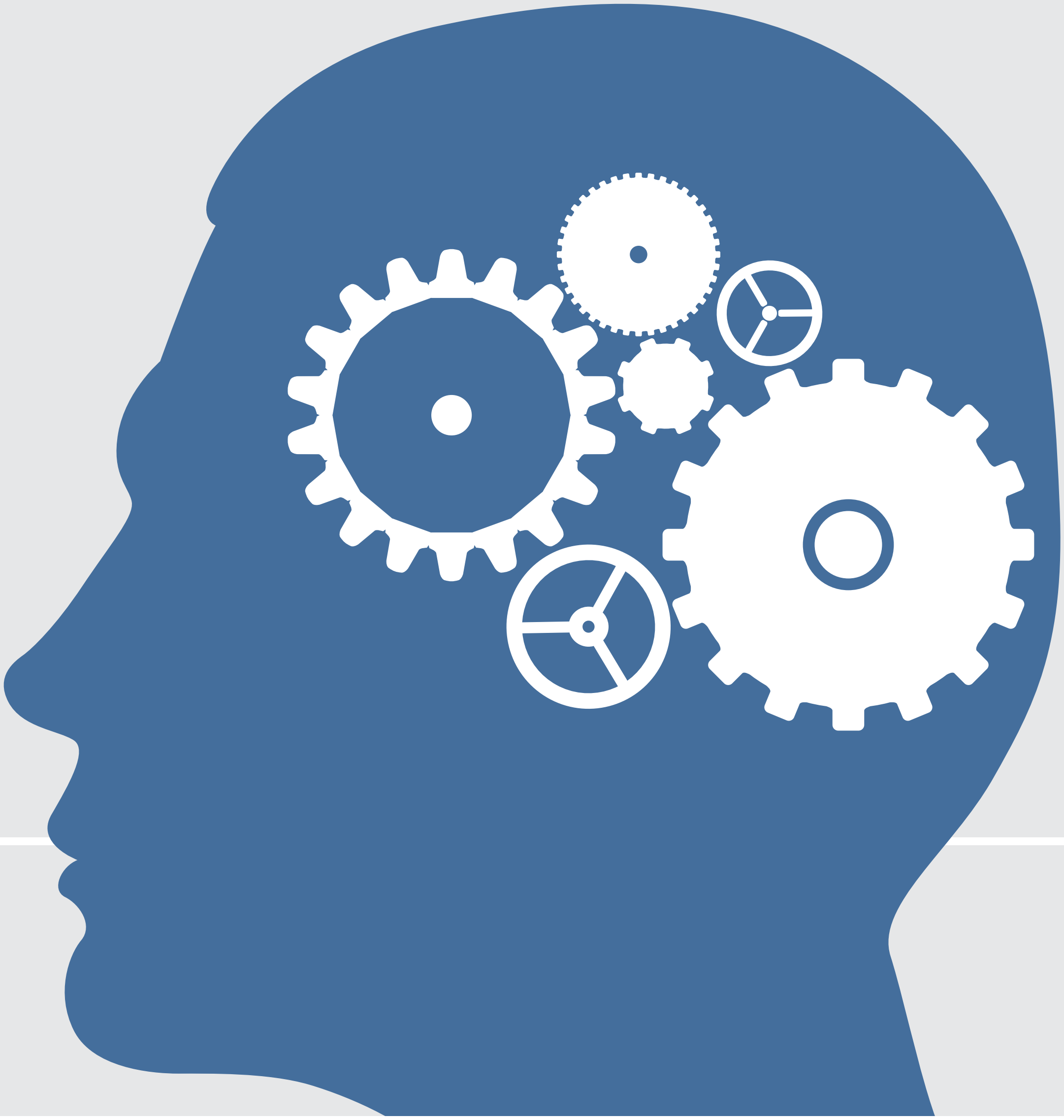
- Labuan IBFC was recognised as an acceptable jurisdiction by the Stock Exchange of Hong Kong Limited Listing committee
- Labuan became a full signatory to the IOSCO's Multilateral Memorandum of Understanding Concerning Consultation and Cooperation
- Recognition of Labuan FSA in conformity with the Institute of Internal Auditor's International Standards for the Professional Practice of Internal Auditing
- Malaysia (and Labuan) came out strong in the Phase I Peer Review of OEDC Global Forum
- Labuan IBFC undergone the Financial Sector Assessment Programme by IMF/WB
- Labuan FSA signed MoUs on Cooperation and Mutual Assistance with Maldives Monetary Authority and National Bank of Tajikistan
- Official opening of the Labuan International School new campus

CONNECTING

EXPE

We have a pool of regional service providers that combine global best practices and world-class expertise to serve Labuan IBFC's users.

RTISE



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

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

Leadership

Members of the Authority

from bottom to top:
Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz, (Chairman),
Mr. Ahmad Hizzad Baharuddin, (Director-General),
Datuk Oh Chong Peng, Dato' Mohammed Azlan Hashim,
Datuk Ranjit Ajit Singh, Dato' Siti Halimah Ismail,
Mr. Mohd Naim Daruwish, Datuk Ali Abdul Kadir,
Mr. Zainul Abidin Abdullah

Members of the Authority

Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz

Chairman

Dr. Zeti is the Governor of Bank Negara Malaysia. She has a key role in the financial reform and the successful transformation of the Malaysian financial system into one of the most developed and resilient financial systems in an emerging economy.

Dr. Zeti chaired the Executive's Meeting of East Asia Pacific Central Banks Taskforce on "Regional Cooperation among Central Banks in Asia" to draw up the blueprint for financial cooperation in the region. She is currently the co-chair of the Financial Stability Board's regional consultative group for Asia with the Bank of Korea. She is a member of the Bank for International Settlements (BIS) Central Bank Governance Group and a founding member of the Asian Consultative Council for the BIS.

In Islamic finance, she is actively involved in the international development of Islamic finance. Dr. Zeti has been actively involved in the establishment of the Islamic Financial Services Board Council and the International Islamic Liquidity Management Corporation. She also chaired the High-Level international "Taskforce on Islamic Finance and Global Financial Stability" initiated by the Islamic Development Bank. She was a member of the United Nations General Assembly Commission of Experts on Reform of the International Monetary and Financial System.

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

Datuk Ranjit Ajit Singh

Datuk Ranjit was appointed Executive Chairman of the Securities Commission Malaysia (SC) effective April 2012. He was previously Managing Director of the SC and has over 20 years experience in the field of finance and securities regulation.

Datuk Ranjit is a member of the board of the International Organization of Securities Commissions (IOSCO), the global body of securities regulators. He is also the Vice Chairman of IOSCO's Emerging Markets Committee covering 86 jurisdictions. He has played a key role in international securities regulatory policy work.

He currently chairs the Securities Industry Development Corporation and the Capital Market Development Fund. He is also the Vice-Chairman of the Asian Institute of Finance and a member of the Board of the Labuan Financial Services Authority and the Financial Reporting Foundation.

Datuk Ranjit is trained as a financial economist and accountant. He holds a Bachelor of Economics (Honours) degree and a Master of Economics degree in Finance from Monash University, Melbourne and is a fellow of CPA Australia. He has had prior working experience in Australia and Malaysia in academia, consulting and accounting.

Datuk Oh Chong Peng

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

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

Members of the Authority

Dato' Mohammed Azlan Hashim

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

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

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

Datuk Ali Abdul Kadir

Datuk Ali is the Chairman of Jobstreet Corporation Berhad, Milux Corporation Berhad, Microlink Solutions Berhad, Privasia Technology Berhad and the Financial Reporting Foundation. He currently serves as a board member of Glomac Berhad, and a member of the Advisory Panel of the Companies Commission of Malaysia.

Datuk Ali was the Chairman of the Securities Commission Malaysia (SC) from 1999-2004. During his tenure, he was elected chairman of IOSCO's Asia-Pacific Region Committee, trustee of AAOIFI and Force of Nature Aid Foundation and was also Advisor to the Securities and Exchange Commission of Sri Lanka for its capital market Blueprint. He was appointed as Adjunct Professor in the Accounting and Business Faculty, University of Malaya in 2008 and retired in August 2011 and was then appointed to the Advisory Board of the same Faculty.

Datuk Ali is a Fellow of the Institute of Chartered Accountants in England and Wales (ICAEW) and is currently Honorary Advisor to ICAEW Malaysia, Honorary Fellow of the Institute of Chartered Secretaries and Administrators (UK) and the Malaysian Institute of Directors.

Mr. Zainul Abidin Abdullah

Mr. Zainul Abidin is the Chief Executive Officer of Labuan Corporation since 1 December 2010. Before joining Labuan Corporation, he was under the Ministry of Federal Territories and Urban Wellbeing, holding various positions since 2005. Prior to that, he had served for various Ministries such as Ministry of Finance back in 2004, Ministry of Natural Resources and Environment in 2004, Ministry of Housing and Local Government since 1987 and he started his service in government with Ministry of Transport in 1984.

Mr. Zainul Abidin holds a Bachelor of Arts (Hons) from University of Malaya, Diploma in Public Administration from INTAN and a Masters of Science (MSc) in Human Resources Development from University Putra Malaysia.

Dato' Siti Halimah Ismail

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

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

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

Members of the Authority

Mr. Mohd Naim Daruwish

Mr. Mohd Naim is the Chief Executive Officer of the Companies Commission of Malaysia. He started off his career as a Legal Officer with Bank Pertanian Malaysia in 1984 before being appointed as Magistrate in 1985, and later as Senior Magistrate.

He has served in various positions in the Employees Provident Fund, such as the Senior General Manager of Legal and Contribution Department. Mr. Mohd Naim graduated with a LLB (Hons) degree from the University of Malaya.

Mr. Ahmad Hizzad Baharuddin

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

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

The Shariah Supervisory Council

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

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

not pictured:
Dr. Hussein Hamed Hassan

The International Advisory Panel

The International **Advisory Panel**

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

seated from left to right:
Mr. Mark Lea, Mr. Michael Troth, Tan Sri Dato' Megat Zaharuddin Megat Mohd Nor, Dato' Mohammed Azlan Hashim (Chairman), Datuk Wira Jalilah Baba

standing from left to right:
Mr. Anthony Neoh, Mr. Iqbal Khan, Mr. Frank McInerney

not pictured:
Datuk George Ratilal, Baron Frederik Van Tuyll

The Financial Stability Committee

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

from left to right:
Ms. Che Zakiah Che Din, Ms. Hasnah Omar, Mr. Ahmad Hizzad Baharuddin (Chairman), Mrs. Madelena Mohamed, Mr. Danial Mah Abdullah

Senior Management
of Labuan FSA

from left to right:
Mr. Iskandar Mohd Nuli, Mr. Md Yunus Atip, Mr. Danial Mah Abdullah, Mr. Ahmad Hizzad Baharuddin (Director-General), Mr. Azuddin Jasin, Mrs. Yon Zahimah Ibrahim, Mr. Mohd Rizlan Mokhtar

Senior Management of Pristine Era Sdn. Bhd.

from left to right:
Mr. Mohd Rizlan Mokhtar, Mrs. Jane Ho Li Oi,
Mrs. Zainab Batin, Mr. Zulkarnain Mohd Said

Senior Management
of Labuan IBFC Inc. Sdn. Bhd.

from left to right:
Ms. Winnie Ng, Ms. Rajam Sega, Mr. Saiful Bahari Baharom

CONNECTING

VALU

Labuan IBFC is a financial centre that adheres to global governance standards and practices. Labuan IBFC is a centre of integrity and ethical values.

ES

Statement of Corporate Governance

The Labuan Financial Services Authority (Labuan FSA) is a statutory body established under the Labuan Financial Services Authority Act 1996 (Act). The Act provides the statutory powers and duties of Labuan FSA in undertaking its objectives and functions.

It empowers Labuan FSA to issue guidelines, directives and advisories including obtaining relevant information from Labuan entities and other enforcement authorities for the effective conduct of its regulatory and supervisory roles and responsibilities. As the statutory regulator for the Labuan International Business And Financial Centre (IBFC), Labuan FSA advocates high standards of corporate governance and best practices.

Governance Framework

The governance framework of Labuan FSA has been broadly translated into its organisational structures and processes, which characterises how the organisation is directed, controlled and held to account.

The framework is enforced by a set of relationships comprising the supervisory authority, management and stakeholders in collaborative stewardship structure, through which the objectives of Labuan FSA are established and implemented. The framework acts as the means to achieve its business objectives while forms the basis to monitor and measure its performance.

The governance framework of Labuan FSA has three core principles that are aimed at driving the performance and outcomes of Labuan IBFC. These core principles as depicted in Diagram 1 comprised:

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

Diagram 1: Core Principles of Governance

Accountability	Authority oversight through: • Strategic Directions • Adoption of best practices both for business and operations • Economical usage of resources
Integrity	Alignment between individual and organisation values through: • Competent and professional team • Regular audit exercise • Enterprise Risk Management
Transparency	Collaboration with key stakeholders through: • Continuous communication • Smart partnership and strategic alliance

Adherence to the principle of governance further reinforces the integration of the core principles to ensure coherent functioning of the organisational system.

As a regulatory and supervisory body under the Ministry of Finance, the Minister of Finance may, from time to time, requires the Authority to furnish information regarding its performance under the Act and other laws relating to Labuan financial services. The Authority also works closely with other domestic and regional regulators as well as relevant international standard setting bodies.

Accountability

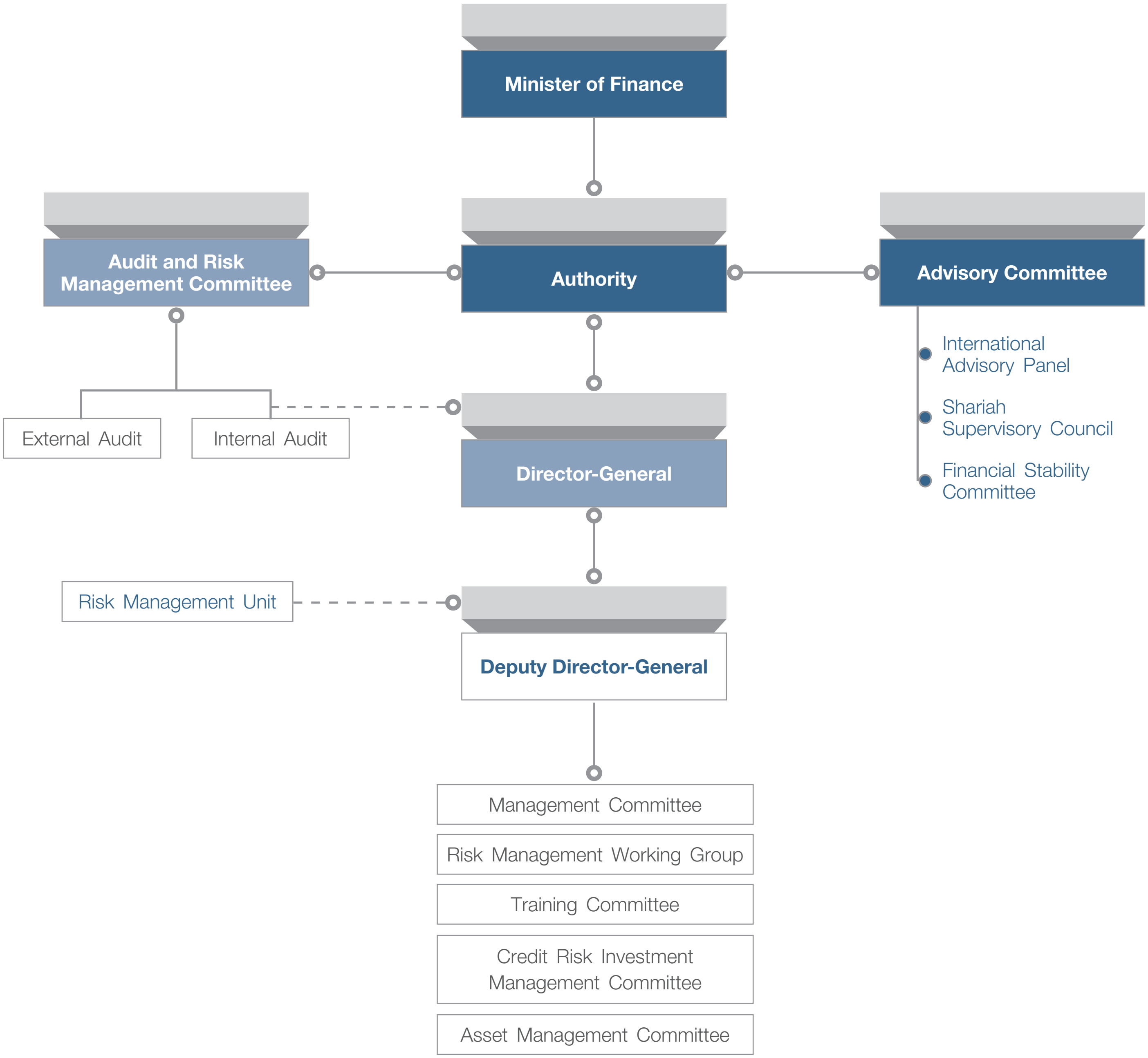
Accountability within Labuan FSA is ensured through its decision-making structure and usage of internal resources towards meeting the mandated objectives and interests of its stakeholders.

The Authority

The Authority, being the highest decision-making body, provides oversight on the management through the strategic directions of the business as well as the review and approval of 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 encompasses the reporting relationships and division of responsibilities among different constituents, internally and externally, intended to meet the interests of stakeholders in an objective and equitable manner. Towards this, accountability of the institution is further strengthened through the effective and timely implementation of regulatory and supervisory processes that are transparent, enforceable and consistent with the law.

The Authority, comprising nine prominent members from the public and private sectors including the Director-General, 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 spirit of the Malaysian Code of Corporate Governance as well as international standards and best practices are complied with. In fulfilling its oversight and supervisory responsibilities, the Authority is assisted by the Audit and Risk Management Committee.

Governance Framework



Accountability

In 2012, the Authority convened six meetings, including one special meeting. The members' attendance record is as follows:

Authority Members	Attendance
Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz (Chairman)	6/6
Mr. Ahmad Hizzad Baharuddin	6/6
Tan Sri Zarinah Anwar (Retired on 31 March 2012)	1/1
Datuk Oh Chong Peng	4/6
Dato' Mohammed Azlan Hashim	5/6
Datuk Ali Abdul Kadir	3/6
Mr. Zainul Abidin Abdullah	4/6
Dato' Siti Halimah Ismail	4/6
Mr. Mohd Naim Daruwish	3/6
Datuk Ranjit Ajit Singh (Appointed on 1 April 2012)	3/4

The Audit and Risk Management Committee Report

The Audit and Risk Management Committee (ARMC) was established in accordance with the oversight powers extended to the Authority by the Act. The ARMC convened five meetings in 2012 and the attendance of the committee members is as follows:

Audit Committee	Attendance
Datuk Oh Chong Peng (Chairman)	5/5
Datuk Ali Abdul Kadir	5/5
Dato' Mohammed Azlan Hashim	5/5
Mr. Zainul Abidin Abdullah	2/5

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

The ARMC had performed the following key activities:

- Reviewing the audit plan for 2012 and providing oversight on the work performed by the internal audit throughout the year;
- Reviewing accounting and financial reports including other key issues raised by the internal and external auditors and the Auditor-General's office;
- Reviewing financial reports including quarterly and annual financial statements;
- Reviewing and advising the Authority on the 2013 Budget Proposal;
- Reviewing and advising the management on the Business Continuity Plan and its implementation; and
- Revewing and advising on the status of risk issues and its management as they relate to the strategic, financial, operational, system and security risks of Labuan FSA.

Integrity

The effective governance of Labuan FSA is built on high moral values upheld by the personnel, 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, given Labuan FSA's regulatory and supervisory role. The Authority has established an enabling environment to support its operations together with a team of competent and professional staff, an effective set of internal controls and business risk management framework to ensure the stability of the financial and business system in Labuan IBFC.

In 2012, the Authority endorsed a new set of Information Communications Technology (ICT) policy to guide staff on the usage of ICT facilities and internal systems with the aim of protecting Labuan FSA's ICT environment. Labuan FSA is also committed towards creating a pool of talent amongst its staff by continuously providing relevant training programmes, both conducted in-house known as Reinforcement Education Programme as well as programmes organised by external training providers.

Organisation Compliance

The Internal Audit Unit (IAU) performed its regular audit on selected functions of Labuan FSA throughout 2012 to ensure that risk management, internal controls and governance processes continue to remain effective. The IAU adopted a risk-based approach that is in line with industry best practices and prioritises high risk areas during the implementation of the 2012 Internal Audit Plan, as approved by the ARMC prior to 2012.

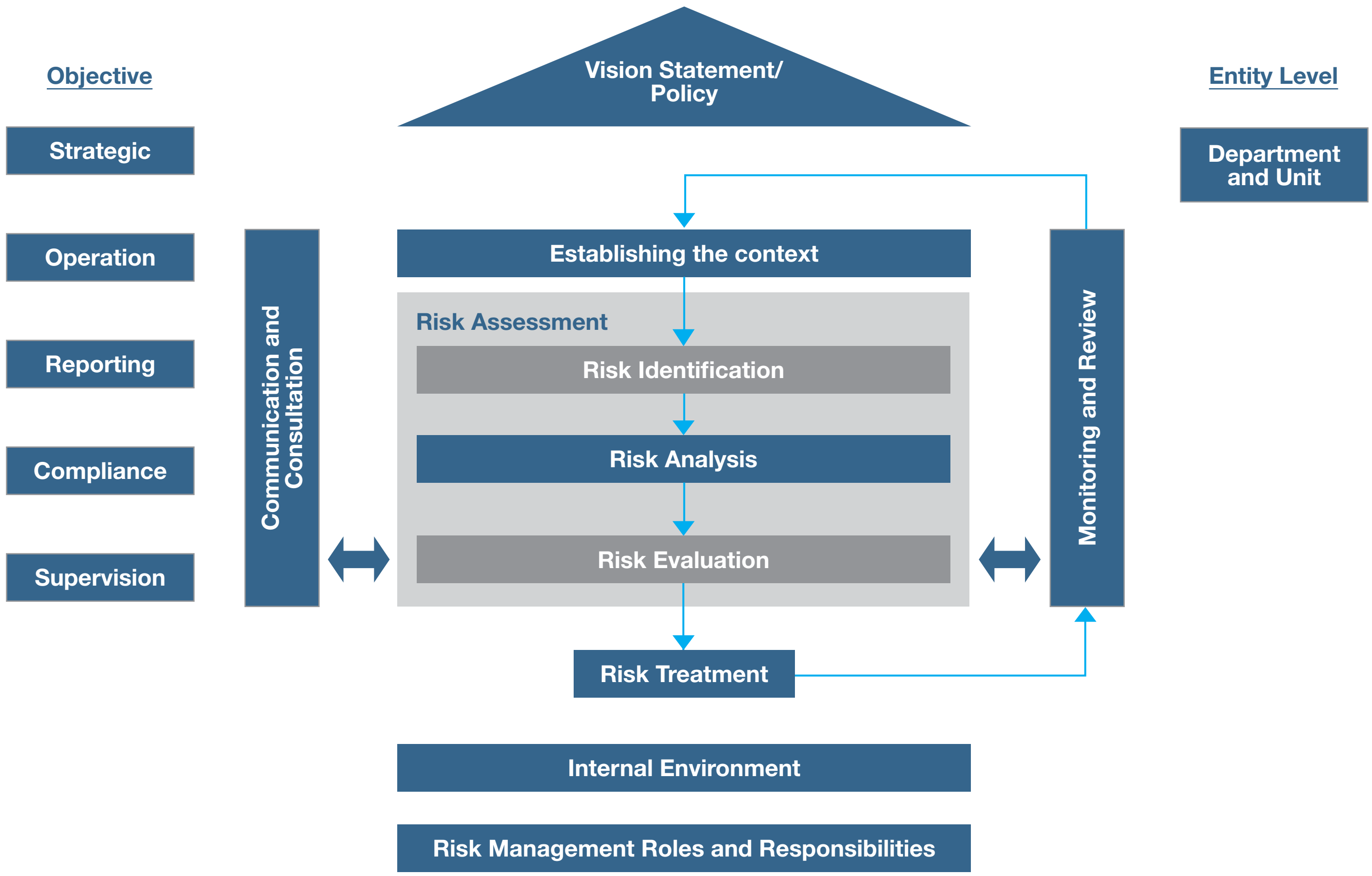
As its commitment to maintain integrity in the conduct of internal audit, Labuan FSA underwent an external quality assurance exercise which was performed by an independent assessor, the Institute of Internal Auditors Malaysia. The assessment recognises that the internal audit function of Labuan FSA maintains quality performance, demonstrates professionalism and uses of successful practices as well as its conformity to the Institute of Internal Auditor's *International Standards for the Professional Practice of Internal Auditing*.

Integrity

Enterprise Risk Management

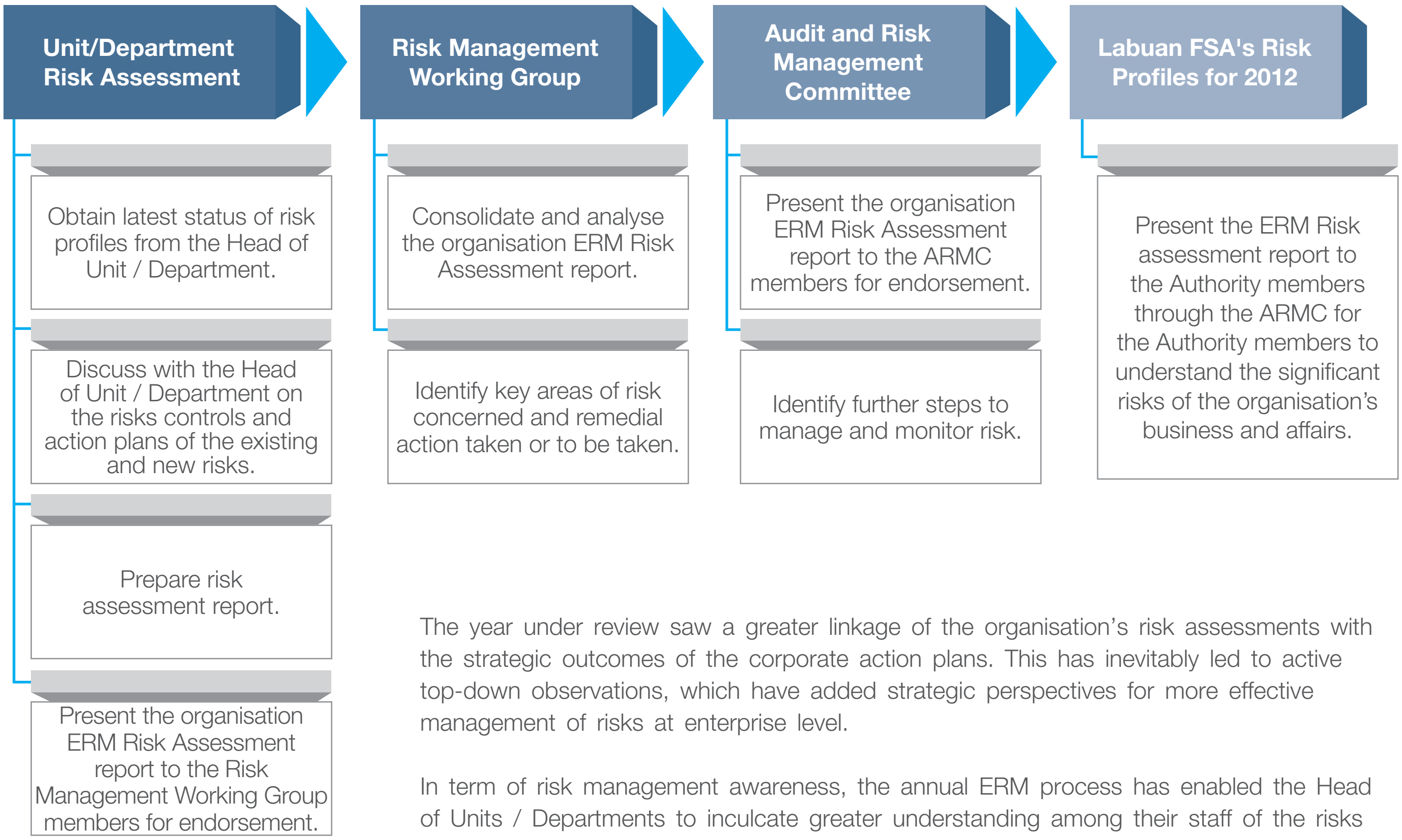
Labuan FSA adopts an Enterprise Risk Management (ERM) approach to effectively manage risks that are increasingly becoming more intricate and interlinked across different functions of the organisation. During the year under review, Labuan FSA continued to strengthen its ERM framework in accordance with the ISO 31000:2009, Risk Management – Principles and Guidelines to ensure consistent, effective management and oversight of risks in the organisation. The overall ERM framework of Labuan FSA is depicted in Diagram 1.

Diagram 1: Labuan FSA's ERM Framework



The role of the Risk Management Unit (RMU) is to oversee the implementation of ERM initiatives in Labuan FSA. In 2012, RMU had completed a full cycle of ERM framework which was to identify, analyse, evaluate, treat, monitor report and communicate the risks facing the organisation. The key actions of the ERM process are summarised in Diagram 2.

Diagram 2: Key actions Under ERM Process



The year under review saw a greater linkage of the organisation's risk assessments with the strategic outcomes of the corporate action plans. This has inevitably led to active top-down observations, which have added strategic perspectives for more effective management of risks at enterprise level.

In term of risk management awareness, the annual ERM process has enabled the Head of Units / Departments to inculcate greater understanding among their staff of the risks facing their respective areas, the root causes and the controls that have been identified to mitigate the risk. In addition, RMU has undertaken several initiatives to enhance the risk management culture of Labuan FSA by providing periodic issuance of risk management bilingual newsletters as well as briefings on risk management processes to new staff during induction programmes.

Business Continuity Plan

The Business Continuity Plan (BCP) is another key component of 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, even under any adverse situations. The existing BCP framework will be revised and aligned to the Business Continuity Management standard i.e. BS ISO 22301: 2012. The revised framework is expected to be completed in 2013.

Labuan FSA has introduced a Guideline on Whistle Blowing which is designed to provide an avenue for employees, industry players and other parties to raise concerns in relation to issues which are in the interest of integrity and justice concerning Labuan FSA and its subsidiaries. The main objective of the Guideline is to maintain a high standard of corporate governance and business integrity, in order for Labuan FSA and its subsidiaries to serve its stakeholders effectively. The Guideline provides effective measures to protect any person who reports any wrong doing without fear of reprisal, victimisation, harassment, subsequent discrimination or disadvantage.

Transparency

Transparency is the means of holding the organisation accountable to its mandated roles and objectives. The effective manner in which transparency is exhibited will enhance the integrity of the organisation, as its actions and performance could be objectively judged by stakeholders. The Authority recognises that in addressing the need for transparency, its corporate governance framework should be complemented by a balanced disclosure, in addition to provisions of a wide range and relevant information. The disclosure of information and collaboration with 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 subject to financial as well as management and operational audit by the Auditor-General's Office (AG). Labuan FSA is required to submit its accounts to be audited by the AG every year before the accounts are tabled to Parliament for notation. Labuan FSA remains committed to providing a clear and meaningful assessment of its financial performance, supported by the Chairman's Statement and audited financial statements. Labuan FSA also ensures that the accounting records disclosed are reported with accuracy for a true and fair view of the financial position and state of affairs of the organisation, based on generally accepted accounting principles. The professional relationship with the AG provides an avenue for greater transparency as the relevant reports which are certified by the AG are also published and made available to the public.

Labuan FSA is also obliged to the directions and requirements of the Governance Integrity Committee (GIC) established by the Ministry of Finance. Accordingly, it must comply with relevant governance, integrity and transparency matters brought forward from time to time by the GIC, including means to enhance technology and computerisation to improve efficiency and security.

At the industry level, Labuan FSA continues to uphold transparency and maintain its consultative approach with the industry players on issues and developments affecting the business. Bilateral meetings with the associations and the council members of the Labuan banks, Labuan investment banks, Labuan insurance and insurance-related companies, and Labuan trust companies were conducted during the year, on a quarterly and half-yearly basis. The regular discussions would further facilitate greater understanding of the business conditions and foster closer collaboration and rapport building between Labuan FSA and the industry players.

Continuous efforts were also made by Labuan FSA to enhance transparency as demonstrated through its collaboration with other enforcement authorities, particularly among members of the National Coordination Committee to Counter Money Laundering (NCC) including the Central Bank of Malaysia (BNM), Securities Commission Malaysia, Royal Malaysia Police, Attorney-General Chambers and other local agencies. The NCC is a cross-regulatory and enforcement body that provides the Authority with updates on measures undertaken by its members in combating money laundering and terrorist financing.

The year 2012 witnessed the highest commitment to enforce and secure compliance with regard to the capital market industry where Labuan FSA has been accepted as signatory A to the International Organisation of Securities Commissions (IOSCO) Multilateral Memorandum of Understanding (MMoU). The MMoU facilitates consultation and cooperation, in addition to exchange of information for enforcement with members of the IOSCO.

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

CONNECTING
REA

In an increasingly integrated world, Labuan IBFC serves as a connecting point for global and regional trade and financial transactions, with two of the world's most dynamic economies, China and India, in the North and the South and strategically located in ASEAN, home to one of the fastest growing middle-class population in the world.

CH


CHINA
VIETNAM
PHILIPPINES
MYANMAR
THAILAND
MALAYSIA
INDONESIA
INDIA
GULF REGION

Industry Performance of Labuan IBFC

PART I
business overview

MARKET OVERVIEW OF LABUAN IBFC

Despite the challenging global financial environment, Labuan IBFC continued to record positive growth in all key areas. Sustained interests from regional and international investors led to new licences issued to foreign players, adding to the diversity of players and increased business volume in key sectors including company registration, leasing, banking, insurance business and foundations. This is mainly driven by the comprehensive and facilitative legislative framework which has enhanced Labuan IBFC's competitive edge in facilitating a more conducive business environment and wider spectrum of products and services.

At the same time, the delivery system has been continuously enhanced with streamlined application process which provides a more efficient processing and administration of applications to entities intending to operate in Labuan. While the laws and delivery system are in place, other developmental initiatives were also undertaken by Labuan FSA encompassing amongst others, new business opportunities, regulatory and supervisory regime to further strengthen Labuan IBFC's competitiveness and potential to best serve the vast opportunities in the emerging market of Asia. These initiatives are encapsulated in the Financial Sector Blueprint (Blueprint).

Beyond business enhancement, Labuan FSA has promoted the resilience and soundness of Labuan financial institutions and stability of the Labuan financial system. The Authority continued to adopt a risk-based approach in its supervisory oversight function while strengthening its off-site monitoring resources and capabilities. In addition, a comprehensive knowledge of business database was developed to provide an up to-date risk profiling of each Labuan financial institution in determining appropriate supervisory strategy for each institution. Home-host supervisory cooperation is important to Labuan FSA's supervisory function as the financial institutions in Labuan IBFC originate from many countries. In this regard, Labuan FSA has made more proactive engagements with other regulatory authorities through signing of Memorandums of Understanding and participating in supervisory colleges. Labuan FSA remains committed to international agreed standards and practices governing international financial services and transactions especially in the area of exchange of information.

Industry Performance of Labuan IBFC

PART 1 – BUSINESS OVERVIEW

LABUAN TRUST COMPANIES

Market Development

The role of international financial centers in providing products and services to investors across a wide range of sectors and geographies has continued to grow. Many corporations remained active in using international structures for their expansion into new markets at competitive costs. As Asia is an important growth region and is well placed to offer many attractive business opportunities, Labuan IBFC can play a key connecting role for international companies and individual investors from various parts of the world.

In meeting this trend, the role of professional service providers including tax planners, trust lawyers, accounting firms, asset managers, estate planners and bankers becomes more important to serve the broad range of clientele and private investors. Labuan trust companies have continuously enhance themselves to stay ahead of the curve in terms of innovation, cost competitiveness and high quality of customer service to meet the diverse needs of their clients.

Sector Development

The Labuan trust companies render professional services which include corporate secretarial and administrative services for Labuan companies, trusteeship for bond issuances and business process outsourcing services for global operations. Several trust companies also focus on providing advisory services for wealth preservation vehicles in the form of trusts and foundations. During the year, the total number of trust companies increased to 37 (2011: 32) comprising 28 full-fledged, eight managed trust companies and one private trust company.

Labuan IBFC remained an attractive location for new companies arising from the diverse types of Labuan entities available for registration. This resulted in continued growth in terms of registration of new companies in 2012 which are managed and administered by Labuan trust companies. The number of Labuan companies inclusive of Labuan pre-incorporated companies (LPC) and Labuan protected cell companies (PCC) recorded a 10.6% growth in 2012 with 779 new registrations compared to the previous year (2011: 704). This resulted in a 8.9% growth in the total number of Labuan companies to 9,487 in 2012 from 8,708 in 2011.

The Labuan companies registered in Labuan IBFC originated from more than 100 countries. In terms of segregation by region, 57.7% (2011: 58.0%) of Labuan companies originated from the Asia and Pacific region, largely from Malaysia, Indonesia, Singapore, Australia and Thailand. This was followed by Europe with 13.3% (2011: 13.6%) with companies mainly from United Kingdom, Switzerland, Ireland, Netherlands and Germany. The Far East region contributed 13.0% (2011: 13.9%), Americas with 9.7% (2011: 10.2%) while the Middle East and Africa with the remaining 6.3% (2011: 4.2%).

Labuan foundation is another area of growth for the Labuan IBFC. For the year 2012, a total of 25 new Labuan foundations were registered in Labuan IBFC, bringing the total number to 65, an increase of 62.5% compared to 40 in 2011. The composition of Labuan foundations consisted of 59 conventional and six Islamic. The Labuan foundations originated mainly from the Asia and the Pacific region with 63.1% (2011: 57.5%), Middle East and Africa 20.0% (2011: 25.0%), Europe 9.0% (2011: 12.5%), America 5.0% (2011: 0) and Far East with 3.0% (2011: 5.0%).

The growth of the above businesses contributed to the total operating income of the Labuan trust companies for 2012 which increased by 12.1% to USD19.7 million (2011: USD17.6 million) while the profit before tax increased by 54.8% amounting to USD6.6 million (2011: USD4.2 million).

Supervisory and Regulatory Oversight

Throughout the year, 22 supervisory engagements were completed for trust companies and efforts were directed towards off-site surveillance, whereby the risk profile of every trust company was established and updated on periodic basis.

Besides off-site surveillance, Labuan FSA also leveraged on the works of independent functionaries, especially external and internal auditors. Under the directive issued in 2011, all trust companies have been required to perform internal audits on periodic basis and were given until June 2012 to submit reports to Labuan FSA. Improvements were noted in the areas of internal controls, risk management and compliance arising from the rectification measures undertaken by the trust companies.

Through the supervisory activities, Labuan FSA observed that the sector remained sound. The total industry shareholders' funds increased to USD20.5 million at 31 December 2012 from USD15.6 million at the beginning of the year due mainly to profit retentions. The industry has also registered a strong increase in its profit before tax in 2012.

Despite the industry's strong performance, enforcement actions were taken on a number of trust companies based on the gaps identified in certain areas. Some of these trust companies had been issued with show cause letters for their non-compliances with regulatory requirements.

Connect via Banking

Comprising of an integrated network of institutions, markets and a wide range of products, Labuan IBFC provides a multitude of financial services to international customers and investors. Labuan IBFC's financial services operate under effective and transparent regulations that meet international standards. The legal framework it uses drives business initiatives and innovation, making it an attractive prospect for commerce.

Industry Performance of Labuan IBFC

PART 1 – BUSINESS OVERVIEW

LABUAN BANKS

Market Development

The international financial system has experienced a series of unexpected financial retraction during the global financial crisis and its impact continued to affect global growth. Due to low prospects of strong recovery in the United States and the Eurozone, the global economy's road to a sustainable growth path has been fraught with uncertainties.

Macroeconomic pressures and regulatory changes point to a challenging environment for the banking industry as a whole. Whether the challenge facing the banking sector is capitalising on growth opportunities or mitigating the impact of contraction, taking a proper approach to reshaping the business will be critical. Banks, particularly global banks, need to revise its business and operating model to reflect the shifts in internal and external environments and to manage risk effectively.

As regulations covering compliance, governance and risk management practices of the financial services sector remain a key priority of financial reforms, there is a need to ensure that banks continue to have experienced and qualified personnel to manage the institutions professionally to ensure adherence to the internal policies and procedures as well as rules and regulations of the authorities. In addition, it is also important for regulatory authorities to strengthen cross-border supervisory cooperation and for international standard setting bodies to share the global best practices contributing towards a more effective surveillance and management of financial stability.

Sector Development

In 2012, the total number of Labuan banks in operation was 59, comprising 43 banks and 16 investment banks, of which three were Islamic banks and three Islamic investment banks. During the year, one new commercial bank originating from Ghana was approved to operate through Labuan IBFC. Two banks surrendered their licences in 2012, namely, one foreign commercial bank due to a strategic decision taken at the head office level, while one branch of Malaysian investment bank surrendered its licence due to group reorganisation exercise taken at the head office level to refocus its niche in the domestic market.

The Labuan banking sector continued to grow with their business exposures remain concentrated in the Asian region. The banking sector's asset base continued to grow to USD42.1 billion (2011: USD38.3 billion) as Labuan banks expand their business activities, particularly in providing loans and advances. Out of the total assets, Islamic assets contributed 5.5% or USD2.3 billion, an increase by 55.0% from the previous year (2011: 3.9% or USD1.5 billion).

Non-residents continued to dominate with 60.6% of the total market share in total loans outstanding. Total Islamic financing also increased to USD528.5 million (2011: USD294.6 million), accounting for a 2.0% share against the total loans of the industry. In addition, the total deposits also increased to USD10.4 billion (2011: USD9.4 billion) with majority of the depositors being non-residents, representing 60.0% of the total market share. These showed the continuous interest from non-residents to obtain the banking services from Labuan banks. The total Islamic deposits generated by the Labuan Islamic banks (including the conventional banks with Islamic windows) accounted for 1.6% share against the total deposits of the industry. Similar to conventional banks, non-residents remained the majority of customers that dominated 94.4% of the total Islamic deposits of USD169.0 million (2011: 95.4% or USD179.6 million).

During the year, Labuan banks also recorded a significant increase of 41.2% in pre-tax profits to USD647.6 million (2011: USD458.6 million) while the asset quality remained strong. As a result, the ratio of gross non-performing loans of Labuan banks has improved to 1.3% as compared to the previous year of 1.5%.

A sectoral analysis of bank lending in 2012 showed the continuous increase of demand in financing by residents and non-residents. The wholesale, retail trade, restaurant and hotel sectors recorded the highest growth by 132.8% to USD845.0 million (2011: USD363.0 million). Financing, insurance and business services sector remained as the major sectors funded by the Labuan banks, followed by transportation, storage and communications sectors, miscellaneous sector, mining and quarrying sector as well as agriculture, hunting, forestry and fishing sectors.

Supervisory and Regulatory Oversight

The Labuan banks remained healthy with good quality assets, sufficient liquidity buffers and well capitalised above the regulatory requirement. Out of the 59 banks, 33 were branch entities which were part of large international banking groups. Overall, sound risk management practices and good corporate governance policies were adopted by the Labuan banks. Labuan FSA had also issued supervisory letters to institutions which require close monitoring of their governance and risk management practices and policies.

Throughout the year, Labuan FSA had also completed 43 supervisory engagements including meetings with the Labuan banks' board members and senior management, internal auditors and compliance officers. Six banks have been placed under close supervision in view of unresolved non-compliance issues in areas relating to capital adequacy, corporate governance practices, risk management and control functions. Frequent engagements with the banks' senior management and directors had taken place to address issues of concerns.

Industry Performance of Labuan IBFC

PART 1 – BUSINESS OVERVIEW

Labuan FSA continued to focus on delivering a prudential framework which is responsive to the changing environment and greater volatility in the financial markets, while maintaining an appropriate balance between the regulatory complexity and market developments. In 2011/2012, the International Monetary Fund (IMF) conducted an assessment on Malaysia including Labuan under its Financial Sector Assessment Program (FSAP). A key part of the FSAP was an evaluation of Labuan FSA's policies and practices for the prudential supervision of Labuan banks against the Basel Core Principles for Effective Banking Supervision (Basel Core Principles). In preparation for the IMF's assessment, Labuan FSA undertook a self-assessment of its compliance with the Basel Core Principles.

In order to closely align Labuan FSA's prudential framework with the international standards, particularly in the banking industry, Labuan FSA has issued revised prudential standards dealing with lending policies and practices that could adversely affect the asset quality of loans/financing and the appropriate parameters in regard to transactions with related parties. The main thrust of banking policies has always been to preserve the soundness and stability of the financial system in Labuan IBFC whilst ensuring the intermediation process continues to support economic growth. The prudential standards issued in 2012 included:

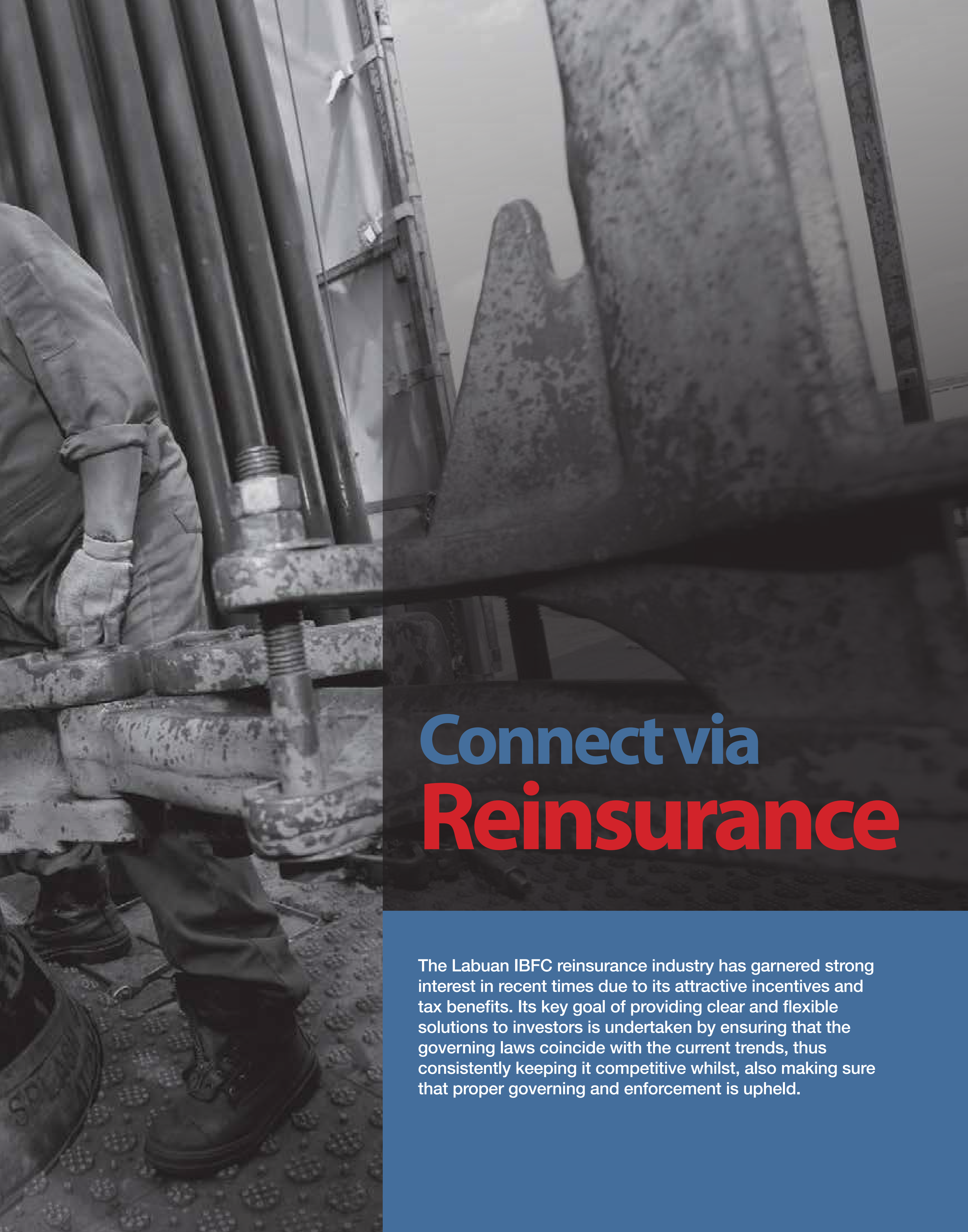
(i) Guidelines on the Classification and Impairment Provisions for Loans/Financing for Labuan Banks

The revised guidelines were issued on 1 October 2012 and superseded the Guidelines on Suspension of Interest and Provision for Bad and Doubtful Debts issued on 8 April 1997. With these guidelines, it has become crucial for banks to maintain a strong impairment methodology and credit-risk grading system in line with Labuan FSA's regulatory expectation on the classification of non-performing loans (NPLs) and the provisioning for loan impairment.

Under the new guidelines, impairment provisioning will be based on the discounting of cash flows, which are expected to be recovered from defaulted individual loans to derive the present value. Any shortfall between the present value of the discounted cash flows and carrying value of the defaulted loan will be recognised as impairment immediately by banks. The change is viewed as prudent with full impairment provisioning recognised immediately compared with recognising it gradually based on certain percentages under the previous guidelines. Other changes under the new guidelines are the shortening of NPLs reclassification of overdraft and loan facilities from six to three months for non-payment of principal, interest or both. Similar policy approach was also adopted for the Islamic financial services industry, where impairment of provision is concerned.

(ii) Guidelines on Credit Transactions and Exposures with Connected Parties for Labuan Banks

The revised guidelines were issued on 1 October 2012 and superseded the Guidelines on Connected Lendings issued on 8 April 1997. The latest guidelines provide greater flexibility for the banks to extend credit in the ordinary course of business to connected parties based on arm's length principles and subject to sound risk management practices and concentration limit. The guidelines also cover wider definition of "close relatives" of which the banks are expected to have in place monitoring systems that should also capture credit facilities which were extended prior to the effective date of the revised guidelines.



Connect via Reinsurance

The Labuan IBFC reinsurance industry has garnered strong interest in recent times due to its attractive incentives and tax benefits. Its key goal of providing clear and flexible solutions to investors is undertaken by ensuring that the governing laws coincide with the current trends, thus consistently keeping it competitive whilst, also making sure that proper governing and enforcement is upheld.

Industry Performance of Labuan IBFC

PART 1 – BUSINESS OVERVIEW

LABUAN INSURANCE

Market Development

For the last couple of years, the global insurance sector has been substantially impacted by natural catastrophic events. In addition, the challenging economic environment such as the diminishing growth in both developed and developing economies and the ongoing debt crisis in Europe and fiscal uncertainty in the United States have impacted the financial resilience of the global insurance sector.

Despite the general market condition which was not encouraging in 2012, some specialised financial centers recorded quite impressive numbers in their insurance business. For some jurisdictions, the accelerated growth in insurance business was driven by the moderate increase in certain product segments in the emerging market. For example, emerging Asia was seen as the most robust region which contributed to the broad based expansion in non-life insurance premium growth.

As the global economic activity is expected to be moderately stronger in 2013, insurance pricing is projected to improve further. Global non-life direct premiums and primary life insurance premiums are projected to grow as emerging markets continue to strengthen and advanced markets recover from a decline last year.

In the reinsurance market, capital, underwriting and operating trends are expected to support their current ratings over the next couple of years. Reinsurers are likely to maintain underwriting discipline in 2013 as they continue to be cautious after the high losses of 2011 and uncertainty continues in the global macroeconomic outlook. As the profitability of life reinsurers will still be challenged by the low interest rate environment, the reinsurers will continue to seek growth in premiums by expanding in emerging markets, taking larger transactions and through offer of new products.

In this challenging market, reinsurers require sophisticated solutions to identify, mitigate and transfer range of risks. Optimisation of capital management, clear and consistent communication to rating agencies and regulators, appropriate domicile selection, capital market opportunities and strategic mergers and acquisitions are seen to be key components of growth strategies in the reinsurance sector.

Sector Development

In the last five years, the insurance industry in Labuan IBFC recorded the largest growth in terms of size and number of approvals granted. For the year 2012, 29 new licences for insurance and insurance-related entities were approved comprising ten insurance brokers, six captive insurers, four insurers, three reinsurers, three underwriting managers and three Protected Cell Company (PCC).

During the year under review, three insurance and insurance-related entities surrendered their licences due to business decision. Meanwhile, four licences were revoked for breaching the conditions of licence and the provisions of the Labuan Financial Services and Securities Act 2010. This brings the total number of approved insurance and insurance-related entities as at end 2012 to 203 (2011: 181) which include takaful and retakaful licencees.

In 2012, two biggest reinsurance companies originating from Japan had relocated their branches from Dublin to Labuan IBFC. Both companies are writing business from the Asia and Oceania region which focused on facultative business particularly in property and cargo business.

The year 2012 has also seen three new PCC companies being given approval to carry on PCC captive since the introduction of the structure within the legislation in Labuan IBFC in 2010. The PCC has become a viable option to expand the captive insurance business throughout the Asian region. It has also enabled the corporate entities particularly small and medium enterprises to participate in a risk solution vehicle that does not incur higher costs of setting-up a stand-alone captive.

In terms of operations of the Labuan insurance industry, the total capitalisation of the industry had increased by 15.3% to USD739.0 million (2011: USD640.8 million). The increase is reflective of the new licences approved for the year 2012. The total shareholdings of Labuan insurance industry was still dominated by foreign shareholdings which accounted for 73.4% (2011: 69.2%).

As at end of 2012, the total assets recorded for Labuan insurance entities increased by 19.8% to USD4.4 billion (2011: USD3.7 billion). Fixed deposits and money market instruments remained as the largest portion of total assets representing 35.0% or USD1.5 billion. Similarly as previous year, the composition of assets allocation by the Labuan insurers reflected prudent and risk aversion among the Labuan insurers.

The total gross premiums written by the Labuan general insurers and reinsurers as at 31 December 2012 increased by 10.4% to USD1.7 billion (2011: USD1.6 billion). The non-resident business constituted higher share of 53.9% as compared to resident business (2011: 48.7%). Fire sector continued to be a key insurance class, contributing higher market share of 38.6% (2011: 35.7%). The total gross contributions generated by Labuan Takaful and Retakaful companies (including Takaful and Retakaful windows) recorded a total of USD390.1 million (2011: USD459.5 million) with non-resident business remained as the major contributor at 75.7% (2011: 69.8%).

Industry Performance of Labuan IBFC

PART 1 – BUSINESS OVERVIEW

The overall net retention ratio for the industry was slightly lower at 70.6% (2011: 71.4%), mainly due to the decrease in retention in the fire, marine and engineering sectors. Motor sector maintained the highest net retention of 98.3% among others (2011: 98.8%). Meanwhile, earned premium continued to increase by 13.3% to USD1.3 billion (2011: USD1.1 billion). The ratio of net claims incurred to earned premium income (gross premiums less cessions and reserves for unexpired risks) decreased from 67.9% in 2011 to 57.0% in 2012, corresponding to the decrease in commission ratio from 25.7% in 2011 to 24.0% in 2012. The decrease in net claims incurred and commission resulted in a substantial increase in underwriting margin by 584.0% which amounting to USD191.9 million (2011: USD28.0 million).

The year under review showed a small reduction in investment-linked insurance products with only 166 policies issued during the year (2011: 172). In terms of value, USD2.8 million worth of premiums was written compared to USD4.5 million in 2011.

In terms of captive insurance business, as at end 2012, six new captives were approved, bringing a total of captive insurers to 41 (2011: 34). Labuan IBFC captives wrote USD327.1 million in total gross premiums in 2012, an increase of 4.3% over USD313.7 million in 2011. The increase was mainly due to the risks underwritten in fire and marine sectors.

The total premium processed by the Labuan insurance brokers increased by 2.4% to USD919.2 million (2011: USD897.7 million). Out of the total, 87.1% (2011: 85.4%) was derived from the general insurance business. The general insurance premiums transacted by Labuan insurance brokers were for reinsurance cessions placed with Malaysian insurers (40.3%), overseas (43.0%) as well as Labuan insurers (16.7%). For the life insurance business, 97.4% or USD115.3 million (2011: USD129.9 million) was derived from direct business placed with overseas insurers. The total amount of brokerage fees earned by the Labuan insurance broking sector reduced by 16.6% to USD68.6 million (2011: USD82.2 million). The brokerage fee earned from the general insurance business comprised 84.4% of the total brokerage income, consistent with the higher proportion of general insurance premiums processed during the year.

Supervisory and Regulatory Oversight

During the year, 19 supervisory engagements were completed for Labuan insurance and insurance-related companies. Besides off-site surveillance, during the first half of the year, thematic reviews were also conducted to examine the corporate governance and risk management practices among general insurance and reinsurance brokers.

The supervisory activities carried out indicated that there were no major inadequacies in the reviewed areas. Generally, the corporate governance of the insurance sector including board and senior management oversight functions as well as risk management and internal controls had improved. In addition, general strengthening of risk management practices among Labuan insurance companies were notably observed. More specifically, there had been an increased focus on risk issues at the board levels with the board members being more informed of the risk issues, hence generating more constructive discussions. While the governance practices continued to improve, stronger check and balance from management, board accountability and independence were identified as areas which required further improvement. In this regard, five institutions were placed under close supervision to monitor its legal compliance, corporate governance and risk management practices.

Moving forward, the Labuan insurance companies need to continuously review their capabilities and strategies to manage the increasing competition from other international insurers while ensuring their operations are financially resilient to market conditions and competitive pressures. The Labuan insurance companies are expected to continuously strengthen the underwriting practices to maintain profitability and risk management capabilities to remain responsive to business and operational challenges as well as to ensure that premium rates are sufficient to cover their increasing risk exposures.

In line with the Blueprint, several initiatives were identified to further strengthen the position of Labuan IBFC as a captive and reinsurance centre. These initiatives include improvement in business environment and prudential guidelines to enhance the credibility of the sector and to further support the development of reinsurance and captive business. Realising the importance of the reinsurance sector in Labuan IBFC, the review of the reinsurance guidelines issued in 2006 was conducted to ensure that the requirements are at par with the international practices.

The revised guidelines were aimed towards enhancing the regulatory and supervisory standards and practices guidance for insurers and reinsurers in Labuan IBFC. This relates to the setting up of base line standards governing the reinsurance and retrocession arrangements of reinsurers. It also complements the efforts to develop Labuan IBFC as the preferred reinsurance and retakaful centre in the region. The review of the guidelines is expected to be completed and issued for implementation by first quarter of 2013.

Labuan FSA has also taken initiative to enhance the competencies and standard of professionalism among financial advisers of Labuan life insurance brokers through a more structured training development programme. The programme is one of the Authority's efforts in raising the capacity and capability of the industry players as well as investors' confidence in Labuan IBFC.

Industry Performance of Labuan IBFC

PART 1 – BUSINESS OVERVIEW

LABUAN FUND MANAGEMENT/CAPITAL MARKETS

The year 2012 has witnessed Labuan FSA being accepted as a full signatory to the International Organisation of Securities Commission's (IOSCO) Multilateral Memorandum of Understanding (MMoU) Concerning Consultation and Cooperation and the Exchange of Information. Moving forward, Labuan FSA will continue developing and strengthening the regulation of capital market industry in Labuan IBFC in line with the IOSCO's core principles of securities regulation and other international standards and best practices. Despite the slow growth of capital market industry in Labuan IBFC, the efforts of strengthening the regulation will ensure sound and stable capital market industry and practices in Labuan IBFC. This would also enable Labuan to be at par with other international financial centres.

During the year, Labuan FSA has granted two new approvals to carry on fund management business. One fund management licence was revoked due to non compliance with provision under the Labuan Financial Services and Securities Act 2010. This brought the total number of fund management companies to 12 (2011: 11).

For the year 2012, six notifications were submitted to Labuan FSA for the establishment of private funds (2011: 7), bringing the total number of registered private funds to 51 (2011: 45). The total fund size of the private funds increased by 17.1% to USD10.9 billion (2011: USD9.4 billion).

With regard to debt issuance, the Labuan International Financial Exchange (LFX) recorded six new listings in 2012. Notwithstanding, four existing instruments were delisted from LFX upon reaching maturity, bringing the total number of active listings to 32 (2011: 30). The market capitalisation of LFX rose by 3.7% to USD19.7 billion (2011: USD19.0 billion) with Islamic instruments making up 34.7% of the total market capitalisation. The six new instruments listed on the LFX were:

- Senior Unsecured Notes MTN Programme – Due 2017, USD400.0 million by Malayan Banking Berhad;
- Medium Term Notes (Islamic) - Due 2017, USD357.0 million by Pulai Capital Limited;
- Medium Term Notes (Series 2) – Due 2019, USD65.0 million by Export-Import Bank of Malaysia;
- Zero Coupon Notes (Series 2) - Due 2014, USD65.0 million by Mulpha SPV Limited;
- Subordinated Notes – Due 2022, USD800.0 million by Malayan Banking Berhad; and
- Guaranteed and Secured Notes – Due 2022, USD800.0 million by SSG Resources Limited.

Supervisory and Regulatory Oversight

During the year, the activities and financial performance of the fund managers were monitored through statistical data analysis and supervisory discussion with the identified fund managers. Based on the risk profiling conducted, it was observed that the activities undertaken by fund managers were limited while the risks created by the gaps identified would not have a significant impact to the financial stability of Labuan IBFC. Nevertheless, one fund manager was placed under close supervision due to non-compliance issues and inadequate maintenance of minimum capital.

Connect via Leasing

Labuan IBFC's favourable tax-regime and regulatory environment has helped both local and foreign companies manage their operation costs more efficiently via its innovative leasing structures. With easy access to developing economies such as China and India and hassle-free approvals, Labuan's leasing looks set to unlock previously unknown benefits for companies and investors with the assurance of quality, access to expertise and world-class infrastructure.

Industry Performance of Labuan IBFC

PART 1 – BUSINESS OVERVIEW

OTHER LABUAN BUSINESS

Labuan Leasing

The global asset finance and leasing industry has shown positive trends in 2012 and continues to see good prospects for the years ahead. While the US is the largest leasing market, Asia Pacific has witnessed spectacular growth in asset leasing market, driven by increasing growth in aviation, transportation as well as oil and gas industries. The Asia Pacific region is now one of the world's largest aviation leasing market with the percentage of leased commercial jet aircraft expected to grow over 50% by 2015, up from 40% in 2011. The increasing orders for aircraft by airlines in Asia would contribute to the further growth in lease finance. Similarly, the positive impact on the growth of lease finance would be led by the vibrant development in the oil and gas industry. In light of this growth potential, leasing has been identified as one of the flagship financial products of Labuan IBFC in the Financial Sector Blueprint.

The leasing sector continued to be the highest growth sector in Labuan IBFC in terms of new approvals granted in 2012 with 41 new companies approved to carry on leasing business in Labuan IBFC. The year under review also witnessed the cessation of business of ten leasing companies due to completion of their leasing transactions while one approval was deemed null and void due to non compliance under the Act.

In terms of geographical distribution, majority of leasing companies in Labuan originated from the Asia Pacific region, followed by the Americas and Caribbean region, Europe, Middle East and Africa as well as Far East region. Majority of the leasing companies were established to facilitate their inter-company leasing transactions for the provision of offshore support services that are complementing the constant growth in the oil and gas business activities in the region. Apart from that, Labuan IBFC also continued to be used by the aviation sector for international aircraft leasing to facilitate the purchase and leasing of aircrafts. As a result, the cumulative amount of assets leased registered an increase of 17.2% to USD32.4 billion (2011: USD27.6 billion).

Labuan International Commodity Trading Company

Rising demand in oil and gas from the developing economies such as China and India has driven the growth of global oil and gas transactions. Malaysia aspires to play a more significant role in worldwide trading centre for oil and gas business. As part of the strategies to encourage oil and gas trading companies to Malaysia, the Malaysian government has introduced the Global Incentive For Trading (GIFT) programme. The GIFT programme is a framework of incentives for traders of specified commodities including oil and gas to use Malaysia as their international trading base by undertaking international commodity trading business through Labuan IBFC. The programme allows trading companies registered under the Labuan International Commodity Trading Company (LITC) to trade in petroleum, petroleum-related products and other commodities and establish their operational offices anywhere in Malaysia. As at December 2012, a total of nine LITCs were licensed to carry on Labuan international commodity trading business (2011: 5). The availability of petroleum-storage infrastructural facilities in Malaysia coupled with accessibility to world oil trading market through a cost efficient platform in Labuan, supported by its international banking and financial services, Labuan IBFC is well-poised to become the destination of choice for international commodity traders.

Labuan Money-Broking

During the year, Labuan FSA granted two new approvals for Labuan companies to carry on money-broking business, bringing the total number of money-broking companies to seven (2011: 5). The money-broking companies arrange transactions between buyers and sellers in the money markets with brokers acting as intermediaries for consideration of brokerage fees paid.

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

Labuan IBFC has a sound and balanced legal and regulatory framework that prevents money laundering and financing of terrorism (ML/FT) activities in Labuan IBFC. This is an important element in enhancing market confidence to conduct business in Labuan IBFC. Labuan FSA continues to commit resources to address potential ML/FT threats that could undermine the confidence in and reputation of Labuan IBFC.

In strengthening the AML/CFT framework, Labuan FSA enhanced its inter-agency co-operation at national and international level to support surveillance and enforcement activities through regular meetings with various law enforcement agencies. At the national level, Labuan FSA continued to demonstrate its firm commitment to the National Coordination Committee towards achieving an effective implementation of national AML/CFT preventive measures. Similarly, at the international level, Labuan FSA maintains strong networks via its participation in the regional ML/FT typology, annual meeting conducted by the Asia Pacific Group on Money Laundering and continued to engage with other jurisdictions in exchanging financial intelligence.

The 40 FATF Revised Recommendations which came into effect in February 2012, prescribed new preventive measures to be taken by financial institutions and other businesses and professions in managing money laundering and terrorism financing risk. As part of the efforts to ensure the knowledge level of industry players are kept up with the latest developments in AML/CFT issues, Labuan FSA conducted an awareness seminar entitled “Anti-Money Laundering and Anti–Terrorism Financing – A Global Perspective” for all compliance officers of Labuan reporting institutions in 2012. Further, capacity development was also focused on the examiners from Supervision Unit of Labuan FSA through participation in Supervisions and Compliance Workshop organised by Bank Negara Malaysia to enhance the knowledge and skills in supervisory functions relating to ML/TF.

Aside from capacity development, Labuan FSA also continued its effort to create and enhance awareness on compliance with AML/CFT framework through sharing of information, conducting informal briefings and engaging sessions with the financial community of Labuan IBFC.

Connect via Wealth Management

Labuan IBFC's offers a comprehensive range of wealth management tools that cater to the different demands and requirements of investors, consisting of wealth transfer, estate and succession planning and inheritance management. With the Labuan Islamic Financial Services and Securities Act 2010 (LIFSSA), Labuan FSA has put itself in the forefront of international wealth planning, giving investors the flexibility to choose regulations that best meet their needs.

Wealth Management Feature

LABUAN FOUNDATIONS

Over in the recent decade, the Asia Pacific region experienced a consistently high economic growth. The growth momentum over the years have generated many High Net Worth Individuals (HNWIs), numbering to about 2.6 million in 2012. The number of Ultra HNWIs (UHNWIs) in the Asia Pacific region has also risen between 2007 and 2011 from 18,210 to over 32,800 and this growth is expected to continue increasing by 62% to 38,650 as forecasted between 2011 and 2016.

In tandem with this significant trend in Asia, the products and services catering to the needs of UHNWIs and HNWIs have also increased in various forms and functions, ranging from wealth creation to wealth preservation vehicles. In line with this development, the Labuan Foundations Act 2010 was enacted and the Labuan Trust Act 1996 was amended. The enactment of legislation relating to wealth management preservation vehicles complemented with aggressive promotion initiatives were strategically rolled out to enable Labuan IBFC to benefit from the stronger demand for wealth management products, services and structures in recent years.

Labuan IBFC offers a complete range of conventional and Islamic financial structures. A foundation offers a suitable structure for HNWIs, family offices and other wealth managers for efficient wealth transfer, dynastic planning or inheritance management. Wealthy individuals, families as well as corporations and non-profit organisations will find foundation ideal for various purposes. Traditionally used in civil law countries, a foundation is tailor-made for those who wish to have control over their assets and businesses whilst being accorded legal protection. Even though trust structures are more known in common law jurisdictions, foundations are gaining popularity among UNWHs and HNWIs. A comparison between the trusts and foundations is as follows:

Trusts	Foundations
Common law origins.	Civil law origins.
Relationship amongst parties is fiduciary.	Relationship amongst parties is contractual.
Assets, upon being vested in the trust, are legally owned by the trustee.	Assets are legally owned by the foundation. Upon registration of the foundation, the property endowed or to be endowed becomes an estate separate and apart from that of the founder by acquiring a separate legal entity status.
The person who establishes the trust is known as the settlor and the persons who benefit from the trust are known as beneficiaries.	The person(s) who create(s) the endowment is known as the founder and the persons who benefit from the endowment are known as the beneficiaries.

Trusts	Foundations
The trust deed is the document that establishes the trust.	The charter is the main constituent document of a foundation. A foundation may also have articles which are a set of more detailed rules governing its administration matters.
The appointed trustee is the person responsible to hold the trust assets and administer the trust.	An appointed body called the Council is entrusted to carry on the business and affairs of the foundation and pursue its objectives. Officers and Council are required to act in accordance with the terms of the charter and articles.
Registration of the trust is not mandatory.	Registration of the foundation is mandatory.
The settlor has certain reserved powers after establishing the trust and vesting the legal title in the trust assets to the trustee.	The foundation does not have a share capital, does not recognise shareholders and the founder does not retain or acquire any ownership rights in relation to the foundation's property. The law does recognise however, the beneficiaries or the persons in whose benefit the foundation is created, which can include the founder.
A trust can be established for any lawful purpose but a trust that is set up for a purpose must appoint an enforcer.	A foundation can be established for any lawful purpose which shall be spelt out in the charter of the foundation.

Facilitated by the passing of new legislation in 2010, there has been an impressive growth in the establishment of foundations, both conventional and Islamic, in Labuan IBFC. A Labuan foundation as a registered legal entity is used to hold and manage wealth, including charitable/philanthropic purposes, business succession, asset preservation, estate planning and other lawful activities. All aspects of Labuan foundations are governed under the Labuan Foundations Act 2010. Islamic foundations are provided for in Labuan and governed under the Labuan Islamic Financial Services and Securities Act 2010.

Characteristics of Labuan foundations are as follows:

- No capital requirement to register a foundation in Labuan.
- It exists in perpetuity as there are no period rules in the Labuan Foundations Act 2010, thus providing continuity of the foundation at the discretion of the founder.
- The Act provides reserve powers to the founder, providing the founder with more control compared to a settlor of a trust. Additionally, since a founder may also be a council member, he may further direct and manage the foundation’s assets.
- All aspects of the foundation are kept confidential except for the charter.
- There is no statutory requirement for an audit.
- A foundation established in another jurisdiction can be legally re-domiciled to Labuan and vice versa, provided that the other corresponding jurisdiction permits.
- A Labuan foundation is protected from foreign claims and cannot be forcefully liquidated to satisfy other obligations such as claims arising from divorce, lawsuit or creditors.

Wealth Management Feature

- The Labuan Foundations Act 2010 provides for a fraud disposition period of two years.
- As the foundation is a separate legal and corporate entity, all liabilities remain corporate liabilities of the foundation.
- Council members do not owe fiduciary duty to beneficiaries and hence, this eliminates competing beneficiaries' interests.
- Officers, council members, supervisory person and the foundation's secretary benefit from statutory indemnification from liabilities incurred by the foundation, unless the liabilities arise from personal negligence or there is proof of bad faith on the part of the officer.
- Confidentiality provisions restrict the officer, council member, supervisory person and secretary from disclosing any information relating to the foundation unless otherwise required or provided for by law, the court or the charter.
- All Labuan foundations are expected to carry on business in any currency other than the Malaysian currency except as permitted by the relevant authorities.
- A Labuan foundation can be dissolved upon the passing of a resolution by the officer on the basis that the foundation is established for a definite period and that period has expired, or the purpose of the foundation is fulfilled or becomes incapable of fulfillment, or the charter requires such dissolution.

A Labuan Islamic foundation (LIF) can be established pursuant to the Labuan Islamic Financial Services and Securities Act 2010 (LIFSSA) and all the provisions of Labuan Foundations Act 2010 shall apply to this foundation unless specifically provided. The object, purpose and activity of the LIF must be in compliance with Shariah principles. The officer of a LIF is required to appoint or consult a Shariah adviser to advise on matters relating to the operations of the Islamic foundation to ensure compliance with Shariah principles. For further certainty and clarity, the Shariah Supervisory Council of Labuan FSA, in its March 2013 meeting resolved the following relating to a LIF:

(a) The endowment of assets by a founder into a LIF may be facilitated by way of hibah or hadiah. This endowment must be done during the founder's lifetime.

(b) Where the endowment of the assets into the LIF satisfies the following conditions, Faraidh, upon the demise of the founder, is not applicable and relevant on the endowed assets in the LIF.

   (i) The endowment has been made immediately and irrevocably;

   (ii) The endowment has been made without any reserve power of the founder;

(iii) The transfer of the ownership of the assets is absolute; and

(iv) The transfer has been accepted by the LIF.

(c) The Faraidh would not be applicable even when the founder manages the assets and receives remuneration for such management in the LIF.

Where the founder is one of the beneficiaries in the LIF, Faraidh would be applicable and relevant on the portion of the assets that the founder is entitled to.

Labuan foundations enjoy the same generous tax benefits as other Labuan business activities. Labuan foundations are not subject to any withholding taxes on the distribution of income to the Labuan foundation's beneficiaries.

For year 2012, a total of 25 new Labuan foundations have been registered in Labuan IBFC, bringing the total number of Labuan foundations to 65, a 62.5% increase as compared to 40 in 2011. Since its introduction in 2010, the composition of Labuan foundations consists of 59 conventional and six Islamic foundations. The Labuan foundations that were registered in Labuan IBFC originated mainly from the Asian and the Pacific region of 63.1% (2011: 57.5%), Middle East and Africa 20.0% (2011: 25.0%), Europe 9.0% (2011: 12.5%), America 5.0% (2011: 0) and Far East with 3.0% (2011: 5.0%).

With buoyant economic growth in Asia Pacific, the UHNWIs and HNWIs are turning to their trusted financial advisers to help in managing their assets for private wealth management or philanthropic purposes. Private bankers and financial advisers are responding to this demand and many are reengineering their resources to meet the needs of their clients. As there is no one-size-fits-all approach, it is important that customised solutions for HNWIs to be more innovated for Asian clients. With the legal framework in place and presence of competent service providers, Labuan IBFC is well-positioned to offer foundations as a versatile solution for estate and wealth management as well as for philanthropic purposes.

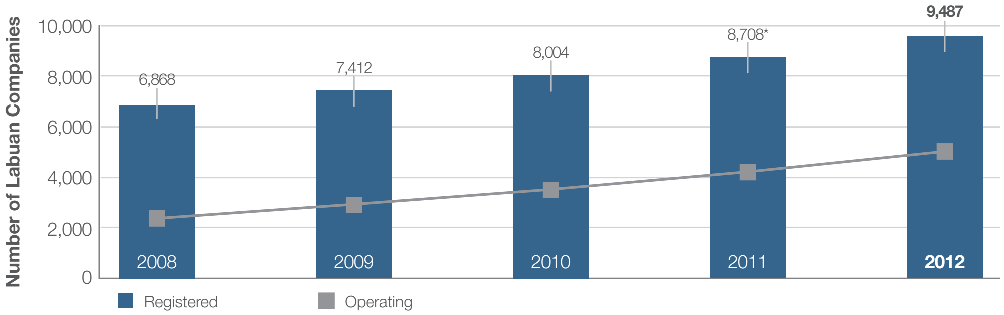
Industry Performance of Labuan IBFC

PART II

statistical data by sectors

LABUAN COMPANIES

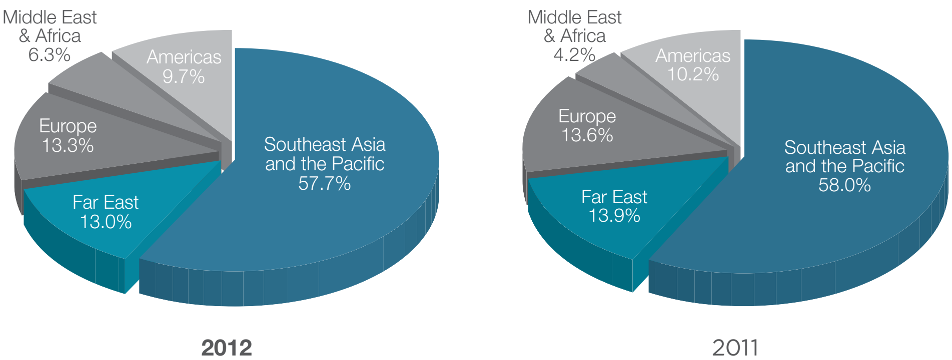
Chart 1: Number of Registered and Operating Companies



* Restated – Inclusive of Labuan pre–incorporated companies and Labuan protected cell companies

- Total companies grew by 8.9% to 9,487 companies.
- 417 companies were deregistered, an improvement of 4.4% from the previous year.
- 70.7% originated from Asia-Pacific and Far East.

Chart 2: Breakdown of Origin by Region



LABUAN TRUST COMPANIES

Table 1: – Key Data

	2010	2011*	2012	Annual change (%)
Number of Trust Companies	23	32	37	
		USD'000		Annual change (%)
Operating Income	15,367	17,554	19,672	12.1
Profit Before Tax	3,966	4,246	6,571	54.8

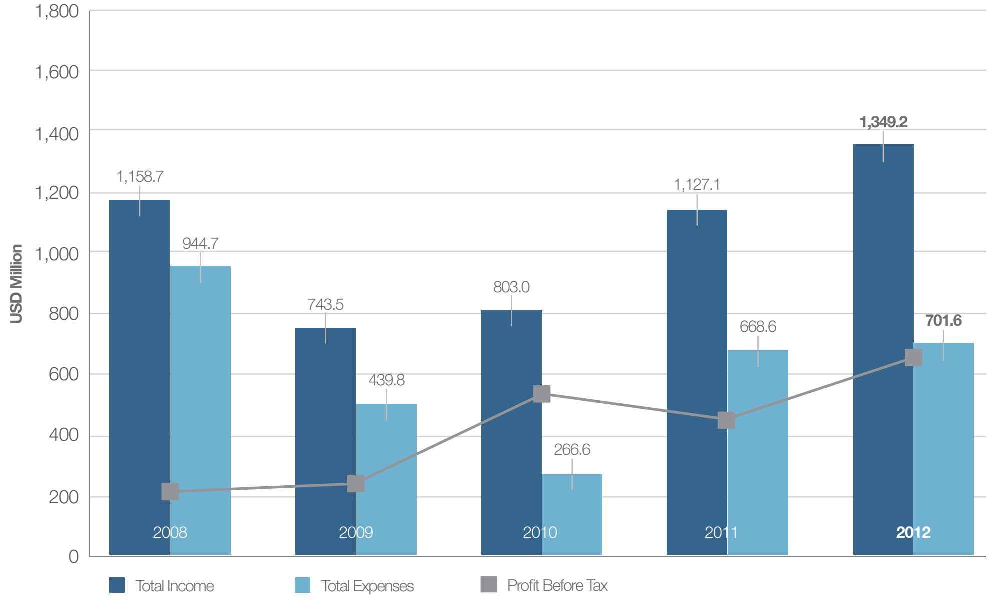
* Restated

- The total operating income for the Labuan trust companies for the 2012 increased by 12.1% to USD19.7 million (2011: USD17.6 million).
- The profit before tax increased by 54.8% which amounting to USD6.6 million (2011: USD4.2 million).

Industry Performance of Labuan IBFC
PART II – STATISTICAL DATA BY SECTORS

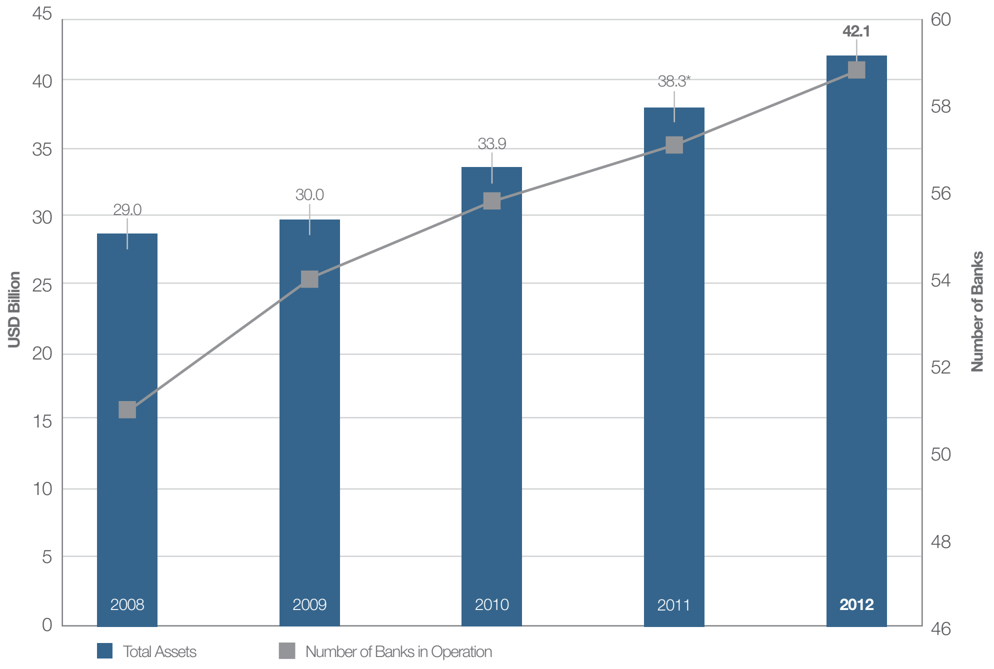
LABUAN BANKS

Chart 1: Growth



- Pre-tax profits recorded a significant increase of 41.2% to USD647.6 million (2011: USD458.6 million).
- Return on assets increased to 1.5% (2011: 1.1%).
- Asset quality remained strong with non-performing loan ratio further improved from 1.5% to 1.3%.

Chart 2: Total Assets and Number of Banks in Operation



* Restated

- The number of banks in operation increased to 59 (2011: 57).
- Total assets continued to grow by 9.9% to USD42.1 billion.
- Increase driven by continuous demand in loans and advances of USD26.2 billion accompanied by increase of demand in deposit of USD10.4 billion.

LABUAN BANKS

Table 1: Loans by Sectors

Loans by Sectors	2010	2011	2012	2012 Change (%)	Share (%)
	USD Million				
Agriculture, Hunting, Forestry and Fishing	951.0	1,670.0	**2,333.8**	**39.7**	**8.9**
Mining and Quarrying	458.4	2,379.7	**3,058.7**	**28.5**	**11.7**
Manufacturing	1,971.1	2,484.9	**2,168.1**	**-12.7**	**8.3**
Electricity, Gas and Water	2,711.5	1,665.5	**1,997.4**	**19.9**	**7.6**
Property of which:					
Real Estate	321.3	1,016.5	**1,519.5**	**49.5**	**5.8**
Construction	476.3	642.6	**642.2**	**-0.1**	**2.5**
Housing	178.5	134.9	**113.5**	**-15.9**	**0.4**
Wholesale and Retail Trade and Restaurants and Hotels	205.0	363.0	**845.0**	**132.8**	**3.2**
Transport, Storage and Communications	3,946.9	5,055.2	**4,480.0**	**-11.4**	**17.1**
Financing, Insurance and Business Services	5,681.1	6,073.2	**5,651.6**	**-6.9**	**21.6**
Other Services	85.9	113.8	**87.8**	**-22.9**	**0.3**
Miscellaneous	2,927.4	3,087.4	**3,306.1**	**7.1**	**12.6**
Total	**19,914.4**	**24,686.7**	**26,203.7**	**6.1**	**100.0**

- Substantial increase of 132.8% in loans granted to wholesale and retail trade and restaurants and hotels sectors (2011: 77.1%) due to increase demand in the sectors.
- Financing, insurance and business services continued to be the major sectors funded by the Labuan banks followed by transport, storage and communications sectors.

Table 2: Source and Uses of Funds

	2010	2011	2012	2012 Change (%)	Share (%)
	USD Million				
Sources:					
Deposits	11,240.7	9,468.7	**10,406.9**	**9.9**	**24.7**
Amount due to financial Institution/Interbank borrowing	19,521.6	25,138.9	**27,322.2**	**8.7**	**64.9**
Others	3,146.9	3,736.8	**4,384.2**	**17.3**	**10.4**
Total	**33,909.1**	**38,343.6**	**42,113.3**	**9.8**	**100.0**
Uses:					
Cash and Short-term Funds	2,217.4	1,781.6	**1,598.7**	**(10.3)**	**3.8**
Balances due from Head Office and Branches Outside Malaysia	7,145.2	6,999.0	**7,884.9**	**12.7**	**18.7**
Investments	2,435.2	3,002.0	**4,100.7**	**36.6**	**9.7**
Loans and Advances	19,914.4	24,686.8	**26,203.7**	**6.1**	**62.2**
Fixed Assets	7.0	6.2	**7.7**	**23.4**	**0.0**
Others	2,189.8	1,868.0	**2,317.6**	**24.1**	**5.5**
Total	**33,909.1**	**38,343.6**	**42,113.3**	**9.8**	**100.0**

- Loan and advances were mainly funded from head offices or interbank borrowings which accounted for 64.9% or USD27.3 billion.

Industry Performance of Labuan IBFC
PART II – STATISTICAL DATA BY SECTORS

LABUAN BANKS

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

	2010	2011	2012	Change (%)
		USD Million		
Total Deposits	**11,240.7**	**9,468.7**	**10,406.9**	**9.9**
Residents	4,614.4	2,932.2	4,159.1	**41.8**
% share	*41.1*	*31.0*	*40.0*	
Non-Residents	6,626.3	6,536.6	6,247.8	**(4.4)**
% share	*58.9*	*69.0*	*60.0*	
Total Loans Outstanding	**19,914.4**	**24,686.8**	**26,203.7**	**6.1**
Residents	5,883.3	8,938.7	10,327.9	**15.5**
% share	*29.5*	*36.2*	*39.4*	
Non-Residents	14,031.1	15,748.1	15,875.8	**0.8**
% share	*70.5*	*63.8*	*60.6*	

Total deposits

- The total deposits increased by 9.9% to USD10.4 billion (2011: USD9.5 billion).
- Majority of the deposits were from non-residents which accounted for 60.0% or USD6.2 billion (2011: 69.0% or USD6.5 billion).

Total loans

- The total loans outstanding increased by 6.1% to USD26.2 billion (2011: USD24.7 billion).
- The non-resident made up 60.6% of the overall total loans outstanding (2011: 63.8%).

LABUAN INSURANCE

Table 1: Growth

Type of Licence	2010	2011	2012
Life	2	3	**4**
General	7	9	**11**
Composite	2	2	**2**
Reinsurance	34	38	**41**
Captive	34	34	**41**
Insurance Manager	6	6	**5**
Underwriting Manager	17	19	**21**
Broker	67	70	**78**
Total	**169**	**181**	**203**

- Out of these licencees, there are one full-fledged takaful company, four retakaful companies, 15 insurers/reinsurers with takaful/retakaful windows and 13 general reinsurance brokers with retakaful windows operating in Labuan.

Table 2: Total Capitalisation

	2010		2011		2012	
Held By	USD'000	Share (%)	USD'000	Share (%)	USD'000	Share (%)
Malaysian	335,290	54.8	197,099	30.8	196,907	26.6
Others	276,577	45.2	443,753	69.2	542,132	73.4
Total	**611,867**	**100.0**	**640,853**	**100.0**	**739,039**	**100.0**

- The total capitalisation of the industry also increased by 15.3% which tantamount to USD739.0 million (2011: USD640.9 million) with total foreign shareholdings at 73.4% (2011: 69.2%).

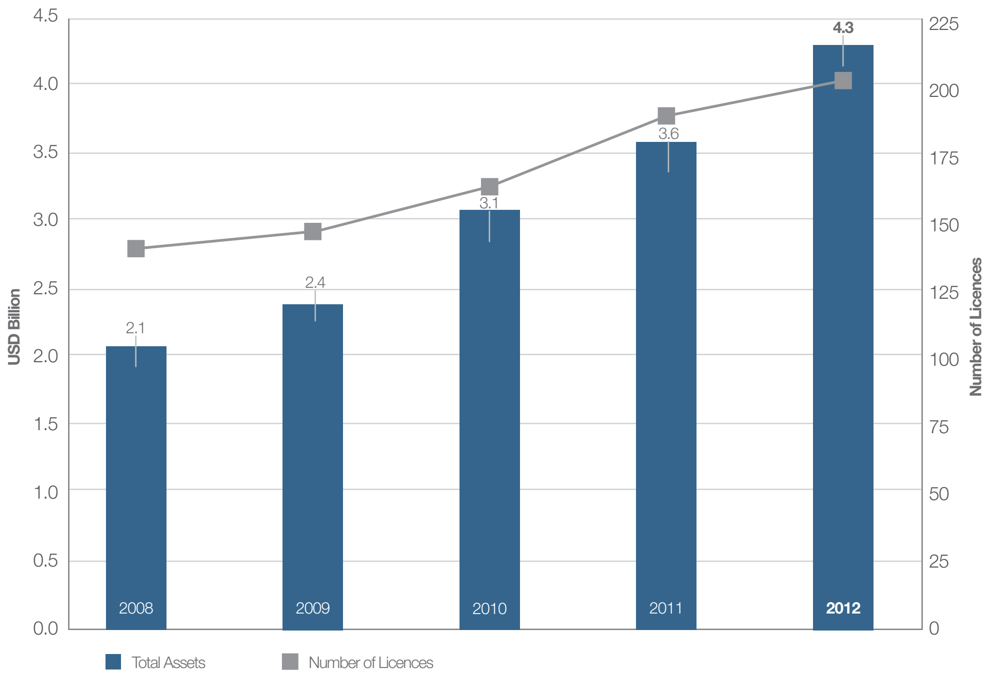
LABUAN INSURANCE

Table 3: Total Assets

Assets	2010 USD'000	2010 Share (%)	2011 USD'000	2011 Share (%)	2012 USD'000	2012 Share (%)
Fixed Assets	18,062	0.6	36,624	1.0	53,084	1.2
Due from Ceding/ Related Companies	596,502	19.4	570,910	15.6	625,022	14.3
Fixed Deposits/Money Market	1,152,947	37.5	1,202,442	32.9	1,530,408	35
Cash and Bank Balances	315,115	10.3	378,504	10.4	496,877	11.4
Investments	236,430	7.7	632,740	17.3	694,363	15.9
Others	752,921	24.5	828,805	22.7	972,587	22.2
Total	**3,071,977**	**100.0**	**3,650,025**	**100.0**	**4,372,341**	**100**

- The total assets recorded for Labuan insurance entities for the year 2012 increased by 19.8% equivalent to USD4.4 billion (2011: USD3.7 billion).
- Fixed deposits and money market instruments is the largest proportion of total assets of 35.0% or USD1.5 billion.
- Similarly as previous year, the composition of assets allocation by the Labuan insurer shows the risk aversion appetite due to the uncertainty of the global market.

Chart 1: Total Assets and Number of Licences



Industry Performance of Labuan IBFC
PART II – STATISTICAL DATA BY SECTORS

LABUAN INSURANCE

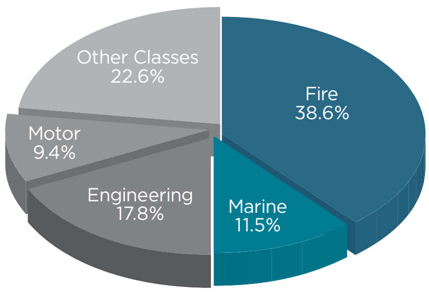
Table 4: Distribution of Gross Premiums

Year	Total Malaysian	Total Others	Fire	Marine	Engineering	Motor	Other Classes	Total
					USD'000			
2010	567,332	637,418	513,190	145,773	235,628	95,916	214,243	**1,204,750**
2011*	808,113	767,298	561,902	204,623	310,398	190,954	307,534	**1,575,411**
2012	801,300	937,229	671,552	200,582	309,263	164,136	392,996	**1,738,529**
Change (%)								
2010	30.5	(6.7)	(8.5)	(1.3)	30.1	162.2	11.8	**7.8**
2011	42.4	20.4	9.5	40.4	31.7	99.1	43.5	**30.8**
2012	(0.8)	22.1	19.5	(2.0)	(0.4)	(14.0)	27.8	**10.4**
Share (%)								
2010	47.1	52.9	42.6	12.1	19.6	8.0	17.8	**100.0**
2011	51.3	48.7	35.7	13.0	19.7	12.1	19.5	**100.0**
2012	46.1	53.9	38.6	11.5	17.8	9.4	22.6	**100.0**

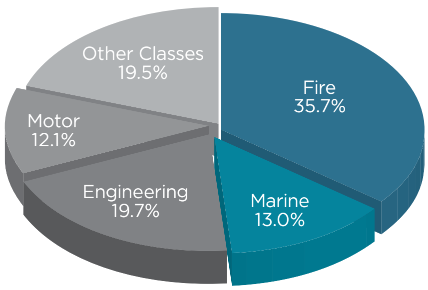
* Restated

- The total gross premiums written by the Labuan general insurers and reinsurers as at 31 December 2012 increased by 10.4% to USD1.7 billion (2011: USD1.6 billion).
- Non-resident business constitutes higher share of 53.9% as compared to resident business (2011: 48.7%).
- Fire sector continues to contribute higher shares in the market of 38.6% (2011: 35.7%).

Chart 2: Distribution of Gross Premiums



2012



2011

LABUAN INSURANCE

Table 5: Gross Contribution of Retakaful Business

Year	Total Malaysian	Others	Fire	Marine	Engineering	Motor	Other Classes	Total USD'000
2010	54,105	243,161	139,172	33,608	29,237	28,169	67,081	**297,267**
2011	138,697	320,754	172,357	45,597	40,823	119,842	80,831	**459,450**
2012	94,910	295,231	142,142	31,840	30,341	73,149	112,667	**390,140**
Change (%)								
2010	NA	NA	NA	NA	NA	NA	NA	**NA**
2011	156.3	31.9	23.8	35.7	39.6	325.4	20.5	**54.6**
2012	(31.6)	(8.0)	(17.5)	(30.2)	(25.7)	(39.0)	39.4	**(15.1)**
Share (%)								
2010	18.2	81.8	46.8	11.3	9.8	9.5	22.6	**100.0**
2011	30.2	69.8	37.5	9.9	8.9	26.1	17.6	**100.0**
2012	24.3	75.7	36.4	8.2	7.8	18.7	28.9	**100.0**

- The total gross contributions generated by Labuan Takaful and Retakaful (including the Retakaful window) recorded a total of USD390.1 million (2011: USD459.4 million) with non-resident business remained as the major contributor at 75.7% (2011: 69.8%).

Table 6: Net Retention (%)

Year	Malaysian	Others	Fire	Marine	Engineering	Motor	Other Classes	Total
2010	68.1	77.9	79.8	69.8	50.3	97.5	74.6	**73.3**
2011	66.2	76.9	75.3	80.4	41.5	98.8	71.5	**71.4**
2012	60.7	79.1	73.9	73.7	40.4	98.3	75.6	**70.6**

- The overall net retention ratio for the industry was slightly lower at 70.6% (2011: 71.4%), mainly due to the decrease in retention in fire, marine and engineering sectors.
- Motor sector maintained the highest net retention of 98.3% among others (2011: 98.8%).

Table 7: Underwriting Experience

Year	Earned Premium Income USD'000	Net Claims Incurred USD'000	Ratio (%)	Commission USD'000	Ratio (%)	Management Expenses USD'000	Ratio (%)	Underwriting Margin USD'000	Ratio (%)
2010	**767,307**	392,332	51.1	183,939	24.0	37,587	4.9	153,449	20.0
2011	**1,115,031**	757,184	67.9	286,253	25.7	43,548	3.9	28,046	2.5
2012	**1,262,813**	719,461	57.0	302,481	24.0	48,967	3.9	191,904	15.2

- The earned premium continues to record an increase of value amounting to USD1.3 billion (2011: USD1.1 billion) which increased by 13.3%.
- The ratio of net claims incurred to earned premium income (gross premium less cessions and reserves for unexpired risks) decreased from 67.9% in 2011 to 57.0% in 2012, corresponding to the decrease in commission ratio from 25.7% in 2011 to 24.0% in 2012.
- The decrease in net claims incurred and commission has resulted a substantial increase in underwriting margin by 584% which amounting to USD191.9 million (2011: USD28.0 million).

Industry Performance of Labuan IBFC
PART II – STATISTICAL DATA BY SECTORS

LABUAN INSURANCE

Table 8: Statistics on Investment–Linked Policies

Year		New Policies			Policies in Force		
		Malaysian	Others	Total	Malaysian	Others	Total
2010	No. of Policies	174	12	186	870	58	928
	Sum Insured (USD'000)	3,371	654	4,025	18,385	1,107	19,492
	Single Premiums (USD'000)	1,730	450	2,180	16,848	991	17,839
2011	No. of Policies	157	15	172	992	72	1,064
	Sum Insured (USD'000)	4,205	400	4,605	17,384	1,316	18,700
	Single Premiums (USD'000)	4,068	434	4,502	17,338	1,470	18,808
2012	No. of Policies	155	11	166	970	45	1,015
	Sum Insured (USD'000)	11,590	256	11,846	21,648	1,560	23,208
	Single Premiums (USD'000)	2,746	142	2,888	19,062	1,482	20,544

- Year 2012 showed a small reduction in investment-linked insurance product with only 166 policies issued during the year (2011: 172). In terms of value, USD2.8 million worth of premiums were written compared to USD4.5 million in 2011.

Table 9: Distribution of Gross Premiums for Captive Business

Year	Malaysian	Others	Fire	Marine	Engineering	Motors	Other Classes	Total
				USD'000				
2010	177,403	54,437	15,112	21,198	152,112	–	43,418	**231,840**
2011*	259,657	54,038	21,562	19,652	196,514	488	75,479	**313,694**
2012	231,603	95,464	34,173	24,210	185,088	–	83,595	**327,066**
				Change (%)				
2010	41.7	7.5	(18.6)	41.2	41.3	–	25.5	**31.9**
2011	46.4	(0.7)	42.7	(7.3)	29.2	–	73.8	**35.3**
2012	(10.8)	76.7	58.5	23.2	(5.8)	1.0	10.8	**4.3**
				Share (%)				
2010	76.5	23.5	6.5	9.1	65.6	–	18.7	**100.0**
2011	82.8	17.2	6.9	6.3	62.6	0.2	24.1	**100.5**
2012	70.8	29.2	10.4	7.4	56.6	0.0	25.6	**100.0**

* Restated

- Home grown captive wrote USD327.1 million in total gross premiums in 2012, an increase of 4.3% over USD313.7 million in 2011. The increase was mainly due to the risks underwritten in fire and marine sectors arising from the aviation and manufacturing industry.

LABUAN INSURANCE

Table 10: Premium Placement by Insurance Brokers

	2010	2011	2012	Yearly Change	Market Share
General Business	USD'000			%	
Labuan	83,436	140,074	133,609	(4.6)	16.7
Malaysia	221,306	294,452	323,055	9.7	40.3
Others	218,168	331,864	344,227	3.7	43.0
Sub Total	**522,909**	**766,390**	**800,890**	**4.5**	**87.1**
Life Business	USD'000			%	
Labuan	795	1,403	2,309	64.6	2.0
Malaysia	–	–	741	–	0.6
Others	111,533	129,904	115,307	(11.2)	97.4
Sub Total	**112,328**	**131,307**	**118,357**	**(9.9)**	**12.9**
Grand Total	**635,237**	**897,697**	**919,247**	**2.4**	**100.0**

- The total premium processed by Labuan insurance broker increased by 2.4% to USD919.2 million (2011: USD897.7 million).
- Out of the total, 87.1% (2011: 85.4%) was derived from the general insurance business. The general insurance premiums transacted by Labuan insurance brokers were for reinsurance cessions placed with Malaysian insurers (40.3%), overseas (43.0%) as well as Labuan insurers (16.7%).

Table 11: Brokerage Fee Earned by Insurance Broker

	2010	2011	2012	Yearly Change	Market Share
General Business	USD'000			%	
Labuan	3,885	5,945	6,062	2.0	10.5
Malaysia	8,279	12,362	14,028	13.5	24.2
Others	21,474	51,391	37,809	(26.4)	65.3
Sub Total	**33,639**	**69,697**	**57,899**	**(16.9)**	**84.4**
Life Business	USD'000			%	
Labuan	22	146	473	223.0	0.7
Malaysia	–	–	16	–	0.0
Others	10,284	12,393	10,204	(17.7)	14.9
Sub Total	**10,306**	**12,540**	**10,693**	**(14.7)**	**15.6**
Grand Total	**43,944**	**82,237**	**68,592**	**(16.6)**	**100.0**

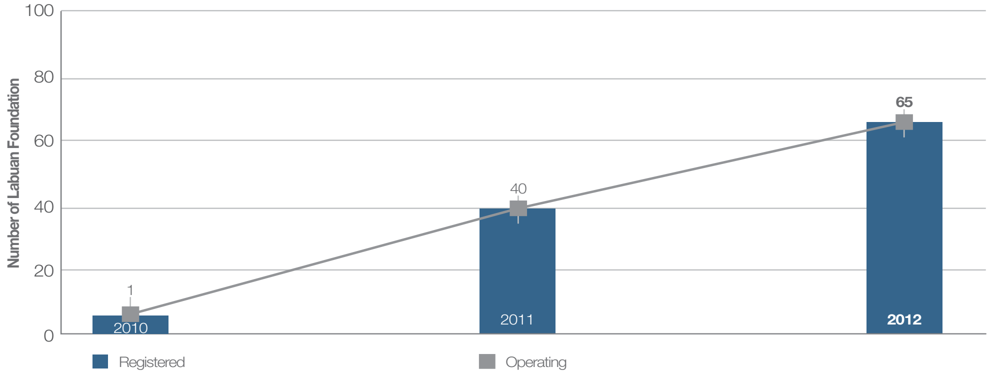
- For the life insurance business, 97.4% or USD115.3 million (2011: USD129.9 million) was derived from direct business placed with overseas insurers.
- The total amount of brokerage fees earned by the Labuan insurance broking sector reduced by 16.6% to USD68.6 million (2011: USD82.2 million).
- The brokerage fee earned from the general insurance business comprised 84.4% of the total brokerage income, consistent with the higher proportion of general insurance premiums processed during the year.

Industry Performance of Labuan IBFC

PART II – STATISTICAL DATA BY SECTORS

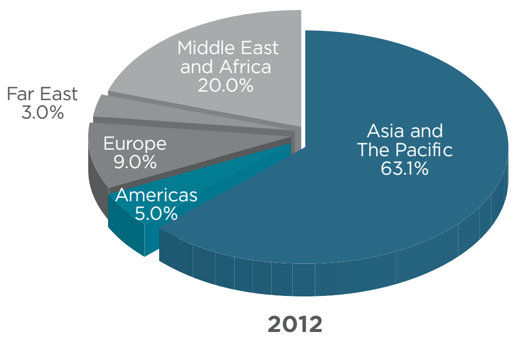
LABUAN FOUNDATION

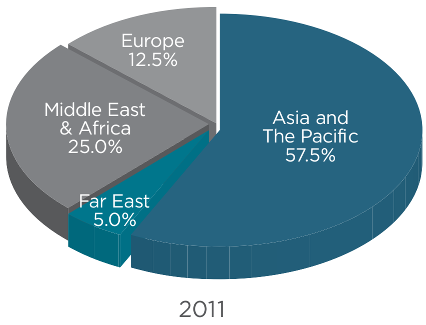
Chart 1: Number of Registered and Operating



- Total number of Labuan foundations increased by 62.5% to 65. (2011: 40).
- The majority of the country originate were from the Asia and Pacific Region which accounted for about 63.1%.

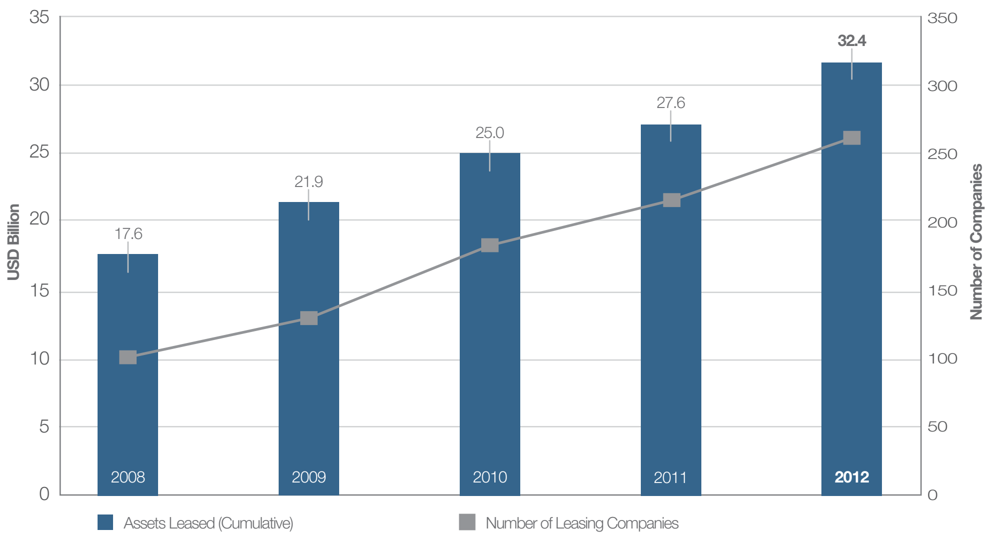
Chart 2: Breakdown of Origin by Region





LABUAN LEASING

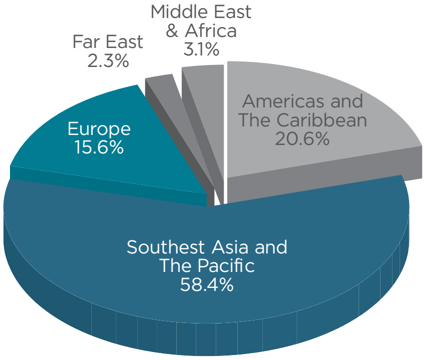
Chart 1: Assets Leased and Number of Leasing Companies in Operation



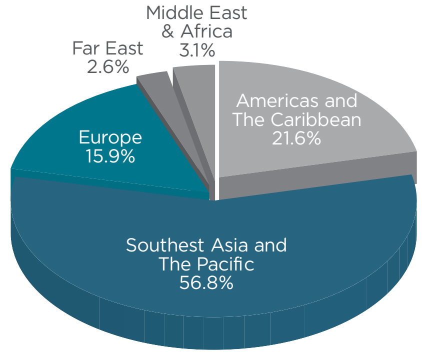
- The number of leasing companies increases to 257 companies with 41 new leasing approvals (2011: 227).
- Total cumulative asset leased continued to grow by 17.2% to USD32.4 billion.
- Majority leasing businesses involved in the oil and gas and aviation sectors.

LABUAN LEASING

Chart 2: Breakdown of Origin by Region



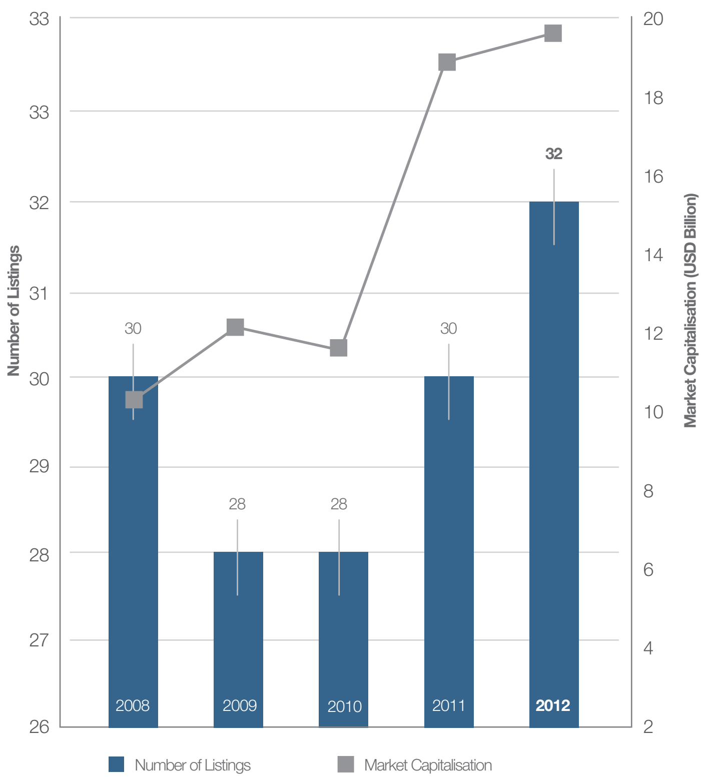
2012



2011

LABUAN INTERNATIONAL FINANCIAL EXCHANGE

Chart 1: Number of Listing and Market Capitalisation



CONNECTING

PEO

In our business, we see cross-pollination of innovative ideas and out-of-the-box thoughts, from a large diversity of people, engaging in mutually-beneficial relationships to enhance each party's value offering to their respective consumers.

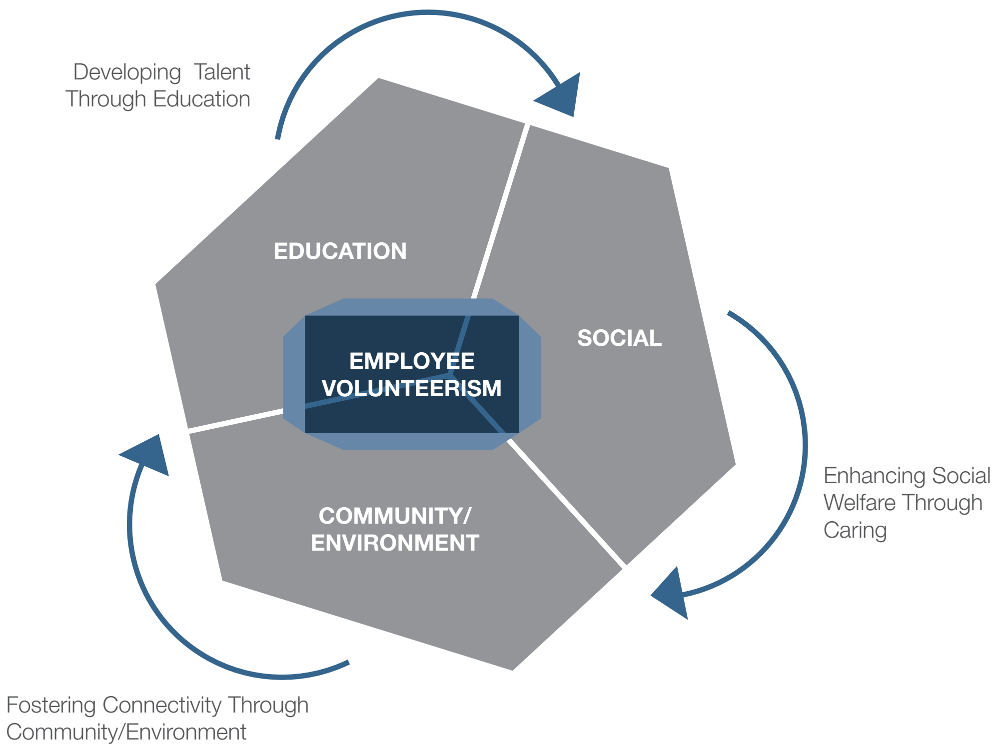
PLE

Organisational Development

Corporate Social Responsibilities

Labuan FSA acknowledges the significant values of non-financial performance that contribute towards the creation of long-term growth and a sustainable business. The underlying strategy of Labuan FSA's corporate social responsibilities (CSR) initiatives, in support of community organisations and charities are built around three key principles: Developing Talent through EDUCATION, Fostering Connectivity through COMMUNITY/ ENVIRONMENT and Enhancing Social Welfare through CARING.

Promoting employee volunteerism is a central component of Labuan FSA's CSR efforts.



In 2012, Labuan FSA continued to contribute to the community through various programmes that it embarked on and some of the programmes were conducted in collaboration with other organisations. The major programmes and initiatives undertaken during the year include:

(a) Education Outreach

In recognising the importance of talent development for the Labuan financial industry, Labuan FSA organised several focused training programmes for its stakeholders in the Labuan IBFC with objectives to enhance knowledge and share industry information as well as experiences amongst the stakeholders. Upgrading of skill and technical competencies of the existing workforce of Labuan FSA and the Labuan IBFC is always an important agenda of Labuan FSA. During the year, the Authority collaborated with Labuan International Insurance Association, Malaysia Insurance Institute and the Chartered Insurance Institute to develop a certification programme for the Labuan life insurance brokers, that aims to institutionalise professional standards of conduct, appropriate code of ethics and to establish a sustainable professional learning programme to meet multi-national products in fulfilling the diverse needs of clients.

In addition, Labuan FSA has also worked closely with the Association of Labuan Banks and Institute of Bankers Malaysia in implementing various training programmes for the Labuan banking industry. The training programmes conducted were in line with the objective of enhancing knowledge and technical skills of the staff in the banking sector.

Its strategic partnership with the Universiti Malaysia Sabah (UMS) continued to be focused on developing a more comprehensive approach to talent development for the Labuan financial sector. In 2012, greater effort was put into advancing the education agenda, including enhancement of the University's curriculum relating to the Labuan international business and finance, internship programme and provide lecture series to the university students. An integral component of Labuan FSA's commitment to promote education excellence is its annual "Academic Students Excellence Award". In 2012, the awards were given to university, primary and secondary students in Labuan as incentives to motivate and entice the students to excel in their studies.

(b) Community Relationship and Environment

Labuan FSA commits to charitable events and donations as parts of its CSR initiatives. The Labuan Run (formerly known as Labuan FSA Run) continued to gain recognition from corporates and individuals as a platform to raise awareness of corporate social responsibility and to contribute to the Labuan community. The proceeds collected from the registration of the Labuan Run and donations raised were channelled to several charitable organisations in Labuan. Notwithstanding this, the Authority also gave donations and sponsorships to selected organisations in support of their community projects.

Labuan FSA contributes significantly to the academic and infrastructure development of the LIS. This is evidenced by the completing and official opening of the LIS new campus in October 2012. The new campus forms an important education infrastructure facility to quality education for both local and expatriate community residing in Labuan.

During the year, Labuan FSA in collaboration with other home regulatory authorities, namely the Central Bank of Malaysia as well as Credit Counselling and Debt Management Agency conducted the prudent financial management seminar to create awareness, enhance the levels of financial literacy and raise financial capacity amongst the members of Labuan community. A series of seminars were conducted to different target audiences in Labuan to educate them in areas relating to investment, risk and debt management.

The Authority has created an in-house resource management campaign to recycle usable material and energy saving as part of the initiatives to manage environmental impacts. Labuan FSA also participated in a tree planting programme organised by the local government authority to raise awareness on global bio-diversity and green environment.

(c) Social Welfare

Through our voluntary work, we seek to spread our passion while improving the welfare of the underprivileged and less-fortunate communities in our society. In 2012, Labuan FSA together with other organisations, reached out to poor families and underprivileged children by providing them with food and clothing, thus giving them the opportunity to grow up in a nurturing environment.

Human Resource Development

To enable Labuan FSA to achieve its objective in optimising the capacity and capability of its human capital, various human resource initiatives were conducted during the year in line with Labuan FSA's Strategic Direction and Corporate Action Plan.

Among the key initiatives carried out in 2012 under the Human Capital Management Blueprint included Customised In-house Training Programme, Revised Competency Framework as well as focused technical and soft skill development programmes. As at 31 December 2012, Labuan FSA has a total of 95 full-time employees in various departments including Strategic Development, Business Management, Supervision and Enforcement, Corporate Affairs, Corporate Services as well as Internal Audit and Risk Management Units. Labuan FSA has strengthened its staff strength in the core departments such as Strategic Development, Supervision and Business Management. This is to support Labuan FSA's strategic directions in ensuring the right people are placed based on their competencies.

Competency development continued throughout 2012, focused on developing the current and future capabilities of staff to support Labuan FSA strategic goals and corporate action plans. External training programmes, including those conducted overseas were provided to staff, enabling them to create a new culture of learning, enhance their international exposure and establish a stronger network of relationships.

Apart from the in-house seminars conducted by external trainers, Labuan FSA also embarked on an internal Reinforcement Education Programme which was organised throughout the year with the objective of providing staff with the opportunity to learn from their colleagues who are in-house subject experts in various technical areas and products such as tax, business operations, financial modelling, risk management and financial instruments. In this programme, selected head of departments/units facilitate an open session in their fields of proficiencies.

In November 2012, Labuan FSA conducted a Teambuilding Programme to strengthen the working relationship amongst the various levels of employees. Subsequently, a Senior Management Conference was held to recap 2012 achievements and to chart out the corporate action plans for 2013.

Talent development focusing on Labuan FSA's core competencies will continue to dominate the human capital initiatives, in line with its goals of creating a culture of learning within the organisation. Apart from that, key initiatives for 2013 such as Succession Planning, enhanced Performance Management System, revision of Terms and Conditions of Employment, and Operational Process Review will be implemented to further improve on the human resource management of Labuan FSA. The management firmly believes in continuing the human capital initiatives will further enhance the capabilities of Labuan FSA.

Labuan International School

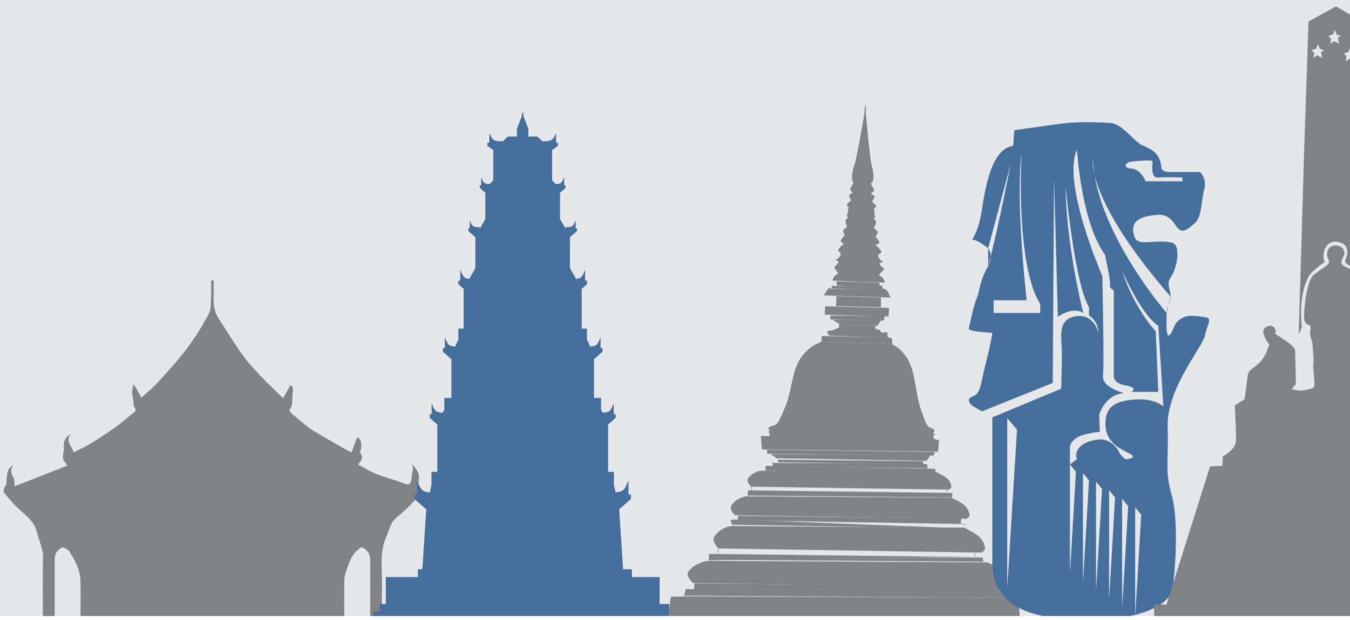
The involvement of Labuan FSA in managing and funding the Labuan International School (LIS) is another example of its commitment to the local and international communities to provide holistic facilities and enhance the quality of life in the Labuan IBFC. The Authority's support of the LIS is in line with the Government's initiatives to maximise the potentials and synergies of the IBFC with the establishment of UMS-KAL, Labuan Matriculation College and several industrial and vocational institutions. The following programmes continue to be offered by the LIS:

- 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 curriculum and Malaysian Integrated Secondary School curriculum; and
- Tadika Manjaria, a pre school for local and foreign children between four to six years old.

The support of the Malaysian Government has been and will continue to be critical to the development of LIS as a reputable international education centre. Under the Ninth Malaysia Plan, the Government had allocated funding for the construction of a new school building, equipped with state-of-the-art information communication technology infrastructure and other modern teaching facilities. The new and modern school building comprising an Administration and Academic block, an Auditorium, canteen and sports facilities as well as a school field, was completed and handed over to Labuan FSA in 2012. Academic activities in the new school building has commenced on 3 September 2012. LIS was honoured to have the Secretary-General Treasury, Ministry of Finance, Y. Bhg. Dato' Dr. Mohd Irwan Serigar Bin Abdullah, who officially launched the new building on 30 October 2012.

As at the end of December 2012, the school had a total of 270 students comprising both local and foreign students. The enrolment is expected to increase with the planned expansion of the facilities under Phase II of the project, which includes construction of two hostel blocks and an olympic-sized swimming pool in the near future. In line with its concept of "MIND, BODY, SOUL", LIS will continue to provide an all-round education curricular that strives to nurture well-rounded students.

CONNECTING
BUSI



The role of unifying the diverse cultures and business communities in the region is something that can only be achieved via a solid and conducive framework. Having common goals help us draw upon the different strengths, talents and resources and create viable economic value for all parties.

NESS

FINANCIAL STATEMENTS

CERTIFICATE OF THE AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF
LABUAN FINANCIAL SERVICES AUTHORITY
FOR THE YEAR ENDED 31 DECEMBER 2012

The financial statements of Labuan Financial Services Authority and the Group for the year ended 31 December 2012 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 2012 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 auditors' reports of the subsidiary companies of which I have not acted as auditor as indicated in the notes to the consolidated financial statements. I am satisfied that 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 auditors' reports on the financial statements of the subsidiary companies were not subjected to any observations that could affect the consolidated financial statements.

(ONG SWEE LENG)
for AUDITOR GENERAL
MALAYSIA

PUTRAJAYA
23 MAY 2013

Statement by the Members of the Labuan Financial Services Authority

We, **DR. ZETI AKHTAR AZIZ** and **AHMAD HIZZAD BAHARUDDIN,** being two of the Members of **LABUAN FINANCIAL SERVICES AUTHORITY**, state that, in the opinion of the Members of the Authority, the accompanying statements of financial position, statements of comprehensive income, statements of cash flows and statements of changes in reserves are properly drawn up in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards so as to give a true and fair view of the financial position of **LABUAN FINANCIAL SERVICES AUTHORITY** as at 31 December 2012 and its financial performance and cash flows for the year ended.

On behalf of the Members of the Authority.

DR. ZETI AKHTAR AZIZ
Chairman

AHMAD HIZZAD BAHARUDDIN
Director-General

Labuan, Malaysia
11 April 2013

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

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

DANIAL MAH ABDULLAH

Subscribed and solemnly
declared by the above named
DANIAL MAH ABDULLAH
in the Federal Territory of Labuan
on this 11 April 2013

Before me,

PESURUHJAYA SUMPAH
L 006
Normala Mat Jali
MALAYSIA

LOT U0031 TING 1 JLN OKK AWG BESAR
P. O. BOX 81862, 87028 W. P. LABUAN, MALAYSIA
TEL: (087) 415057, 416057, 416057, 418057
FAX NO: 087-413057

Statements of Comprehensive Income

For the financial year ended 31 December 2012

		Group		Authority	
	Note	2012 RM	2011 RM	2012 RM	2011 RM
Revenue	4	**30,134,819**	28,157,064	**28,763,423**	26,929,950
Other operating income					
Government grant	13	**15,418,937**	15,112,405	**14,343,520**	13,932,688
Income from other investments	5	**1,063,669**	824,042	**869,106**	735,363
Other income	6	**837,838**	770,889	**1,503,283**	646,666
Other operating expense					
Staff costs	7	**(24,155,017)**	(23,384,297)	**(16,753,986)**	(16,417,558)
Depreciation of property, plant and equipment	9	**(2,709,197)**	(2,564,595)	**(1,172,064)**	(779,633)
Other expenses	6	**(18,060,818)**	(20,425,801)	**(25,123,970)**	(28,010,661)
Surplus/(deficit) before tax		**2,530,231**	(1,510,293)	**2,429,312**	(2,963,185)
Income tax expense	8	**(4,940)**	–	**–**	–
Net surplus/(deficit) for the year		**2,525,291**	(1,510,293)	**2,429,312**	(2,963,185)

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

Statements of Financial Position

As at 31 December 2012

		Group			Authority		
	Note	2012 RM	2011 RM	As at 1.1.2011 RM	2012 RM	2011 RM	As at 1.1.2011 RM
ASSETS							
Non-current assets							
Property, plant and equipment	9	**60,406,468**	4,391,907	6,300,757	**59,154,393**	1,692,343	2,316,072
Investments in subsidiaries	10	**–**	–	–	**900,000**	1	1
Other receivables	11	**8,578,139**	9,296,455	9,986,085	**8,578,139**	9,296,455	9,986,085
		68,984,607	13,688,362	16,286,842	**68,632,532**	10,988,799	12,302,158
Current assets							
Fees and other receivables	11	**10,732,205**	9,264,225	8,723,441	**13,309,810**	12,393,074	12,014,774
Cash and bank balances	12	**39,481,786**	29,838,134	31,624,512	**32,168,163**	22,467,118	25,914,961
		50,213,991	39,102,359	40,347,953	**45,477,973**	34,860,192	37,929,735
Total assets		**119,198,598**	52,790,721	56,634,795	**114,110,505**	45,848,991	50,231,893
RESERVES AND LIABILITIES							
Current liabilities							
Deferred income	13	**12,301,431**	5,385,988	7,998,393	**9,539,143**	1,548,283	2,980,971
Other payables	14	**10,368,091**	9,553,926	8,797,302	**7,917,433**	6,226,027	5,735,056
Government loans	15	**500,000**	500,000	3,000,000	**500,000**	500,000	3,000,000
Income tax payables		**3,042**	–	–	**–**	–	–
		23,172,564	15,439,914	19,795,695	**17,956,576**	8,274,310	11,716,027
Non-current liabilities							
Deferred income	13	**56,595,936**	–	–	**56,595,936**	–	–
Employee benefits	16	**471,000**	417,000	395,000	**471,000**	417,000	395,000
Government loans	15	**11,500,000**	12,000,000	10,000,000	**11,500,000**	12,000,000	10,000,000
		68,566,936	12,417,000	10,395,000	**68,566,936**	12,417,000	10,395,000
Total liabilities		**91,739,500**	27,856,914	30,190,695	**86,523,512**	20,691,310	22,111,027
Reserves							
Accumulated surplus		**27,459,098**	24,933,807	26,444,100	**27,586,993**	25,157,681	28,120,866
Total reserves and liabilities		**119,198,598**	52,790,721	56,634,795	**114,110,505**	45,848,991	50,231,893

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

Statements of Changes in Reserves

For the year ended 31 December 2012

	Accumulated surplus RM
GROUP	
Opening balance at 1 January 2011	26,444,100
Net deficit for the year	(1,510,293)
Closing balance at 31 December 2011	24,933,807
Opening balance at 1 January 2012	24,933,807
Net surplus for the year	2,525,291
Closing balance at 31 December 2012	27,459,098
AUTHORITY	
Opening balance at 1 January 2011	28,120,866
Net deficit for the year	(2,963,185)
Closing balance at 31 December 2011	25,157,681
Opening balance at 1 January 2012	25,157,681
Net surplus for the year	2,429,312
Closing balance at 31 December 2012	27,586,993

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

Statements of Cash Flows

For the financial year ended 31 December 2012

	Group		Authority	
	2012 RM	2011 RM	2012 RM	2011 RM
Operating activities				
Surplus/(deficit) before tax	**2,530,231**	(1,510,293)	**2,429,312**	(2,963,185)
Adjustments for:				
Depreciation of property, plant and equipment	**2,709,197**	2,564,595	**1,172,064**	779,633
Allowance for impairment loss on investment in subsidiary written-back	**–**	–	**(899,999)**	–
Utilisation of government grant	**(15,418,937)**	(15,112,405)	**(14,343,520)**	(13,932,688)
Gain on disposal of property, plant and equipment	**(35,543)**	(49,448)	**(31,466)**	(46,042)
Provision for long term employee benefits	**54,000**	22,000	**54,000**	22,000
Property, plant and equipment written off	**98,915**	17,762	**7,338**	17,764
Interest income	**(1,264,923)**	(1,007,359)	**(1,070,360)**	(918,680)
Operating Deficit Before Working Capital Changes	**(11,327,060)**	(15,075,148)	**(12,682,631)**	(17,041,198)
Changes in working capital:				
Fees receivable	**(539,908)**	(323,735)	**(469,613)**	(185,780)
Other receivables	**(209,756)**	396,231	**276,134**	420,616
Amounts due from subsidiaries	**–**	–	**(4,941)**	144
Fees received in advance	**1,587,243**	519,855	**1,587,243**	519,855
Refundable deposits	**(200,000)**	(100,000)	**(200,000)**	(100,000)
Other payables and accruals	**(573,078)**	336,769	**4,006**	316,440
Amount owing to a subsidiary	**–**	–	**300,157**	(245,324)
Cash Used In Operations	**(11,262,559)**	(14,246,028)	**(11,189,645)**	(16,315,247)
Income tax paid	**(1,898)**	–	**–**	–
Interest received	**201,254**	183,317	**201,254**	183,317
Net Cash Used In Operating Activities	**(11,063,203)**	(14,062,711)	**(10,988,391)**	(16,131,930)
Investing activities				
Proceeds from disposal of plant and equipment	**35,569**	69,779	**31,493**	56,777
Additions of property, plant and equipment	**(58,822,699)**	(693,838)	**(58,641,479)**	(184,403)
Interest received	**1,063,669**	900,392	**869,106**	811,713
Net Cash (Used In)/From Investing Activities	**(57,723,461)**	276,333	**(57,740,880)**	684,087
Financing activities				
Government grant received	**78,930,316**	12,500,000	**78,930,316**	12,500,000
Repayment of Government loans	**(500,000)**	(500,000)	**(500,000)**	(500,000)
Cash From Financing Activities	**78,430,316**	12,000,000	**78,430,316**	12,000,000
Net increase/(decrease) in cash and cash equivalents	**9,643,652**	(1,786,378)	**9,701,045**	(3,447,843)
Cash and cash equivalents at 1 January	**29,838,134**	31,624,512	**22,467,118**	25,914,961
Cash and cash equivalents at 31 December (note 12)	**39,481,786**	29,838,134	**32,168,163**	22,467,118

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

Notes to the Financial Statements

– 31 December 2012

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 the Authority have been prepared in accordance with Malaysian Financial Reporting Standards (MFRS) as issued by the Malaysian Accounting Standards Board (MASB) and International Financial Reporting Standards.

For all periods up to and including the year ended 31 December 2011, the Group and the Authority prepared its financial statements in accordance with Financial Reporting Standards (FRS). These financial statements for the year ended 31 December 2012 are the first Group and the Authority has prepared in accordance with MFRS. Refer to Note 2.15 for information on how the Group and the Authority adopted MFRS.

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

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

2.2 Basis of consolidation

Basis of consolidation from 1 January 2011

The consolidated financial statements comprise the financial statements of the Authority and its subsidiaries as at the end of the reporting period. 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 and dividends are eliminated in full.

With the exception of business combinations involving entities under common control, acquisitions of subsidiaries are accounted for by applying the acquisition 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. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

Notes to the Financial Statements

– 31 December 2012

2. Summary of significant accounting policies (continued)

2.2 Basis of consolidation (continued)

Basis of consolidation from 1 January 2011 (continued)

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.

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

Basis of consolidation prior to 1 January 2011

Certain of the above-mentioned requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisition of non-controlling interests, prior to 1 January 2011, was accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.
- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further losses were attributed to the Group, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2011 were not reallocated between non-controlling interest and the owners of the Authority.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying value of such investments as at 1 January 2011 has not been restated.

2.3 Business combinations

Business combinations from 1 January 2011

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

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or a liability, will be recognised in accordance with MFRS 139 either in the income statement or as a change to other comprehensive income. If the contingent consideration is classified as equity, it is not remeasured until it is finally settled within equity.

In business combinations achieved in stages, previously held equity interests in the acquiree are remeasured to fair value at the acquisition date and any corresponding gain or loss is recognised in the income statement.

The Group elects for each individual business combination, whether non-controlling interest in the acquiree (if any) is recognised on the acquisition date at fair value, or at the non-controlling interest’s proportionate share of the acquiree’s identifiable net assets.

2. Summary of significant accounting policies (continued)

2.3 Business combinations (continued)

Business combinations from 1 January 2011 (continued)

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquire (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill.

Business combinations before 1 January 2011

In comparison to the above mentioned requirements, the following differences applied:

– Business combinations are accounted for by applying the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

– Business combinations achieved in stages were accounted for as separate steps. Adjustments to those fair values relating to previously held interests are treated as a revaluation and recognised in equity. When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree are not 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.

– Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

2.4 Foreign currencies

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

2.5 Revenue recognition

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

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.

Notes to the Financial Statements
– 31 December 2012

2. Summary of significant accounting policies (continued)

2.5 Revenue recognition (continued)

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.

2.6 Government grants

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

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

2.7 Taxes

a) Current income tax

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

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

2. Summary of significant accounting policies (continued)

2.7 Taxes (continued)

b) Deferred tax

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

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

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

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

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

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

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

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

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

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

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

Notes to the Financial Statements
– 31 December 2012

2. Summary of significant accounting policies (continued)

2.7 Taxes (continued)

b) Deferred tax (continued)

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

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

2.8 Property, plant and equipment

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

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

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

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

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

2. Summary of significant accounting policies (continued)

2.9 Leases

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

For arrangements entered into prior to 1 January 2012, the date of inception is deemed to be 1 January 2012 in accordance with MFRS 1 *First-time Adoption of Malaysian Financial Reporting Standards.*

a) Group as a lessee

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

b) Group as a lessor

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

2.10 Financial instruments — initial recognition and subsequent measurement

a) Financial assets

i) Initial recognition and measurement

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

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

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

Notes to the Financial Statements

– 31 December 2012

2. Summary of significant accounting policies (continued)

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

a) Financial assets (continued)

ii) Subsequent measurement

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

Financial assets at fair value through profit or loss

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

The Group and the Authority have not designated any financial assets at fair value through profit or loss during the years ended 31 December 2012 and 2011.

Loans and receivables

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

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Authority has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortised cost using the effective interest method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the income statement. The losses arising from impairment are recognised in the income statement in finance costs.

The Group and the Authority has not designated any Held-to-maturity investments during the years ended 31 December 2012 and 2011.

2. Summary of significant accounting policies (continued)

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

a) Financial assets (continued)

ii) Subsequent measurement (continued)

Available-for-sale financial investments

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

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

The Group and the Authority do not have any available-for-sale financial investments during the years ended 31 December 2012 and 2011.

iii) Derecognition

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

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

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

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

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

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

Notes to the Financial Statements

– 31 December 2012

2. Summary of significant accounting policies (continued)

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

b) Impairment of financial assets

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

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

Financial assets carried at amortised cost

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

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

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

2. Summary of significant accounting policies (continued)

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

c) Financial liabilities

i) Initial recognition and measurement

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

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

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

ii) Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

Gains or losses on liabilities held-for-trading are recognised in the income statement.

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

Loans and borrowings

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

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

Notes to the Financial Statements
– 31 December 2012

2. Summary of significant accounting policies (continued)

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

c) Financial liabilities (continued)

ii) Subsequent measurement (continued)

Financial guarantee contracts

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

The Group and the Authority does not have any financial guarantee contracts during the years ended 31 December 2012 and 2011.

iii) Derecognition

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

d) Offsetting of financial instruments

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

e) Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include:

– Using recent arm's length market transactions;

– Reference to the current fair value of another instrument that is substantially the same; and

– A discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 19.

2. Summary of significant accounting policies (continued)

2.11 Impairment of non-financial assets

The Group and the Authority assess at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group and the Authority estimate the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The Group and the Authority base their impairment calculation on detailed budgets and forecasts which are prepared separately for each of the Group and the Authority's CGU to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the income statement in those expense categories consistent with the function of the impaired asset, except for a property previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group and the Authority estimate the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

2.12 Cash and short-term deposits

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

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

Notes to the Financial Statements

– 31 December 2012

2. Summary of significant accounting policies (continued)

2.13 Provisions

General

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

2.14 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.

2.15 First-time adoption of MFRS

These financial statements, for the year ended 31 December 2012, are the first the Group and the Authority have prepared in accordance with MFRS. For periods up to and including the year ended 31 December 2011, the Group and the Authority prepared their financial statements in accordance with Financial Reporting Standards in Malaysia.

Accordingly, the Group and the Authority have prepared financial statements which comply with MFRS applicable for periods ending on or after 31 December 2012, together with the comparative period data as at and for the year ended 31 December 2011, as described in the summary of significant accounting policies. In preparing these financial statements, the Group and the Authority's opening statement of financial position were prepared as at 1 January 2011, the Group and the Authority's date of transition to MFRS.

There are no adjustments arising from the transition to MFRSs. Accordingly, notes related to the statement of financial position as at date of transition to MFRS are not presented.

2. Summary of significant accounting policies (continued)

2.16 Standards issued but not yet effective

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

Descriptions	Effective for annual periods beginning on or after
MFRS 101 Presentation of Items of Other Comprehensive Income (Amendments to MFRS 101)	1 July 2012
Amendments to MFRS 101: Presentation of Financial Statements (Annual Improvements 2009-2011 Cycle)	1 January 2013
MFRS 3 Business Combinations (IFRS 3 *Business Combinations* issued by IASB in March 2004)	1 January 2013
MFRS 10 Consolidated Financial Statements	1 January 2013
MFRS 11 Joint Arrangements	1 January 2013
MFRS 12 Disclosure of interests in Other Entities	1 January 2013
MFRS 13 Fair Value Measurement	1 January 2013
MFRS 119 Employee Benefits	1 January 2013
MFRS 127 Separate Financial Statements	1 January 2013
MFRS 128 Investment in Associate and Joint Ventures	1 January 2013
MFRS 127 Consolidated and Separate Financial Statements (IAS 27 as revised by IASB in December 2003)	1 January 2013
Amendment to IC Interpretation 2 Members' Shares in Co-operative Entities and Similar Instruments (Annual Improvements 2009-2011 Cycle)	1 January 2013
IC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine	1 January 2013
Amendments to MFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013
Amendments to MFRS 1: First-time Adoption of Malaysian Financial Reporting Standards – Government Loans	1 January 2013
Amendments to MFRS 1: First-time Adoption of Malaysian Financial Reporting Standards – Annual Improvements 2009-2011 Cycle)	1 January 2013
Amendments to MFRS 116: Property, Plant and Equipment (Annual Improvements 2009-2011 Cycle)	1 January 2013
Amendments to MFRS 132: Financial Instruments: Presentation (Annual Improvements 2009-2011 Cycle)	1 January 2013
Amendments to MFRS 134: Interim Financial Reporting (Annual Improvements 2009-2011 Cycle)	1 January 2013
Amendments to MFRS 10: Consolidated Financial Statements: Transition Guidance	1 January 2013
Amendments to MFRS 11: Joint Arrangements: Transition Guidance	1 January 2013
Amendments to MFRS 12: Disclosure of Interests in Other Entities: Transition Guidance	1 January 2013
Amendments to MFRS 132: Offsetting Financial Assets and Financial Liabilities	1 January 2014
Amendments to MFRS 10, MFRS 12 and MFRS 127: Investment Entities	1 January 2014
MFRS 9 Financial Instruments	1 January 2015

Notes to the Financial Statements

– 31 December 2012

2. Summary of significant accounting policies (continued)

2.16 Standards issued but not yet effective (continued)

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

MFRS 10 Consolidated Financial Statements

MFRS 10 replaces part of MFRS 127 Consolidated and Separate Financial Statements that deals with consolidated financial statements and IC Interpretation 112 Consolidation – Special Purpose Entities.

Under MFRS 10, an investor controls an investee when (a) the investor has power over an investee, (b) the investor has exposure, or rights, to variable returns from its involvement with the investee, and (c) the investor has ability to use its power over the investee to affect the amount of the investor's returns. Under MFRS 127 Consolidated and Separate Financial Statements, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

MFRS 10 includes detailed guidance to explain when an investor has control over the investee. MFRS 10 requires the investor to take into account all relevant facts and circumstances.

MFRS 12 Disclosures of Interests in Other Entities

MFRS 12 includes all disclosure requirements for interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are required. This standard affects disclosures only and has no impact on the Group and the Authority's financial position or performance.

MFRS 127 Separate Financial Statements

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

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

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

MFRS 9 Financial Instruments: Classification and Measurement

MFRS 9 reflects the first phase of the work on the replacement of MFRS 139 Financial Instruments: Recognition and Measurement and applies to classification and measurement of financial assets and financial liabilities as defined in MFRS 139 Financial Instruments: Recognition and Measurement. The adoption of the first phase of MFRS 9 will have an effect on the classification and measurement of the Group and the Authority's financial assets. The Group and the Authority will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

3. Significant accounting judgments and estimates

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

3.1 Key sources of estimation uncertainty

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

a) Impairment of fees, trade and other receivables

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

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

b) Deferred tax assets

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

c) Long term employee benefits

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

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

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

Notes to the Financial Statements

– 31 December 2012

4. Revenue

	Group		Authority	
	2012 RM	2011 RM	2012 RM	2011 RM
Fee income	**28,763,423**	26,929,950	**28,763,423**	26,929,950
Other fees	**1,371,396**	1,227,114	**–**	–
	30,134,819	28,157,064	**28,763,423**	26,929,950

5. Income from other investments

	Group		Authority	
	2012 RM	2011 RM	2012 RM	2011 RM
Interest received from:				
Fixed deposits	**1,003,909**	761,855	**809,346**	673,176
Money at call	**59,760**	62,187	**59,760**	62,187
	1,063,669	824,042	**869,106**	735,363

6. Other income/(expenses)

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

	Group		Authority	
	2012 RM	2011 RM	2012 RM	2011 RM
Other income:				
Interest income from staff loans:				
– Key management personnel	**25,338**	16,478	**25,338**	16,478
– Others	**175,916**	166,839	**175,916**	166,839
Rental income	**94,847**	76,373	**83,914**	71,873
Miscellaneous income	**497,546**	433,440	**286,650**	345,434
Gain on disposal of property, plant and equipment	**35,543**	49,448	**31,466**	46,042
Reversal of allowance for impairment loss on other receivables	**8,648**	34,717	**–**	–
Allowance for impairment loss on investment in subsidiary written back	**–**	–	**899,999**	–

6. Other income/(expenses) (continued)

	Group		Authority	
	2012 RM	2011 RM	2012 RM	2011 RM
Other operating expenses:				
Project expenditure incurred under the Tenth Malaysia Plan government grant*	**(14,880,872)**	(15,112,405)	**(13,805,455)**	(13,932,688)
Audit fees				
– current year	**(57,600)**	(48,400)	**(22,000)**	(20,000)
– over provision in prior year	**1,669**	1,669	**1,669**	1,669
Rental expenses	**(1,549,423)**	(1,607,306)	**(1,085,472)**	(1,085,072)
Fees and trade receivable written off	**(35,100)**	(47,010)	**(35,100)**	(47,010)
Amount owing by subsidiary companies written off	**–**	–	**(1,812,333)**	(1,512,017)
Property, plant and equipment written off	**(98,915)**	(17,762)	**(7,338)**	(17,762)
Contributions to Labuan FSA Staff Welfare Fund	**(350,000)**	(330,000)	**(350,000)**	(330,000)
Lease of machinery and equipment	**(157,742)**	(128,160)	**(55,080)**	(62,360)
Tuition fees paid to a subsidiary	**–**	–	**(349,754)**	(179,069)
Allowance for impairment loss on fees receivables	**(1,473,105)**	(1,004,337)	**(1,409,500)**	(945,180)
Allowance for impairment loss on other receivables written back	**19,641**	–	**19,641**	–
Bad debts written back on other receivables	**(19,641)**	–	**(19,641)**	–

* These included the following expenditures:

	Group		Authority	
	2012 RM	2011 RM	2012 RM	2011 RM
Expenses for Information Technology System upgrade	**(237,037)**	(249,933)	**(237,037)**	(249,933)
Infrastructure for school building	**(2,047,587)**	–	**(2,047,587)**	–
Management fees	**(1,328,100)**	(1,500,000)	**–**	–
Operational expenses	**(862,085)**	(1,253,417)	**–**	–
Promotional and marketing expenses	**(2,259,455)**	(4,700,749)	**–**	(41,942)
Research and development expenses	**(17,412)**	(1,307,417)	**(17,412)**	(1,053,756)
Tenth Malaysia Plan expenses paid to subsidiaries	**–**	–	**(11,257,782)**	(12,332,396)

Notes to the Financial Statements

– 31 December 2012

7. Staff costs

	Group		Authority	
	2012 RM	2011 RM	2012 RM	2011 RM
Staff costs*	**24,155,017**	23,384,297	**16,753,986**	16,417,558

* These included the following staff costs:

	Group		Authority	
	2012 RM	2011 RM	2012 RM	2011 RM
Members' remuneration:				
– Executive	**1,154,077**	866,855	**1,154,077**	866,855
– Non-executive	**157,500**	131,000	**109,000**	100,500
Other key management personnel compensation:				
– Short term employee benefits	**3,164,541**	3,941,041	**2,727,041**	2,727,041
Employees Provident Fund	**2,656,189**	2,437,075	**2,110,811**	1,999,154

8. Income tax expense

	Group		Authority	
	2012 RM	2011 RM	2012 RM	2011 RM
Statement of comprehensive income:				
Malaysian income tax:				
Current tax	**3,042**	–	**–**	–
Underprovision of income tax in prior year	**1,898**	–	**–**	–
Tax expense for the year	**4,940**	–	**–**	–

Group

Domestic current income tax is calculated at the statutory tax rate of 25% (2010: 25%) of the estimated assessable profit for the year.

The Authority has been exempted from tax on all its income, other than dividend income, under the Income Tax (Exemption) (No.33) Order 1997 [PU(A) 221/97], Income Tax (Exemption) (Amendment) (No.2) Order 2003 [PU(A) 198/2003] and pursuant to Section 127(3A) of the Income Tax Act, 1967 until the year of assessment 2011.

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

8. Income tax expense (continued)

Subsidiary

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

Reconciliation between tax expense and accounting surplus/(deficit)

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 2012 and 2011 are as follows:

	Group		Authority	
	2012 RM	**2011 RM**	**2012 RM**	**2011 RM**
Surplus/(deficit) before tax	**2,530,231**	(1,510,293)	**2,429,312**	(2,963,185)
Taxation at Malaysian statutory tax rate of 25% (2011: 25%)	**632,558**	(377,573)	**607,328**	(740,796)
Effect of income not subject to tax	**(364,733)**	(817,900)	**(607,328)**	–
Effect of expenses not deductible for tax purposes	**21,321**	370,711	**–**	–
Utilisation of previously unrecognised tax losses	**(286,104)**	–	**–**	–
Underprovision of income tax expenses in prior years	**1,898**	–	**–**	–
Deferred tax assets not recognised	**–**	824,762	**–**	740,796
Tax expense for the year	**4,940**	–	**–**	–

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

	Group	
	2012 RM	**2011 RM**
Provisions	**593,400**	740,906
Unutilised tax losses	**2,194,761**	5,784,956
Accelerated capital allowances	**61,024**	(142,522)
Unabsorbed capital allowances	**–**	255,356
	2,849,185	6,638,696

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

Notes to the Financial Statements

– 31 December 2012

9. Property, plant and equipment

	Leasehold land RM	Buildings RM	Motor vehicles RM	Computers RM	Furniture, fittings, office equipment and renovation RM	Total RM
Group						
Cost						
At 1 January 2011	442,000	688,000	1,370,469	3,079,691	13,397,778	18,977,938
Additions	–	–	372,472	184,119	137,247	693,838
Disposals	–	–	(266,060)	(10,817)	(65,529)	(342,406)
Write off	–	–	–	(155,987)	(33,762)	(189,749)
At 31 December 2011/ 1 January 2012	442,000	688,000	1,476,881	3,097,006	13,435,734	19,139,621
Additions	–	58,300,000	87,779	172,512	262,408	58,822,699
Disposals	–	–	(107,680)	(107,131)	(1,690)	(216,501)
Write off	–	–	(117,473)	(121,071)	(14,476)	(253,020)
At 31 December 2012	**442,000**	**58,988,000**	**1,339,507**	**3,041,316**	**13,681,976**	**77,492,799**
Accumulated depreciation						
At 1 January 2011	6,218	175,953	1,162,994	2,730,733	8,601,283	12,677,181
Charge for the year	518	13,750	211,796	260,826	2,077,705	2,564,595
Disposals	–	–	(263,704)	(7,469)	(50,904)	(322,077)
Write off	–	–	–	(155,974)	(16,011)	(171,985)
At 31 December 2011/ 1 January 2012	6,736	189,703	1,111,086	2,828,116	10,612,073	14,747,714
Charge for the year	518	551,942	135,358	183,000	1,838,379	2,709,197
Disposals	–	–	(107,679)	(107,107)	(1,689)	(216,475)
Write off	–	–	(29,288)	(110,343)	(14,474)	(154,105)
At 31 December 2012	**7,254**	**741,645**	**1,109,477**	**2,793,666**	**12,434,289**	**17,086,331**
Carrying amounts						
At 31 December 2011/ 1 January 2012	435,264	498,297	365,795	268,890	2,823,661	4,391,907
At 31 December 2012	**434,746**	**58,246,355**	**230,030**	**247,650**	**1,247,687**	**60,406,468**

9. Property, plant and equipment (continued)

	Leasehold land RM	Buildings RM	Motor vehicles RM	Computers RM	Furniture, fittings, office equipment and renovation RM	Total RM
The Authority						
Cost						
At 1 January 2011	442,000	688,000	920,166	2,691,324	5,269,837	10,011,327
Additions	–	–	–	155,863	28,540	184,403
Disposals	–	–	(266,060)	(10,817)	(36,039)	(312,916)
Write off	–	–	–	(155,987)	(33,762)	(189,749)
At 31 December 2011/ 1 January 2012	442,000	688,000	654,106	2,680,383	5,228,576	9,693,065
Additions	–	58,300,000	87,779	116,924	136,776	58,641,479
Disposals	–	–	(107,680)	(107,131)	(1,690)	(216,501)
Write off	–	–	–	(111,982)	(14,476)	(126,458)
At 31 December 2012	**442,000**	**58,988,000**	**634,205**	**2,578,194**	**5,349,186**	**67,991,585**
Accumulated depreciation						
At 1 January 2011	6,218	175,953	862,975	2,489,649	4,160,460	7,695,255
Charge for the year	518	13,750	51,168	153,910	560,287	779,633
Disposals	–	–	(263,704)	(7,469)	(31,008)	(302,181)
Write off	–	–	–	(155,974)	(16,011)	(171,985)
At 31 December 2011/ 1 January 2012	6,736	189,703	650,439	2,480,115	4,673,729	8,000,722
Charge for the year	518	551,942	15,478	132,098	472,028	1,172,064
Disposals	–	–	(107,679)	(107,107)	(1,689)	(216,475)
Write off	–	–	–	(104,645)	(14,474)	(119,119)
At 31 December 2012	**7,254**	**741,645**	**558,238**	**2,400,461**	**5,129,594**	**8,837,192**
Carrying amounts						
At 31 December 2011/ 1 January 2012	435,264	498,297	3,667	200,268	554,847	1,692,343
At 31 December 2012	**434,746**	**58,246,355**	**75,967**	**177,733**	**219,592**	**59,154,393**

Notes to the Financial Statements

– 31 December 2012

10. Investments in subsidiaries

	Authority 2012 RM	Authority 2011 RM
Unquoted shares, at cost	**900,000**	900,000
Impairment losses	**–**	(899,999)
	900,000	1

Name	Country of incorporation	Principal activities	Proportion (%) of ownership interest 2012	Proportion (%) of ownership interest 2011
Held by the Authority:				
LabuanFSA Incorporated Sdn. Bhd.*	Malaysia	Investment holding	**100**	100
Held through LabuanFSA Incorporated Sdn. Bhd.:				
Pristine Era Sdn. Bhd.*	Malaysia	Provision of educational services	**100**	100
Labuan IBFC Incorporated Sdn. Bhd.*	Malaysia	Marketing and promoting Labuan International Business and Financial Centre	**100**	100

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

11. Fees and other receivables

	Group 2012 RM	Group 2011 RM	Authority 2012 RM	Authority 2011 RM
Current				
Fees and trade receivables	**8,686,303**	7,877,125	**8,113,077**	7,431,964
Less: Allowance for impairment	**(1,273,607)**	(1,004,337)	**(1,156,680)**	(945,180)
Fees and trade receivables, net	**7,412,696**	6,872,788	**6,956,397**	6,486,784
Other receivables:				
Amount due from subsidiary	**–**	–	**4,004,428**	3,999,487
Staff housing loans	**477,974**	446,924	**477,974**	446,924
Staff vehicle loans	**255,648**	269,648	**255,648**	269,648
Staff advances/sundry debtors	**1,352,934**	864,760	**920,839**	703,765
Refundable deposits	**596,392**	424,581	**248,540**	235,111
Interest receivable	**621,101**	379,875	**621,101**	379,875
Prepaid expenses	**7,315**	91,041	**3,200**	86,700
Others	**186,462**	129,828	**–**	–
	3,497,826	2,606,657	**6,531,730**	6,121,510
Less: Allowance for impairment	**(178,317)**	(215,220)	**(178,317)**	(215,220)
	3,319,509	2,391,437	**6,353,413**	5,906,290
	10,732,205	9,264,225	**13,309,810**	12,393,074
Non-current				
Other receivables:				
Staff housing loans	**7,441,146**	8,129,277	**7,441,146**	8,129,277
Staff vehicle loans	**1,136,993**	1,167,178	**1,136,993**	1,167,178
	8,578,139	9,296,455	**8,578,139**	9,296,455
Total fees and other receivables (current and non-current)	**19,310,344**	18,560,680	**21,887,949**	21,689,529
Add: Cash and bank balances (note 12)	**39,481,786**	29,838,134	**32,168,163**	22,467,118
Less: Prepayments	**(7,315)**	(91,041)	**(3,200)**	(86,700)
Total loans and receivables	**58,784,815**	48,307,773	**54,052,912**	44,069,947

Notes to the Financial Statements
– 31 December 2012

11. Fees and other receivables (continued)

a) Fees and trade receivables

Aging analysis of fees and trade receivables

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

	Group	
	2012	**2011**
	RM	**RM**
Neither past due nor impaired	**6,956,397**	6,486,784
1 to 90 days past due not impaired	**89,563**	2,205
More than 91 days past due not impaired	**366,736**	383,799
	456,299	386,004
Impaired	**1,273,607**	1,004,337
	8,686,303	7,877,125

	Authority	
	2012	**2011**
	RM	**RM**
Neither past due nor impaired	**6,956,397**	6,486,784
Impaired	**1,156,680**	945,180
	8,113,077	7,431,964

Receivables that are neither past due nor impaired

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

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

Receivables that are past due but not impaired

The Group has fees and trade receivables amounting to RM456,299 (2011: RM386,044) that are past due at the reporting date but not impaired.

11. Fees and other receivables (continued)

a) Fees and trade receivables (continued)

Receivables that are impaired

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

	Collectively impaired		Individually impaired		Total	
	2012 RM	**2011 RM**	**2012 RM**	**2011 RM**	**2012 RM**	**2011 RM**
Group						
Trade receivables – nominal amounts	**415,517**	415,517	**858,090**	588,820	**1,273,607**	1,004,337
Less: Allowance for impairment	**(415,517)**	(415,517)	**(858,090)**	(588,820)	**(1,273,607)**	(1,004,337)
	–	–	**–**	–	**–**	–

	Collectively impaired		Individually impaired		Total	
	2012 RM	**2011 RM**	**2012 RM**	**2011 RM**	**2012 RM**	**2011 RM**
Authority						
Trade receivables – nominal amounts	**376,980**	376,980	**779,700**	568,200	**1,156,680**	945,180
Less: Allowance for impairment	**(376,980)**	(376,980)	**(779,700)**	(568,200)	**(1,156,680)**	(945,180)
	–	–	**–**	–	**–**	–

Movement in allowance account

	Group		Authority	
	2012 RM	**2011 RM**	**2012 RM**	**2011 RM**
At 1 January	**1,004,337**	1,043,760	**945,180**	1,043,760
Net charged/(reversal) for the year	**269,270**	(39,423)	**211,500**	(98,580)
At 31 December	**1,273,607**	1,004,337	**1,156,680**	945,180

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

Notes to the Financial Statements
– 31 December 2012

11. Fees and other receivables (continued)

b) Staff housing and vehicle loans

Staff housing and vehicle loans are repayable over a maximum period of 30 years and 9 years respectively (2011: 25 years and 7 years respectively). The interest charged on these loan ranges from 2% to 3% (2011: 2% to 3%) per annum.

c) Amount due from subsidiary

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

12. Cash and bank balances

	Group		Authority	
	2012	**2011**	**2012**	**2011**
	RM	**RM**	**RM**	**RM**
Fixed deposits with licensed banks	**32,167,162**	21,900,000	**31,467,162**	16,000,000
Money at call with licensed banks	**–**	5,809,811	**–**	5,809,811
Cash on hand and at banks	**7,314,624**	2,128,323	**701,001**	657,307
	39,481,786	29,838,134	**32,168,163**	22,467,118

The effective interest rates are as follows:

	Group		Authority	
	2012	**2011**	**2012**	**2011**
	% p.a.	**% p.a.**	**% p.a.**	**% p.a.**
Fixed deposits	**3.37**	3.25	**3.44**	3.25
Money at call	**2.48**	2.45	**2.48**	2.45

The fixed deposits have maturity of 1 year (2011: 1 year) while money at call has maturity of 1 day (2011: 1 day).

13. Deferred income

a) Grant related to income

During the year, the Group and the Authority received a government grant of RM20.6 million and RM20.6 million (2011: RM12.5 million and RM12.5 million) from the Ministry of Finance for the purpose of projects to be undertaken by the Authority under the Tenth Malaysia Plan. The grant forms part of the total allocation of RM80 million for the duration of the Tenth Malaysia Plan from 2011 to 2015.

The government grant received is recognised in the income statement on the basis of the expenses incurred relating to projects undertaken by the Group and the Authority under the Tenth Malaysia Plan.

13. Deferred income (continued)

a) Grant related to income (continued)

	Group		Authority	
	2012 RM	2011 RM	2012 RM	2011 RM
At 1 January	**5,385,988**	7,998,393	**1,548,283**	2,980,971
Received during the financial year	**20,630,316**	12,500,000	**20,630,316**	12,500,000
Less: Recognised in statement of comprehensive income	**(14,880,873)**	(15,112,405)	**(13,805,456)**	(13,932,688)
At 31 December	**11,135,431**	5,385,988	**8,373,143**	1,548,283

b) Grant related to assets

During the year, the Group and the Authority received a school building from the Ministry of Finance. The fair value of the building is approximately RM58,300,000.

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

	Group		Authority	
	2012 RM	2011 RM	2012 RM	2011 RM
Cost:				
At 1 January	**–**	–	**–**	–
Received during the financial year	**58,300,000**	–	**58,300,000**	–
At 31 December	**58,300,000**	–	**58,300,000**	–
Accumulated amortisation:				
At 1 January				
Amortisation	**(538,064)**	–	**(538,064)**	–
At 31 December	**(538,064)**	–	**(538,064)**	–
Net carrying amount:				
Current	**1,166,000**	–	**1,166,000**	–
Non-current	**56,595,936**	–	**56,595,936**	–
	57,761,936	–	**57,761,936**	–

Notes to the Financial Statements

– 31 December 2012

14. Other payables

	Group		Authority	
	2012	2011	2012	2011
	RM	RM	RM	RM
Current				
Amount due to subsidiary	**–**	–	**300,157**	–
Fees received in advance	**4,120,501**	2,533,258	**4,120,501**	2,533,258
Refundable deposits	**900,000**	1,100,000	**900,000**	1,100,000
Accruals	**885,026**	1,571,431	**42,384**	367,599
Provisions	**475,221**	–	**475,221**	–
Others	**3,987,343**	4,349,237	**2,079,170**	2,225,170
Total other payables	**10,368,091**	9,553,926	**7,917,433**	6,226,027
Add: Government loans (note 15)	**12,000,000**	12,500,000	**12,000,000**	12,500,000
Total financial liabilities carried at amortised cost	**22,368,091**	22,053,926	**19,917,433**	18,726,027

a) Amount due to subsidiary

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

b) Fees received in advance

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

c) Refundable deposits

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

d) Other payables

These comprise amounts outstanding for ongoing costs.

15. Government loans

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

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

	Group and the Authority	
	2012	2011
	RM	RM
Within 12 months	**500,000**	500,000
After 12 months	**11,500,000**	12,000,000

16. Employee benefits

Movements in the liability for other long term employee benefits:

	Group and the Authority	
	2012	**2011**
	RM	**RM**
At 1 January	**417,000**	395,000
Settled during the year	**–**	(49,784)
Recognised in income statement	**54,000**	71,784
At 31 December	**471,000**	417,000

Assumptions

Principal assumptions at the reporting date:

	Group and the Authority	
	2012	**2011**
	%	**%**
Discount rate at 31 December	**3.42**	4.38
Future salary increases	**5.00**	6.00

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

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

Notes to the Financial Statements

– 31 December 2012

17. Related parties disclosures

a) Services rendered

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

	Authority	
	2012	**2011**
	RM	**RM**
Tuition fees paid to a subsidiary	**349,754**	179,069
Project expenditure incurred under the Tenth Malaysia Plan under government grant to subsidiary	**13,305,369**	12,332,396

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

b) Transactions with key management personnel

	Group and the Authority	
	2012	**2011**
	RM	**RM**
Key management personnel		
– Staff housing loans	**1,056,123**	633,563
– Staff vehicle loans	**227,773**	174,460
	1,283,896	808,023

18. Commitments

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 and the Authority is restricted from subleasing the leased equipment to third parties.

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

	Group		Authority	
	2012	**2011**	**2012**	**2011**
	RM	**RM**	**RM**	**RM**
Later than 1 year	**443,860**	103,060	**55,080**	60,520
Later than 1 year but not later than 5 years	**263,059**	166,435	**18,360**	73,440
	706,919	269,495	**73,440**	133,960

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

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

20. Financial risk management objectives and policies

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

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

a) Credit risk

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

Information regarding credit enhancements for fees and 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.

Notes to the Financial Statements

– 31 December 2012

20. Financial risk management objectives and policies (continued)

b) Liquidity risk (continued)

Analysis of financial instruments by remaining contractual maturities

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

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

20. Financial risk management objectives and policies (continued)

b) Liquidity risk (continued)

Analysis of financial instruments by remaining contractual maturities (continued)

31 December 2011	On demand or within one year RM	One to five years RM	Over five years RM	Total RM
Group				
Financial assets:				
Other receivables	9,258,576	2,667,074	6,629,774	18,555,424
Cash and bank balances	29,838,134	–	–	29,838,134
	39,096,710	2,667,074	6,629,774	48,393,558
Financial liabilities:				
Government loans	500,000	4,000,000	8,000,000	12,500,000
Other payables	9,553,926	–	–	9,553,926
	10,053,926	4,000,000	8,000,000	22,053,926
Net undiscounted financial assets/(liabilities)	**29,042,784**	**(1,332,926)**	**(1,370,226)**	**26,339,632**
Authority				
Financial assets:				
Other receivables	8,522,107	2,667,074	6,629,774	17,818,955
Cash and bank balances	22,467,118	–	–	22,467,118
	30,989,225	2,667,074	6,629,774	40,286,073
Financial liabilities:				
Government loans	500,000	4,000,000	8,000,000	12,500,000
Other payables	6,226,027	–	–	6,226,027
	6,726,027	4,000,000	8,000,000	18,726,027
Net undiscounted financial assets/(liabilities)	**24,263,198**	**(1,332,926)**	**(1,370,226)**	**21,560,046**

21. Authorisation of financial statements for issue

The financial statements were authorised for issue by the Members of the Authority on 11 April 2013.

CONNECTING
INFOR

The evolution of technology and the introduction of newer means of information processing and transfer has brought about radical changes in the financial sector. Deciding which information is applicable and gives purposeful meaning in the right context of business is vital in ensuring it benefits our customers. Keeping this proposition in mind is what drives us towards creating an environment whereby information is seamlessly shared in order to incubate innovation and ideas.

MATION

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As at 15 May 2013

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1 Archipelago Insurance Limited (British Virgin Island)
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E-mail : ian.lim@archipelagoltd.com
Mr. Ian Lim Teck Soon

2 Asia Insurance Ltd (Malaysia)
Tel : 087-427018
Fax : 087-429018
E-mail : mak@asiainsurance.my
Mr. Mak Chee Seng

3 Avangard Asia Pacific Insurance and Reinsurance Company Ltd (Malaysia)
Tel : 087-583815
Fax : 087-583814
E-mail : takhirzhan@kadyrbekov.com
Mr. Takhirzhan Kadyrbekov

4 **Concord Insurance & Reinsurance Company Ltd (Isle of Man)**
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E-mail : rdrinkwater@cisiom.com
Mr. Richard John Sharwood Drinkwater

5 **Federal Insurance Company, Labuan Branch (United States of America)**
Tel : 087-417672
Fax : 087-417675
E-mail : shasi@chubb.com
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6 **HIH Casualty and General Insurance (Labuan) Limited (Australia)**
Tel : 03-77213388
Fax : 03-77217699
KPMG

7 **Liberty Mutual Insurance Europe Limited, Labuan Branch (United Kingdom)**
Tel : 087-429799
Fax : 087-429788
E-mail : andrew.so@libertyiu.com
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8 **Ocean Pacific Insurance and Reinsurance Company Ltd (British Virgin Island)**
Tel : 087-583816
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Email : zubrilina@claimsrecovery.ru
Mr. Alexander Vladimirovich Zubrilin

9 **PT. Asuransi Jasa Indonesia, Labuan Branch (Indonesia)**
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10 **Swiss National Insurance Company (Labuan Branch) Ltd (Switzerland)**
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11 **XL Insurance Company Limited (Labuan Branch) (United Kingdom)**
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LIFE INSURERS (COUNTRY OF ORIGIN)

1 **Etiqa Life International (L) Ltd (Malaysia)**
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2 **Hansard International Limited, Far East (Isle of Man)**
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3 **Investors Trust Assurance SPC, Labuan Branch (Cayman Islands)**
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4 **PCA Reinsurance Co. Ltd (Scotland)**
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COMPOSITE INSURERS (COUNTRY OF ORIGIN)

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2 **MAA International Assurance Ltd (Malaysia)**
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4 AWCK International Insurance Company Limited (Hong Kong)
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5 Asian Forum Inc (Indonesia)
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6 AP Insurance Limited (Bermuda)
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7 BGC Insurance (L) Limited (Australia)
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12 Byrnecut Insurance Malaysia Ltd (British Virgin Islands)
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13 Challenge Group Underwriters & Managers (L) Inc (Singapore)
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15 Delima Insurance (Labuan) Ltd (Malaysia)
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17 Energas Insurance (L) Limited (Malaysia)
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18 Genting (Labuan) Limited (Malaysia)
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21 IRM Limited (Malaysia)
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22 KLK Assurance (Labuan) Limited (Malaysia)
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24 MED RE Sdn. Bhd. (Japan)
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25 MMR Insurance Incorporated (Japan)
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26 Pacific Insurance (L) Ltd (Indonesia)
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29 Sime Darby Insurance Pte. Ltd. (Malaysia)
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34 Tune Insurance (Labuan) Ltd (Malaysia)
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35 Twenty-One Insurance Company (Labuan) Ltd. (Bermuda)
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38 Zenith Insurance Limited (Singapore)
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5 Al Wasl Insurance Brokers Limited (Malaysia)
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8 **ARL International Limited (Singapore)**
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9 **Asia Reinsurance Brokers (Labuan) Ltd. (United States of America)**
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13 **Careful Line Ltd (Netherlands)**
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14 **CBC International Ltd (Malaysia)**
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15 **Challenge Group Inc (Singapore)**
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16 **CIB Global Limited (China)**
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17 **Citystate Risk Management (L) Bhd (Singapore)**
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18 **ClubkeyOffshore Financial Services (Labuan) Ltd. (United Kingdom)**
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19 **Colemont Asia Limited (United States of America)**
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20 **Delphi International Insurance Broker Ltd. (Sweden)**
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21 **deVere and Partners (L) Ltd (British Virgin Islands)**
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22 **deVere and Partners (M) Ltd (Malaysia)**
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23 **Eagle Equity Financial Services Ltd (United Kingdom)**
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Listing of Financial Institutions

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25 Elgin Associates Malaysia Inc (United Kingdom)
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26 Elite Capital Solutions (L) Ltd (United Kingdom)
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27 EuroAsian Reinsurance Broker Corporation (Russia)
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28 Ewarranty Integrated Solutions Ltd (Indonesia)
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29 Falcon International Financial Services Limited (United Kingdom)
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30 Faramond (Labuan) Ltd (United Kingdom)
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31 Farringdon Group Ltd. (United Kingdom)
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32 FEIC (Asia) Limited (United Kingdom)
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34 Globaleye (Labuan) Ltd (United Arab Emirates)
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36 Guy Carpenter & Co Labuan Ltd (United States of America)
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52 K.M.Dastur & Company Private Limited (India)
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53 Lighthouse Financial Solutions Ltd (United Kingdom)
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54 Malakut Insurance Brokers (Asia) Limited (Cyprus)
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57 Montpelier (Labuan) Ltd (United Kingdom)
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58 Montpelier Nordic Ltd. (Sweden)
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59 Nova Risk Management (L) Limited (British Virgin Islands)
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60 Orion International Ltd. (United Kingdom)
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61 PAIB Company Limited (Indonesia)
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62 Pana Harrison (Labuan) Ltd (Singapore)
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68 Qays Re Global Limited (Malaysia)
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69 Questor Capital Limited (Malaysia)
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71 SCI Gladstone Morgan Ltd (British Virgin Islands)
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72 Shine Re International Ltd. (Malaysia)
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75 Three Sixty Financial Inc (United Kingdom)
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2 Etiqa Offshore Insurance (L) Ltd (Malaysia)
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Mr. Nazri Wong Abdullah

3 Labuan Insurance Management Services Limited (Malaysia)
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4 Mitsui Sumitomo Reinsurance Limited (Ireland)
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Mr. Takashi Tsuchiya

5 Nova Insurance Management (L) Limited (British Virgin Islands)
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Mr. Wong Hei

UNDERWRITING MANAGERS (COUNTRY OF ORIGIN)

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E-mail : anthony@huntingtonpartnersllp.com
Mr. Anthony Alan Harry Egerton

2 AMLIN Labuan Limited (United Kingdom)
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Mr. Simon Garrett Clarke

Listing of Financial Institutions

3 **Argenta Underwriting Labuan Ltd (United Kingdom)**
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Mr. Desmond Carbery

4 **Brighton Management Limited (Malaysia)**
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5 **Canopius Labuan Pte Limited (United Kingdom)**
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Mr. Linus Phoon Han Meng

6 **Catlin Labuan Limited (Bermuda)**
Tel : 087-417672
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7 **Challenge Group Underwriters & Managers (L) Inc (Singapore)**
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8 **Etiqa Offshore Insurance (L) Ltd (Malaysia)**
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9 **Fincorp Ltd. (Bermuda)**
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10 **Kraken Reinsurance Insurance Services Limited (United Kingdom)**
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11 **Labuan Insurance Management Services Limited (Malaysia)**
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12 **Lloyd's Labuan Limited (United Kingdom)**
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13 **Markel International Labuan Limited (United States of America)**
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Mr. Peter Jeffrey Phillips

14 **Marsh Management Services (L) Ltd. (Bermuda)**
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15 **Mitsui Sumitomo Reinsurance Limited (Ireland)**
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16 **MS Frontier Reinsurance Limited (Bermuda)**
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17 **Nova Insurance Management (L) Limited (British Virgin Islands)**
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Mr. Wong Hei

18 **Starr Underwriting Agents (Labuan) Limited (United States of America)**
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19 Talbot Risk Services (Labuan) Pte. Ltd. (United Kingdom)
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20 Watkins Syndicate Labuan Limited (United Kingdom)
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21 Willis Management (Labuan) Pte Ltd (Bermuda)
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Mr. Matthew Guy Hooker

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Ms. Caroline Wong

2 Alpadis Trust (Labuan) Ltd. (Switzerland)
Tel : 087-595700
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Mr. Moritz Gubler

3 Amanah Raya (Labuan) Limited (Malaysia)
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Mr. Zainuddin Suhaimi

4 Asiatrust Limited (United Kingdom/Malaysia)
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Mr. Colin Paul Seah

5 Bank Islam Trust Company (Labuan) Ltd (Malaysia)
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Mr. Rumaizi Mohd Tejeri

6 CIMB Trust Limited (Malaysia)
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Ms. Cheng Pau Yun

7 Corporate Services Trust Co Ltd (Japan)
Tel : 087-419100
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E-mail : sales@trustlabuantax.com
Mr. Clament Chua Wee Voon

8 EC Trust (Labuan) Bhd. (Malaysia)
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Mr. Peter Kent Searle

9 Ernst & Young Trust Ltd. (Malaysia)
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10 Hans Advisory & Trust Co Ltd (Malaysia)
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11 IFS Trust Labuan Limited (Hong Kong)
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12 Integrated Agents Trust Ltd. (Malaysia)
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14 Kensington Trust Labuan Limited (Malaysia)
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15 KPMG Labuan Trust Company Limited (Malaysia)
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16 Labuan Borneo Trustees Limited (Panama)
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Mr. Saharani Kassim

17 Labuan INS International Trust Ltd (Malaysia)
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18 Law & Commerce Trust Limited (Malaysia)
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19 Masterco Managed Trust Limited (British Virgin Island)
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22 Ohad Trust (Labuan) Bhd (Bahrain)
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26 Sedgley Management Services Ltd (Malaysia)
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27 Shearn Skinner Trust Company Ltd. (Malaysia)
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28 Signature Trust Ltd (Malaysia)
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29 Sititrust & Administrator Limited (Malaysia)
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30 TMF Trust Labuan Limited (Malaysia)
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31 Tricor Trustco (Labuan) Ltd. (Malaysia)
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32 Trust Labuan Tax Inc (Malaysia)
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33 Vistra Trust (Labuan) Limited (British Virgin Island)
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34 Weld Asia Trust (Labuan) Ltd (Malaysia)
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35 ZICOlaw Trust Limited (formerly known as ZI Labuan Trust Company Limited) (Malaysia)
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36 ZRC International Trust Inc (formerly known as Al-Amin International Trust Inc) (Malaysia)
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3 TMF Management Limited
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Mr. Chau Ken Vui

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2 Arcap Inssef Ltd (Malaysia)
Tel : 087-414252
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3 Avenue Asset Management Services (L) Ltd (Malaysia)
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4 Balanced Capital Inc. (Malaysia/Japan)
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5 Better Place Strategic Investment Ltd. (Japan)
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7 **Fulton Capital Management Ltd (Singapore)**
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8 **Naaxo Asset Management Ltd (Switzerland)**
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9 **SJS Markets Ltd (Singapore)**
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10 **Takumi Asset Management (Labuan) Limited (Singapore)**
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11 **Washington Square Investment Management (Asia Pacific) Limited (United Kingdom)**
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3 **B.B Energy Malaysia Ltd. (Netherlands)**
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Mr. Kuan Chee Hong

4 **Bumi Sumber Ltd (China)**
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5 **Dialog Systems (Labuan) Ltd (Singapore)**
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6 **Onsys Energy (Labuan) Ltd (Malaysia)**
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9 **Petronas LNG Ltd (Malaysia)**
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10 Spectrum Oil & Gas (Asia) Limited (Malaysia)
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11 Straits Energy Ltd (Malaysia)
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12 Vitol Trading Malaysia Labuan Ltd (United Arab Emirates)
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15 Mercuria Resources Malaysia Ltd (Malaysia)
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2 City Credit Capital (Labuan) Ltd (Hong Kong)
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3 Interlink Co. Ltd (Japan)
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Mr. Meigetsu Miyashiro

4 MonexPro S.A. (Denmark)

5 MGK Global Ltd (Singapore)
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Mr. Kenichi Kashiwada

6 SABA CAPITAL Inc. (Malaysia)
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Datin Nooraiskin Ibrahim

7 Topworth Investments Ltd. (Hong Kong)
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8 Tradewinds Futures Limited (Hong Kong)
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Chairman : Mr. Jubely Pa
Secretary : Ms. Clara Lim Ai Cheng

Listing of Financial Institutions

2 **Association of Labuan Trust Companies**
c/o Noblehouse International Trust Ltd.
Level 1, Lot 7, Block F
Saguking Commercial Building
Jalan Patau-Patau
87000 F T Labuan, Malaysia
Tel : 087-410745
Fax : 087-419755
E-mail : cck@noblehouse-labuan.com

Chairman : Datuk Chin Chee Kee
Secretary : Mr. Moritz Gubler

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 : 087-442899
Fax : 087-451899
E-mail : secretariat@liia-labuan.org

Chairman : Dato' Ahmad Farouk Faizi
Secretary : Ms. Annie Undikai

4 **Labuan Investment Banks Group**
c/o AmanahRaya Investment Bank Ltd
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Level 8, Wisma AmanahRaya
No.2, Jalan Ampang
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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**
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Mr. Bonis Samid

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1 **AmInternational (L) Ltd**
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Mr. Mohd Iskandar Hafidz

2 **CIMB Bank (L) Limited**
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Ms. Jemima Haziz

3 **Kenanga Investment Bank Berhad**
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Mr. Roslan Hj. Tik

4 **Maybank Investment Bank Berhad**
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Mr. Lee Jiann Liang

5 **OSK Investment Bank (Labuan) Limited**
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Mr. Koh Wai Chee

6 **TMF Funds Services Asia Limited**
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Ms. Caroline Wong

TRADING AGENT

1 **CIMB Bank (L) Limited**
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Ms. Jemima Haziz

Statutory fees in Labuan IBFC

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

Type of Companies/Type of Fees	Processing/Lodgment/ Registration Fees		Annual Fees	
	RM	USD	RM	USD
A) Labuan Company				
i) Labuan Company				
a) Paid-up Capital of RM0 – RM50,000	**1,000**	**300**	**2,600**	**800**
b Paid-up Capital of RM50,001 to RM999,999	**2,000**	**600**	**2,600**	**800**
c) Paid-up Capital of RM1 million and above	**5,000**	**1,500**	**2,600**	**800**
ii) Labuan Foreign Company	**6,000**	**2,000**	**5,300**	**1,500**
iii) Labuan Partnership				
a) Labuan Limited Partnership, Labuan Limited Liability Partnership and Recognized Limited Liability Partnership	**1,000**	**300**		
b) Labuan Limited Partnership/Labuan Limited Liability Partnership			**1,000**	**300**

Type of Companies/Type of Fees	Processing/Lodgment/ Registration Fees		Annual Fees/ Licence Fees	
	RM	USD	RM	USD
iv) Labuan Protected Cell Company (PCC)				
a) 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**	**9,500**
– On each of its registered cel			**10,000**	**3,000**
b) 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**	**1,500**
– On each of its registered cell			**2,000**	**600**

Statutory fees in Labuan IBFC

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

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

Notes:

* To be paid upon renewal of registration.

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