



NAVIGATING **NEW HORIZONS**

LABUAN FSA

ANNUAL REPORT 2009

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ANNUAL REPORT 09

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The aspiration of becoming the most connected, convenient and cost-efficient international business and financial centre charts its next course, as the Labuan business environment moves to a higher level and takes on a new complexion through enhanced business and supervisory structure. The theme reflects the continuous achievements of Labuan IBFC in its endeavour to offer a more comprehensive range of products and services, improvement of delivery channels, as well as enhancement in the supervisory framework, all of which provides Labuan IBFC with the strong foundation with which to traverse the challenges ahead and steer towards becoming the premier international business and financial centre in the region.

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

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

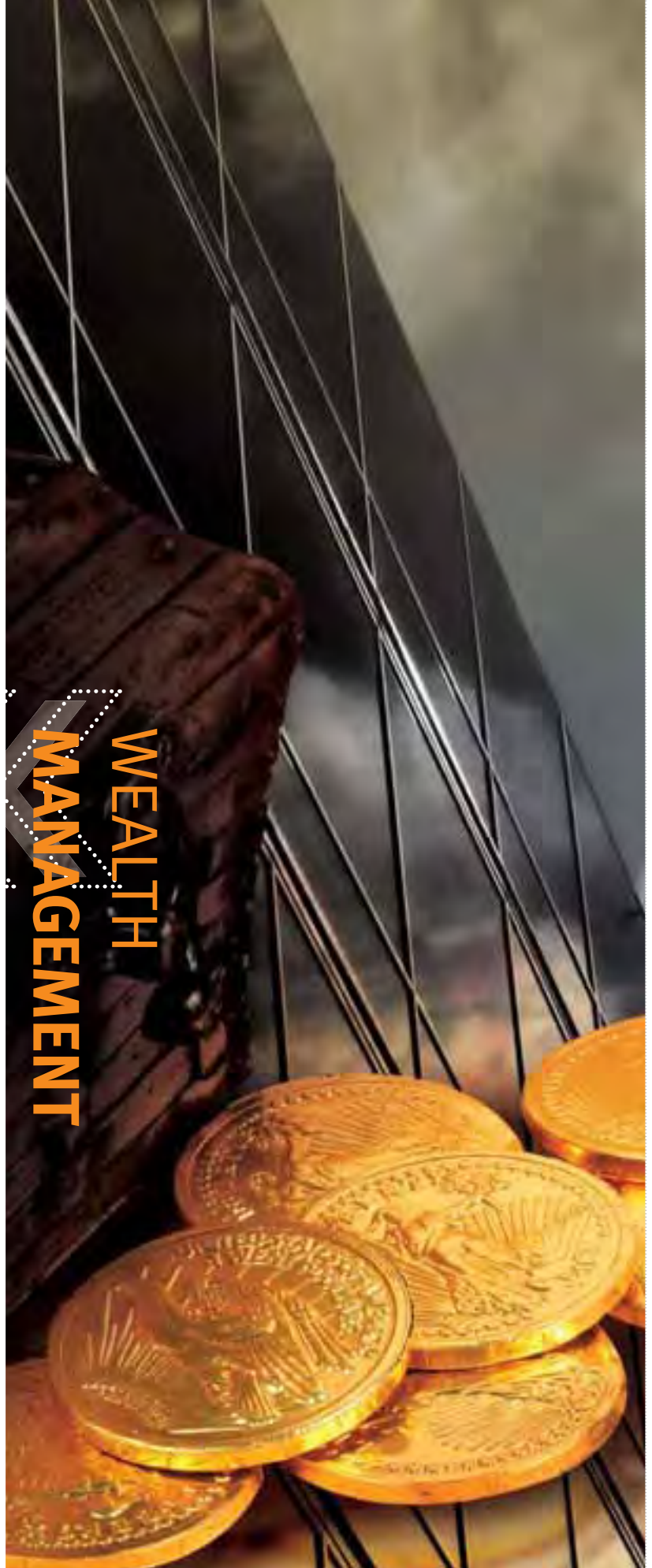




Labuan insurance business means insurance business transacted in foreign currency, and includes life, general, reinsurance, captive insurance, insurance manager, underwriting manager and insurance broking, but does not include domestic insurance business.

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

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





FOUNDATION

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

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

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

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



ISLAMIC FINANCE



BUSINESS REGISTRATION

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

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





LISTING OF FINANCIAL INSTRUMENTS

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

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

MISSION STATEMENT

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

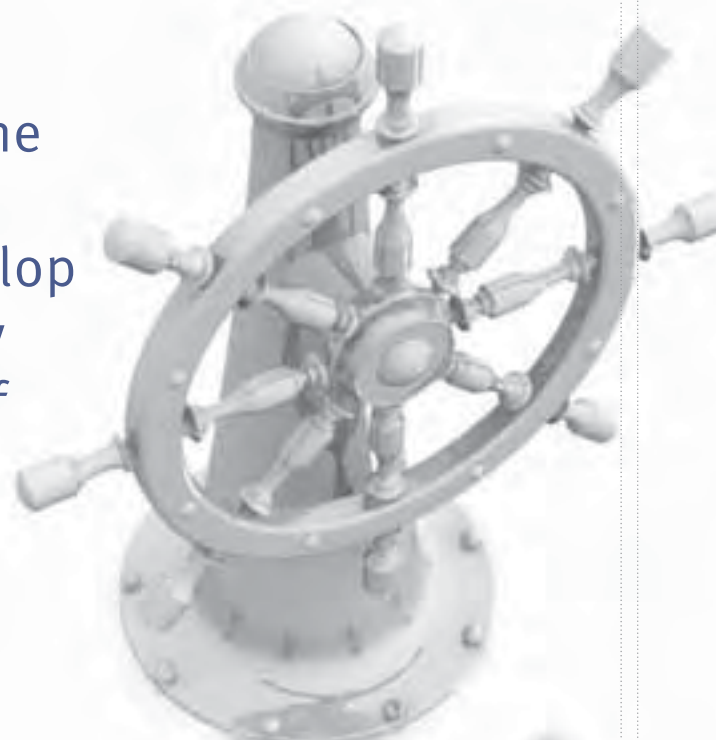


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WITH THE FASTER ECONOMIC REBOUND EXPECTED IN ASIA, AND ITS PROMISING PROSPECT GOING FORWARD, LABUAN'S CENTRAL POSITION IN ASIA HAS ENHANCED ITS ROLE AS A GATEWAY FOR THE BUSINESS OPPORTUNITIES EMERGING FROM THIS RAPIDLY EXPANDING REGION.

THE LABUAN FSA HAS TAKEN A STRATEGIC STEP IN NAVIGATING LABUAN IBFC INTO NEW HORIZONS TO CAPITALISE ON THE VAST OPPORTUNITIES EMERGING FROM THE ASIA PACIFIC REGION.



The recovery of the global economy benefitting significantly from the massive stimulus programs throughout the world is now gaining strength. In addition, financial regulatory reforms are being proposed at the national and international level to strengthen the foundations of financial stability and restore confidence in the financial markets. The reforms have focused in particular on strengthening the resilience of financial intermediation, including in risk management, and in improving governance and transparency in the financial markets.

While not isolated from the global financial turmoil, Asian financial systems have remained resilient due to a combination of decade long financial reforms and development of the financial infrastructure, and the strong economic fundamentals prevailing in the region. With the faster economic rebound expected in Asia, and its promising prospect going forward, Labuan's central position in Asia has enhanced its role as a gateway for the business opportunities emerging from this rapidly expanding region.

For the Labuan International Business and Financial Centre (IBFC), 2009 was a year of steering through the waves of economic uncertainties and financial storms to the shore of opportunities. The Labuan IBFC successfully weathered the economic downturn and the changing world financial landscape, recording positive growth in all key business sectors throughout the year. This is complemented in the increased range of financial products and services offered by Labuan IBFC. At the same time, Labuan IBFC has also demonstrated its ability to comply with global standards and best practices advocated by international standard setting bodies, particularly in the areas of strengthening supervision, and enhancing transparency as well as in the exchange of information. Expeditious measures were taken to ensure compliance with international standards. This reflects the firm commitment of the Labuan Financial Services Authority (Labuan FSA), (previously, Labuan Offshore Financial Services Authority, LOFSA) towards building a well regulated international business and financial centre with robust regulatory and supervisory systems and practices.

A major milestone of 2009 is the legislative change governing the business and financial industry in Labuan IBFC. The legislative review conducted was part of the modernisation of the legal framework to maintain international best practices and competitiveness of Labuan IBFC. With the enactment of the new laws, the Labuan FSA has taken a strategic step in navigating Labuan IBFC into new horizons to capitalise on the vast opportunities emerging from the Asia Pacific region. It has provided an enabling environment for product development that takes into account the changing requirements of the new economic environment. Under the new legislation, protected cell companies, foundations, private trust companies, limited liability partnerships and special trust can be structured out of Labuan IBFC. The new regulatory framework also enhances the role and functions of Labuan FSA to regulate and supervise the financial institutions and licensed entities operating from Labuan under a more robust, transparent and accountable framework. With the new laws firmly in place, Labuan IBFC is now better positioned to meet the challenges ahead to become a premier international business and financial centre in the Asia Pacific.

Against the backdrop of challenging economic conditions, the Labuan IBFC has continued to record growth across the wide range of sectors particularly banking, insurance, leasing and Islamic finance. The number of companies registered in Labuan had increased by more than 8.0% in 2009 primarily from Asia Pacific and the Far East. This is in line with the strategic focus of making Labuan IBFC the preferred financial centre for investors from countries in these regions. The international banking sector remained sound and stable and recorded an increased profitability of 16.6%. Leasing activities maintained its strong growth momentum as the best performing sector with assets leased increasing by 23.9% to USD21.9 billion. With a growth rate of more than 8.0% in insurance premiums, the insurance sector surpassed the USD1.0 billion mark for the second consecutive year amidst the soft global insurance market.

The continued expansion of the Islamic finance industry in 2009 reinforced the Labuan IBFC's position to investors seeking Shariah-compliant investment instruments. The size of the Islamic

private funds increased to USD3.2 billion, representing one-third of the total size of private funds in the Labuan IBFC, while the retakaful sector continued its trend of double digit annual growth. The landmark issuance of the USD1.5 billion Emas Dollar Sukuk by PETRONAS was listed on the Labuan International Financial Exchange. The Islamic financial businesses in the Labuan IBFC complements onshore activities to enhance the role of Malaysia as the leading international Islamic finance hub.

The Labuan FSA successfully embarked on several development and policy initiatives as had been outlined in the 2009 Strategic Plan which has focused in particular on strengthening further the legislative and regulatory framework. As part of the national financial sector liberalisation measures, Labuan holding companies were accorded the flexibility of establishing their operational and management offices in Kuala Lumpur under the co-location policy. In January 2010, banks were also provided with a similar flexibility while insurance companies would enjoy the same in 2011.

The Labuan FSA is committed to the implementation of the robust and effective regulation that has been put in place for the conduct of legitimate business. The Labuan FSA also maintains active participation in international standard-setting bodies including Offshore Group of Banking Supervisors, International Organisation of Securities Commissions and International Association of Insurance Supervisors. Amidst the rapidly evolving global economy and regulatory landscape, the Labuan FSA is determined to maintain its image as a reputable regulator committed to sound and prudent supervisory practices. The Labuan FSA continues to exercise vigilance in its Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) efforts in tandem with the national agenda of strengthening the AML/CFT regime. This commitment is manifested in the on-going efforts carried out to safeguard Labuan IBFC's standing as a "low risk" jurisdiction for money laundering. Concrete efforts have been taken, including regular monitoring to ensure that businesses are genuine and that anti-money laundering awareness campaigns have been conducted to promote greater understanding amongst financial institutions on the AML/CFT measures.

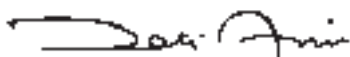
Looking to the year ahead, the financial landscape is expected to experience further

changes following the global financial regulatory reforms and increased international scrutiny on the financial services industry. As the authority responsible for the regulation, supervision and development of the business and financial industry, the Labuan FSA will ensure that Labuan IBFC's strong reputation as a well-regulated and robust IBFC is preserved. This will be achieved through several initiatives including ensuring the effective adoption of international standards, and enhancing disclosure and transparency standards in line with international best practices. Malaysia is in the "White List" issued by the Organization for Economic Co-operation and Development (OECD), reflecting the country's strong commitment in observing the international standards on transparency and exchange of information to curb illegal activities.

With various reforms and developmental initiatives undertaken in 2009, the Labuan IBFC is well positioned to benefit from the opportunities presented by the global economic recovery. The creation of the ASEAN Economic Community by 2015 aims to transform ASEAN into a single market, a region comprising of more than half a billion people with free movement of goods and services. In this regard, the Labuan IBFC is well positioned to further promote itself as a gateway for the ASEAN region.

For the year ended 31 December 2009, the Labuan FSA recorded an operating income of RM23.7 million, while total reserves in 2009 amounting to RM29.3 million.

On behalf of the Members of the Authority, I would like to accord my appreciation to Members of the International Advisory Panel, the Shariah Supervisory Council, the Islamic Finance Committee and the industry for their continued contributions and commitment. I would also like to thank the management and the staff of Labuan FSA for their hard work. The record of the achievements in the pages that follow are a tribute to these efforts mentioned.



Zeti Akhtar Aziz
Chairman

27 April 2010



CORPORATE PROFILE

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LABUAN FINANCIAL SERVICES AUTHORITY (LABUAN FSA) OR FORMERLY KNOWN AS LABUAN OFFSHORE FINANCIAL SERVICES AUTHORITY (LOFSA) WAS ESTABLISHED ON 15 FEBRUARY 1996 UNDER SECTION 3 OF THE LABUAN OFFSHORE FINANCIAL SERVICES AUTHORITY ACT 1996 (LOFSA ACT), NOW RENAMED AS THE LABUAN FINANCIAL SERVICES AUTHORITY ACT 1996. LABUAN FSA IS THE STATUTORY BODY RESPONSIBLE FOR THE DEVELOPMENT OF LABUAN INTERNATIONAL BUSINESS AND FINANCIAL CENTRE (IBFC).



OBJECTIVES OF LABUAN FSA

Labuan FSA was established to:

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

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

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



THE AUTHORITY AND ITS MEMBERS

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

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

Members of the Authority are:

- Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz, Chairman
- Tan Sri Zarinah Anwar
- Datuk Oh Chong Peng
- Dato' Mohammed Azlan Hashim
- Dato' Azmi Ariffin
- Dato' Basiran Saban
- Datuk Ali Abdul Kadir
- Datuk Dr. A Manaf Hussin
- Dato' Azizan Abdul Rahman, Director-General

MEMBERS OF THE AUTHORITY



STANDING FROM LEFT:

DATO' MOHAMMED AZLAN HASHIM

DATUK ALI ABDUL KADIR

TAN SRI ZARINAH ANWAR

DATUK OH CHONG PENG



TAN SRI DATO' SRI DR. ZETI AKHTAR AZIZ, CHAIRMAN

DATUK DR. A MANAF HUSSIN

DATO' BASIRAN SABAN

DATO' AZMI ARIFFIN

DATO' AZIZAN ABDUL RAHMAN, DIRECTOR-GENERAL

TAN SRI DATO' SRI DR. ZETI AKHTAR AZIZ

Chairman



Dr. Zeti Akhtar Aziz has been with the Central Bank since 1985, in a career spanning several senior positions in monetary and financial policies, and reserve management. Dr. Zeti presided over the formulation of the Financial Sector Master Plan, a 10-year road map for the

development of the Malaysian financial system. During her term as Governor, she also oversaw the transformation of the Malaysian financial system, involving wide-ranging financial reforms, the establishment of new financial institutions, strengthening of the financial markets and the transition to a managed float of the Ringgit exchange rate. She is also involved in the international development of Islamic finance and in regional financial cooperation.

In the area of Islamic finance, Dr. Zeti has been actively involved in its development both in the domestic and international arena. She chaired the Steering Committee for the establishment of the Islamic Financial Services Board (IFSB) and served as the IFSB Council Chairman for the 2007 term. Dr. Zeti was the Chairman of the task force on 'Islamic Finance and Global Financial Stability' that examines the intrinsic strengths and resilience of the Islamic financial services and its potential in contributing to global financial stability and system. She was also the Chairman of the task force on Liquidity Management to enhance the efficiency of Islamic financial institutions in managing liquidity at both national and across borders. She also plays a leading role to develop Malaysia as a centre for the origination, distribution and trading of Sukuks under the Malaysia International Islamic Financial Centre (MIFC) initiatives.

In promoting regional integration initiatives, Dr. Zeti chaired the EMEAP Taskforce on "Regional Cooperation among Central Banks in Asia" to draw up the blueprint for future financial cooperation in the region. She is also a member of the BIS Central Bank Governance Group since 2001. Dr. Zeti is also one of the founding members of the Asian Consultative Council for the BIS and is currently the Chairman of the Council.

Dr. Zeti had also served as a member of the United Nations General Assembly Commission of Experts on Reform of the International Monetary and Financial System, a high-level task force established to examine possible reform of the global financial system.

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

TAN SRI ZARINAH ANWAR



Tan Sri Zarinah is the Chairman of the Securities Commission (SC), Malaysia, a post she assumed on 1 April 2006. She had served as Deputy Chief Executive of the SC and member of the Commission since 1 December 2001.

Tan Sri Zarinah is Vice Chairman of the Emerging Markets Committee of the International Organization of Securities Commissions (IOSCO). She was Chairman of the ASEAN Capital Markets Forum, a grouping of chairmen of ASEAN securities regulators, from 2006 – 2008.

Tan Sri Zarinah currently chairs the Malaysian Venture Capital Development Council (MVCDC) and the Capital Market Development Fund (CMDf). She is also a member of the Financial Reporting Foundation (FRF), Malaysia International Islamic Financial Centre (MIFC) and the Board of Directors of the Institute Integrity Malaysia (IIM) and the Asian Institute of Finance Malaysia (AIF).

Tan Sri Zarinah started her career in the Government Legal and Judicial service where she served in the courts as well as the Attorney-General's Chambers. Tan Sri Zarinah subsequently spent 22 years with Shell and was Deputy Chairman of Shell Malaysia prior to joining the SC.

Tan Sri Zarinah graduated with an LLB (Hons) from the University of Malaya.

DATUK OH CHONG PENG



Datuk Oh Chong Peng is an Authority member of Labuan Financial Services Authority since 1996.

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

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

DATO' MOHAMMED AZLAN HASHIM



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

He also serves as a board member of, amongst others, the Khazanah Nasional Berhad and Scomi Group Berhad.

He has extensive experience in the corporate sector, including financial services and investment. Positions that he has held include that of Chief Executive/Executive Director of Bumiputra Merchant Bankers Berhad, Group Managing Director of Amanah Capital Malaysia Berhad and Executive Chairman of Bursa Malaysia Berhad (formerly known as Kuala Lumpur Stock Exchange) Group.

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

DATO' AZMI ARIFFIN



Dato' Azmi Ariffin commenced his career with the Legal and Judicial Service on 1 October 1987. He had served in various capacities, as Deputy Public Prosecutor with the Anti-Corruption Agency from 1987 – 1990, as Senior Magistrate in the Kuching Magistrates'

Court from 1990 – 1991, as Deputy Public Prosecutor with the Johor State Legal Advisor's Office from 1991 – 1994, as Research Officer with the High Court of Johor Bahru, from January – October 1994, as Deputy Public Prosecutor with the Kedah State Legal Advisor's Office, from 1994 – 2000 and as Head of the Prosecution Unit with the Kelantan State Legal Advisor's Office, from 2000 – 2004.

Dato' Azmi Ariffin is the Chief Executive Officer of the Companies Commission of Malaysia (SSM) effective 16 April 2009. Prior to this, he was the Head of the Commercial Crime Unit at the Attorney General's Chambers, Putrajaya. He is a member of Financial Reporting Foundation and Audit Oversight Board.

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

DATO' BASIRAN SABAN



Dato' Basiran is the Chief Executive Officer of Labuan Corporation, a position he has held since December 2006.

Prior to joining Labuan Corporation, Dato' Basiran was the District Officer of Kinta, Perak. In a career with the Government that spanned over two decades, Dato' Basiran had held various senior positions, including as Principal Assistant Director with the Public Services Department Malaysia, President of the Taiping Municipal Council, Perak, and District Officer of Kerian, Perak.

Dato' Basiran holds a Bachelor of Arts (Hons) from the University of Malaya and a Masters in Development Administration from Michigan University, USA.

DATUK ALI ABDUL KADIR



Datuk Ali Abdul Kadir is Fellow of the Institute of Chartered Accountants in England and Wales (ICAEW), MICPA and a member of MIA. He is also Honorary Fellow of the Institute of Chartered Secretaries and Administrators (UK) and

Honorary Fellow of the Malaysian Institute of Directors.

He is the Chairman of the Financial Reporting Foundation, Yayasan Kadir & Fatimah and Yayasan Amal Bukit Bintang. He is an Adjunct Professor with University of Malaya, Honorary Advisor to ICAEW Malaysia, member of the Audit Oversight Board and Advisory Panel of CCM Training Academy. He is also the Chairman of Microlink Solutions Berhad, Milux Corporation Berhad, Jobstreet Corporation Berhad, Privasia Technology Berhad, Mahkota Technology Sdn Bhd and sits on the Board of Glomac Berhad.

(Continued from Datuk Ali Abdul Kadir profile)

He was the Chairman of the Securities Commission of Malaysia and a member of a number of national committees including the Foreign Investment Committee, and the Oversight Committee of the National Asset Management Company (Danaharta). In the international arena, he was a member of the Executive Committee of the International Organization of Securities Commissions (IOSCO), Chairman of IOSCO's Asia-Pacific Regional Committee, and of the Islamic Capital Market Task Force. Datuk Ali was also a Trustee of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). He was the Consultant to the Sri Lanka Securities and Exchange Commission in 2006 for their Capital Market Strategic Plan.

Datuk Ali was the Executive Chairman and Partner of Ernst & Young. He was also former President of MICPA, and chaired MICPA's Executive Committee and Insolvency Practices Committee.

DATUK DR. A MANAF HUSSIN



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

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

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

DATO' AZIZAN ABDUL RAHMAN

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



He is a Board Member and Chairman of the Audit Committee of Labuan Corporation. He serves as an Exco member of the Malaysia International Islamic Financial Centre and a board member of International Islamic Finance Market, which is based

in Bahrain. He is also the Chairman of LABUANFSA Incorporated Sdn. Bhd. (formerly known as LOFSA Incorporated Sdn. Bhd.) and Pristine Era Sdn. Bhd. as well as a board member of the Labuan IBFC Inc. Sdn. Bhd.

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

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

FUNCTIONS OF LABUAN FSA



Labuan FSA has been entrusted with the following functions:

- To administer, enforce, carry out and give effect to the provisions of the:
 - Labuan Companies Act 1990
 - Labuan Business Activity Tax Act 1990
 - Labuan Trusts Act 1996
 - Labuan Financial Services Authority Act 1996
 - Labuan Financial Services and Securities Act 2010
 - Labuan Foundations 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 process applications for conducting business in Labuan IBFC;
- To carry out research and commission studies to deepen and widen the scope of international financial services in Labuan;
- To assist promotional programs and other activities to enhance the development and growth of Labuan IBFC;
- To make recommendations for the creation and improvement of facilities to enhance the attraction of Labuan as a centre for business and international financial services;
- To collaborate with Labuan financial institutions and industry associations in promoting and improving business and financial services; and
- To advise the Government generally on matters relating to financial services in Labuan IBFC.

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

a. Offshore Group of Banking Supervisors (OGBS);

OGBS was set up as a result of a mutual concern with supervision of banks and related financial services primarily engaged in cross-border activities.

b. International Organization of Securities Commissions (IOSCO);

IOSCO is the worldwide association of national securities regulatory commissions. It is the preeminent forum for international cooperation among securities regulators.

c. Offshore Group of Insurance Supervisors (OGIS);

OGIS is an organisation consisting of insurance regulators and supervisors from offshore jurisdictions with the aim of promoting proper supervision of offshore business.

d. International Association of Insurance Supervisors (IAIS);

IAIS was established to represent insurance regulators and supervisors of 190 jurisdictions to promote financial stability by working closely with financial sector standard-setting bodies and international organisations.

e. Asia/Pacific Group on Money Laundering (APG);

The APG provides technical assistance and training with agencies and member countries to improve compliance with the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) standards. It also assesses APG's members compliance with the global AML/CFT standard through mutual evaluation and conduct research into money laundering and terrorist financing methods, trends, risks and vulnerabilities.

f. Islamic Financial Standards Board (IFSB); and

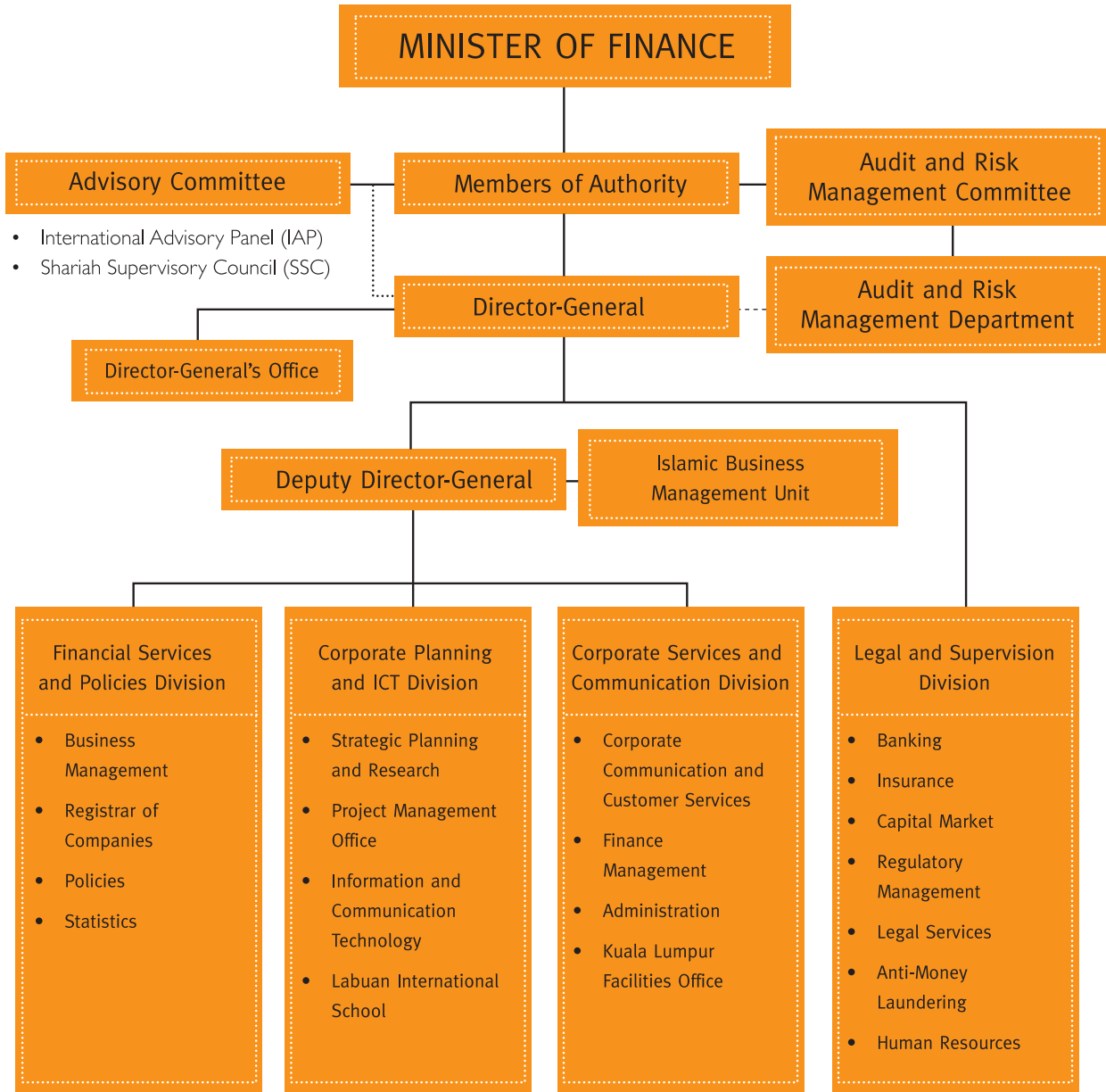
The IFSB serves as an international standard-setting body consisting of regulatory and supervisory agencies that have vested interest in ensuring the soundness and stability of the Islamic financial services industry.

g. International Islamic Financial Market (IIFM).

The IIFM was founded with the collective efforts of the central banks and monetary agencies of Bahrain, Brunei, Indonesia, Malaysia, Sudan and the Islamic Development Bank based in Saudi Arabia, as a standard-setting body with the mandate to take part in the establishment, development, and promotion of Islamic capital and money market.

ORGANISATION STRUCTURE

Labuan FSA is structured into six core areas, namely, the Legal and Supervision Division, Financial Services and Policies Division, Corporate Services and Communication Division, Corporate Planning and ICT Division, Audit and Risk Management Department and Islamic Business Management Unit. The structure enables Labuan FSA to effectively regulate and supervise the international financial community in Labuan IBFC.



THE INTERNATIONAL ADVISORY PANEL

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

DATO' MOHAMMED AZLAN HASHIM

Chairman

Dato' Mohammed Azlan is an Authority member of Labuan FSA. His profile is provided on page 23.

DATO' AHMAD JOHAN MOHAMMAD RASLAN

Dato' Johan Raslan is the Executive Chairman of PricewaterhouseCoopers (PwC) Malaysia and has vast experience in business advisory services both in Malaysia and the United Kingdom.

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

An Eisenhower Fellow, Dato' Johan is Adjunct Professor of University of Malaya, Vice-President of Malaysian Institute of Certified Public Accountants and Council Member of the Malaysian Institute of Accountants. He is a member of the Institute of Chartered Accountants in England and Wales, and is immediate past Chairman of the Financial Reporting Foundation.

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

DATUK SERI PANGLIMA ANDREW L T SHENG

Datuk Seri Panglima Sheng is currently a member of the Governing Council for the International Centre for Education in Islamic Finance, a board member of the Qatar Financial Centre Regulatory Authority and Sime Darby Berhad. He is also Chief Advisor to the China Banking Regulatory Commission and Adjunct Professor of the University of Malaya, Malaysia, and Tsinghua University, Beijing.

He was the Chairman of the Hong Kong Securities and Futures Commission from 1998 to 2005. He was also the Chairman of the Technical Committee of the International Organisation of Securities Commissions from October 2003 to September 2005.

ANTHONY NEOH, QC, SC

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

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



FROM LEFT:

1. Dato' Mohammed Azlan Hashim
2. Dato' Ahmad Johan Mohammad Raslan
3. Datuk Seri Panglima Andrew L T Sheng
4. Anthony Neoh, QC, SC
5. Iqbal Khan

(Continued from Anthony Neoh, QC, SC profile)

Mr Neoh is appointed Arbitrator, China International Economic and Trade Arbitration Commission, Legal Advisor to the Shenzhen Municipal Government, and Senior Economic Advisor to the Fujian Provincial and Tianjin City Governments.

In private legal practice, Mr Neoh practiced trial and appellate advocacy in the Hong Kong Courts and until 1997, in the Privy Council in London. From 1984 to 1986, he was in active practice as a member of the California Bar, specialising in international financial transactions, including international investments and was briefly associated with the firm of Pilsbury Madison & Sutro.

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

IQBAL KHAN

Mr Iqbal Khan serves as the Chief Executive Officer of Fajr Capital. Previously, he was the founding CEO of HSBC Amanah. He built the business and team at HSBC over eight years, as one of the fastest growing and most successful emerging businesses in the HSBC Group. Mr Khan was a member of the Boards of Directors of HSBC Bank Middle East, The Saudi British Bank, and HSBC Investment Bank (Saudi Arabia).

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

THE INTERNATIONAL ADVISORY PANEL

TAN SRI DATO' MEGAT ZAHARUDDIN MEGAT MOHD NOR

Tan Sri Dato' Megat Zaharuddin is a Chairman of several organisations including Malayan Banking Berhad and Malaysian Rubber Board. He also serves as a board member of International Centre for Leadership in Finance, Capital Market Development Fund and Woodside Petroleum Ltd.

He built an outstanding career in the oil and gas industry for 31 years with the Royal Dutch Shell Group of Companies and was the Regional Business Chief Executive Officer and Managing Director, Shell Exploration and Production B.V. prior to his retirement in early 2004. He was also Chairman of Maxis Communications Berhad from 2004 to 2007.

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

DATUK GEORGE RATILAL

Datuk George Ratilal is Vice President (Finance) of PETRONAS. He is a member of PETRONAS Management Committee and sits on the boards of several PETRONAS subsidiaries. Prior to joining PETRONAS in 2003, he was with a local Malaysian merchant bank for 18 years. During that time, he specialised in corporate finance where he advised on mergers and acquisitions, and the capital markets.

Currently, Datuk Ratilal also serves on the Boards of Cagamas Berhad, Cagamas Holdings Berhad, Capital Market Development Fund and Danajamin Nasional Berhad.

Datuk Ratilal holds an MBA from the University of Aston in Birmingham, United Kingdom.

MICHAEL TROTH

Mr Michael Troth is a Vice-President and Managing Director for The Citigroup Private Bank's Global Wealth Structuring Group, Asia Pacific and is based in Singapore.

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

Mr Troth obtained his Bachelor of Science degree from Manchester University, Institute of Science and Technology. He is an Associate of the Chartered Institute of Bankers and holds a Diploma in trust and estate practice. He is also a member of the Chartered Institute of Bankers, International Fiscal Association and a member of the Society of Trust and Estate Practitioners.

ROBERT M TOMLIN

Mr Robert M Tomlin is currently the Managing Director of Dane Court Pte Ltd. Currently he serves on the boards of SGX listed Olam International Ltd, an STI component stock, and of Mediacorp Pte Ltd. He is presently Chairman of the Singapore Repertory Theatre and of Design Singapore Council, a trustee of Singapore Management University, a director of Lasalle Foundation Ltd, and member of the Governing Board of the Yong Siew Toh Conservatory at NUS. He sits on the Advisory Committee of Catalist and the Singapore Second Board.

He was a Senior Advisor of UBS Investment Bank, Singapore (UBS). He joined UBS in March 2000, where he held successively the positions of Managing Director, Corporate Finance; Branch Manager and Country Head, and Vice Chairman Asia. He started his career in 1969 with London based Schroder Group, in London, New York and finally Singapore. He left the Group as CEO, South East Asia, in 1999. He has over 23 years' experience of working in Asia from Singapore.



FROM LEFT:

6. Tan Sri Dato' Megat Zaharuddin Megat Mohd Nor 7. Datuk George Ratilal
8. Michael Troth 9. Robert M Tomlin 10. Baron Frederik Van Tuyll 11. Mark Lea

(Continued from Robert M Tomlin profile)

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

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

BARON FREDERIK VAN TUYLL

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

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

Before taking up his post as the CEO, Baron Frederik was the Deputy CEO of Equity Trust and the CEO of the company's Asia Pacific region. He lived in Hong Kong for more than 15 years.

MARK LEA

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

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

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

From 1998 to 2007, Mark was also a member of the Inland Revenue Board of Review of Hong Kong, hearing tax appeals in respect of corporate and personal tax matters.

THE SHARIAH SUPERVISORY COUNCIL

The Shariah Supervisory Council (SSC), 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.

DR. MOHD DAUD BAKAR

Chairman

Managing Director, Amanie Islamic Finance Consultancy and Education LLC (DIFC) (DIFC), Amanie Business Solution Sdn. Bhd. (Kuala Lumpur)
Chief Executive / President of the International Institute of Islamic Finance and Amanie Business Solutions Sdn Bhd.
PhD. University of St Andrews, UK
Bachelor of Arts (Hons), University of Kuwait, Kuwait
Bachelor of Jurisprudence, University of Malaya, Malaysia

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

DATO' DR. ABDUL HALIM ISMAIL

Executive Director, BIMB Securities Sdn Bhd
PhD. in Economics, Oxford University, UK
Bachelor of Arts (Hons) in Economics, University of Malaya, Malaysia

Prior to holding his current post at BIMB Securities Sdn. Bhd., Dato' Dr. Abdul Halim was the Managing Director of Bank Islam Malaysia Berhad until 1994. He is presently a Director of BIMB Holdings Berhad, a Chairman of BIMB Unit Trust Management Berhad, a Director of Institut Kefahaman Islam Malaysia (IKIM) and Sime Darby Berhad. He is also a member of SAC of Bank Negara Malaysia and Securities Commission of Malaysia.

PROFESSOR MADYA DR. AHMAD SHAHBARI @ SOBRI BIN SOLOMON

Executive Chairman, Pusrawi Corporation Sdn Bhd
PhD. Modern Middle Eastern History, New York University, USA
M.A Economics, Fairleigh Dickinson University, USA
B.A. Shariah, Al-Azhar University, Egypt

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



FROM LEFT:

1. Dr. Mohd Daud Bakar
2. Dato' Dr. Abdul Halim Ismail
3. Professor Madya Dr. Ahmad Shahbari @ Sobri Bin Solomon
4. Dr. Hussein Hamed Hassan
5. Dr. Mohamed Ali Elgari
6. Dr. Engku Rabiah Adawiah

DR. HUSSEIN HAMED HASSAN

Chairman of Dubai Islamic Bank's Fatwa & Shariah Supervision Board, UAE
PhD. Shariah, University of Al-Azhar, Egypt
M.A. Comparative Jurisprudence, University of New York, USA
B.A. Shariah, Al-Azhar University, Egypt

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

DR. MOHAMED ALI ELGARI

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

Dr. Mohamed Ali Elgari is a Professor of Islamic Economics at King Abdul Aziz University of Jeddah. He is a member of Shariah Supervisory Board of Al-Jazira Bank apart from being an advisor to several financial institutions worldwide. He is also a member of the Islamic Fiqh Academy of Organisation of Islamic Conference (OIC), IIFM, AAOIFI, and Dow Jones Islamic Market Index. A prolific writer, he has authored several books in Islamic Finance and published articles on the subject both in Arabic and English.

DR. ENSKU RABIAH ADAWIAH

Associate Professor of Ahmad Ibrahim Kulliyah of Laws, International Islamic University, Malaysia
PhD. in Law (Securities Regulation), University of Aberdeen, UK
Masters in Comparative Laws, International Islamic University, Malaysia
LLB & LLBS (1st Class Hons), International Islamic University, Malaysia

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



FRONT ROW (FROM LEFT):

DATO' AZIZAN ABDUL RAHMAN, DIRECTOR - GENERAL

DANIAL MAH ABDULLAH, DEPUTY DIRECTOR - GENERAL

BACK ROW (FROM RIGHT):

ISKANDAR MOHD NULI

SABARUDDIN ISMAIL

MD. YUNUS ATIP

MOHD RIZLAN MOKHTAR

DATO' AZIZAN ABDUL RAHMAN

Director-General

Dato' Azizan is an Authority member of Labuan FSA. His profile is provided on page 24.

DANIAL MAH ABDULLAH

Deputy Director-General

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

Mr Danial oversees three divisions, namely Financial Services and Policies, Corporate Planning and ICT, and Corporate Services and Communication. He also spearheads the Islamic Business Management Unit, which is responsible for the development, including policies formulation of Islamic financial business in Labuan IBFC.

He is Chairman of the Policy Committee, Credit Risk, Investment and Risk Management Committee and Asset Management Committee of Labuan FSA. He also acts as the Secretary to the Authority of Labuan FSA. Danial is a member of the Executive Committee of the International Islamic Financial Market (IIFM), alternate Board Member of the IIFM, and a Board Member of LABUANFSA Incorporated Sdn. Bhd. (formerly known as LOFSA Incorporated Sdn. Bhd.) and Pristine Era Sdn. Bhd.

ISKANDAR MOHD NULI

Senior Director, Legal and Supervision Division

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

Mr Iskandar joined Labuan FSA in 1996 and was formerly attached to the Legal Department of Bank Negara Malaysia. He oversees the banking, insurance and capital market supervision as well as regulatory management functions. He is responsible for the supervision and enforcement of offshore legislation and regulations, compliance with best practices and standards promoted by international standard-setting bodies and the legal affairs of Labuan FSA and Labuan IBFC.

He also oversees the legal advisory and human resources unit. He is a member of the board of LABUANFSA Incorporated Sdn. Bhd. (formerly known as LOFSA Incorporated Sdn. Bhd.) and Pristine Era Sdn. Bhd.

SABARUDDIN ISMAIL

Director, Corporate Planning and ICT Division

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

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

He also oversees the Project Management Office for the Ninth Malaysia Plan projects initiated by Labuan FSA as well as the Labuan International School. He sits on the board of LABUANFSA Incorporated Sdn. Bhd. (formerly known as LOFSA Incorporated Sdn. Bhd.) and Pristine Era Sdn. Bhd., which operates the Labuan International School.

MD. YUNUS ATIP

Director, Financial Services and Policies Division

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

Prior to joining Labuan FSA in 1996, Mr Md. Yunus was with Bank Negara Malaysia attached to various departments including Foreign Exchange Administration, Internal Audit and Labuan Offshore Unit. As Director of Financial Services and Policies, he oversees the licensing and registration for banking, insurance, companies, fund management, leasing and other licensed activities. His other responsibilities include managing the Policies Unit which develops the business policies for activities in Labuan IBFC and overseeing the functions of Statistical Unit.

MOHD RIZLAN MOKHTAR

Acting Director, Corporate Services and Communication Division

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

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

He currently oversees the Corporate Communication and Customer Services Management as well as the business support functions of Financial Management and Administration. He also oversees the operations of the Kuala Lumpur Facilities Office.

He had seven years of prior experience in commercial banking at two Malaysian financial institutions, specifically in corporate and commercial business lending as well as corporate planning and research.



STATEMENT OF CORPORATE GOVERNANCE



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CORPORATE GOVERNANCE REFERS TO THE WAY THE ORGANISATION IS ADMINISTERED AND INCLUDES THE FRAMEWORK AND ADMINISTRATIVE PROCESSES WITHIN WHICH THE AUTHORITY AND THE MANAGEMENT FUNCTION TO MAINTAIN ADEQUATE INTEGRITY AND SOUND BUSINESS OPERATIONS IN ACCORDANCE WITH THE RELEVANT LAWS, REGULATIONS AND BEST PRACTICES GOVERNING THE LABUAN INTERNATIONAL BUSINESS AND FINANCIAL CENTRE (IBFC).

THE AUTHORITY

In the hierarchy of authority governing Labuan FSA, the Authority is the highest decision-making body. Its members comprise prominent figures from the public and private sectors, who are appointed by the Minister of Finance under Section 5 of the Labuan Financial Services Authority Act 1996. There are nine Authority Members including the Chairman and Director-General of Labuan FSA. The Director-General is directly responsible for the administration and day-to-day operations of Labuan FSA.

The Authority is committed to ensuring that Labuan FSA practises the highest standards of corporate governance in keeping with the spirit of the Malaysian Code of Corporate Governance. The Authority provides the strategic directions, reviews and approves policies and business guidelines for the development of the IBFC. It also ensures proper financial and human resource management while at the same time oversees the appropriate management of Labuan FSA.

AUTHORITY MEETINGS

The Authority held six meetings during the year ended 31 December 2009. The quorum of the Authority meeting is at least five members amongst the nine members appointed. The agenda and a full set of papers for deliberation were distributed well before each meeting so that the members had sufficient time to read and study the issues raised. All issues deliberated and decisions made at the Authority meetings were minuted, monitored and executed accordingly. In 2009, the Authority meetings were conducted as follows:

Authority Meeting Dates	20/03/2009	10/04/2009	19/06/2009	24/08/2009	27/10/2009	07/12/2009
Attendance	8/9	6/9	7/9	6/9	7/9	7/9

Senior management staff and external consultants may be invited to attend the Authority meetings to provide clarification and detailed information in relation to the relevant issues on the agenda being tabled.

ACCOUNTABILITY AND AUDIT

Financial Reporting

As a statutory body, Labuan FSA is required to submit its accounts to be audited by the Auditor General's Office every year before being tabled to the Parliament. It is the commitment of Labuan FSA to provide a balanced, clear and meaningful assessment of the financial performance, supported by the Chairman's statement and audited financial statements. The Authority also ensures that the accounting records disclosed were reported with reasonable accuracy on the financial position to give a true and fair view of the state of affairs of Labuan FSA at the end of the financial year based on applicable accounting standards. The Authority is assisted by the Audit and Risk Management Committee (ARMC) to oversee and maintain the quality of financial reporting and ensure compliance with acceptable accounting standards.

Internal Controls and Compliance

Labuan FSA continues to maintain a sound system of internal controls that provides reasonable assurance of effective and efficient operations, and compliance with laws and regulations, as well as with internal procedures to prevent and detect fraud and other irregularities in order to safeguard its assets. In this regard, the Risk Management Unit (RMU) assists the management in its effective implementation of an internal control system that is designed to identify and mitigate risks by providing an enterprise risk management framework and regular monitoring on critical areas. The Internal Audit Unit (IAU), on the other hand, conducts regular audits on all operational functions of Labuan FSA to ensure that risk management, controls and governance processes are effective.

Responsibility

The Authority recognises that sound internal controls and risk management practices are key elements to good corporate governance. The Authority affirms its responsibility with regard to the internal control system of Labuan FSA that includes an appropriate controls environment and reviews the adequacy and integrity of the control system in place.

Labuan FSA has established an adequate framework and instituted processes to evaluate, mitigate, monitor and report significant risks within the organisation. It continues to review the existing framework and develop new internal controls, where appropriate, on the operational processes to suit the current business environment. Labuan FSA has also implemented a Business Continuity Plan (BCP) to ensure continuity of critical business functions in events of disaster or emergency.

The Authority ensures that the management undertakes actions in the implementation of policies and procedures approved by the Authority in a manner whereby all risks have been comprehensively identified and assessed, and appropriate internal controls have been implemented to ensure that the significant risks have adequate mitigation and control measures.

COMMITTEES

In ensuring its effectiveness and realising its responsibilities to its stakeholders, the Authority has formed various committees as provided under Section 15 of the Labuan Financial Services Authority Act 1996 to oversee specific matters pertaining to the running of the organisation. The committees have clearly defined terms of reference.

Audit and Risk Management Committee

The Audit and Risk Management Committee (ARMC), established in 1999, comprises four members of the Authority and appointed by the Labuan FSA's Authority. The Chairman of the Authority will appoint one of them to be the Chairman of the ARMC. The ARMC is responsible to assist the Authority in fulfilling its oversight responsibilities to ensure a sound system of internal control, risk management and corporate governance to safeguard Labuan FSA's assets.

The members of the ARMC are:

Datuk Oh Chong Peng	Chairman
Datuk Ali Abdul Kadir	Member
Dato' Mohammed Azlan Hashim	Member
Datuk Abdul Karim Abdul Jalil	Member (until 16 April 2009)
Dato' Azmi Ariffin	Member (effective 19 June 2009)

The duties and responsibilities of the ARMC include the following:

- To assist the Authority in fulfilling its fiduciary responsibilities by ensuring that internal and external findings are fully considered and properly resolved;
- To review the adequacy of the scope, functions and resources of the internal audit function;

- To review the internal audit program and results of the internal audit process and where necessary ensure that appropriate action is taken on the recommendation of the internal audit function;
- To oversee the risk management framework in Labuan FSA and recommend the appropriate risk management policies across the organisation;
- To ensure the adequate infrastructure, resources, systems and internal controls are in place, and review the risk exposure and risk management activities in Labuan FSA; and
- To review financial reports of Labuan FSA.

In undertaking its functions, the ARMC is required to meet at least four times a year and additional meetings may be convened as and when it is deemed necessary.

The Director-General and Head of Audit and Risk Management Department attend all the ARMC meetings to provide their views and input on all matters. Senior management may also be invited to attend the ARMC meeting as and when necessary.

Summary of Activities

The ARMC performs its roles and responsibilities in accordance with its terms of reference and met six times during the year under review. Key activities undertaken by the ARMC during the year included:

- Review of the scope of the internal audit plan for 2009 and oversight of the work performed by the internal auditors throughout the year;
- Review of significant accounting, financial reporting and other issues raised by the internal and external auditors and Auditor General's Office;
- Review of financial reports including quarterly and annual financial statements;
- Review of the scope of the internal audit's annual audit plan for 2010;
- Review of 2010 Budget Proposal;
- Review of Business Continuity Plan; and
- Review of status on risk issues to be addressed relating to strategic, financial, operational, legal and reputation risks of Labuan FSA.

Relationship with the Auditor General

The ARMC ensures that there are formal and transparent arrangements for maintaining a professional relationship with the Auditor General. The main responsibilities relating to this are included in the terms of reference of the ARMC.

Internal Audit

The ARMC is assisted by the Internal Audit Unit (IAU) to provide sufficient assurance of regular review and appraisal of the effectiveness of Labuan FSA's internal controls system and risk management framework. The ARMC is responsible for assessing whether the internal audit function is independent of management and is adequately staffed and funded. The ARMC also assesses the performance of the Head of Audit and Risk Management Department (ARMD) and may recommend to the Authority the appointment, remuneration and termination of the officer. The Head of ARMD has direct access to the Committee.

The IAU executed the audit programmes in accordance with the Audit Plan 2009 as approved by the ARMC. The IAU adopted a risk-based approach in its audit works that is in line with best practices, prioritising on high and potentially higher risk areas. The audit reports were reviewed by the ARMC.

The Project Steering Committee

The Project Steering Committee (PSC) consists of six members of the Authority. The PSC provides direction in resolving critical issues and assistance on projects that may require top level interventions.

The members of the PSC are as follows:

Datuk Oh Chong Peng	Chairman
Dato' Mohammed Azlan Hashim	Member
Tan Sri Zarinah Anwar	Member
Datuk Ali Abdul Kadir	Member
Datuk Abdul Karim Abdul Jalil	Member (until 16 April 2009)
Dato' Azmi Ariffin	Member (effective 19 June 2009)
Dato' Azizan Abdul Rahman	Member

The duties and responsibilities of the PSC include the following:

- a) Ensure that projects under the Repositioning Study of Labuan IBFC and the Ninth Malaysia Plan of Malaysia are implemented efficiently and that the stakeholders' expectations are met during the implementation process; and
- b) Assist in the resolution of high-level issues, ensuring appropriate mitigation plans are developed.

The Director of Corporate Planning and ICT Division attended all meetings of the PSC. Senior management may also be invited to attend the PSC meetings as and when necessary. The Project Management Office (PMO) Unit acts as secretariat for the PSC and is responsible for the preparation and administration of the meeting.

The PSC convened five meetings in 2009 to review the status of projects that were implemented or undertaken during the year. The projects included ICT initiatives, legislative review, marketing activities of Labuan IBFC Sdn. Bhd., establishment of the Global Takaful Group, as well as the development of the Labuan International School. The status of the projects was also reported at the Authority Meetings.

ENTERPRISE RISK MANAGEMENT

Labuan FSA continues to practise the highest standard of corporate governance by improving the risk management process and implementing its BCP. In this regard, Labuan FSA is continuously undertaking a review of the Enterprise Risk Management (ERM) framework and risks identified under the framework including enhancing the BCP procedures.

To ensure the ongoing implementation of risk management and updates of risk profiles, the Authority is assisted by the RMU that reports to the ARMC. The roles and responsibilities of RMU include:

- Creating awareness of risk management throughout Labuan FSA;
- Facilitating the implementation of the risk management framework;
- Acting as a focal point for risk management activities within Labuan FSA;
- Monitoring Labuan FSA's risk profile and the effectiveness of mitigation strategies; and
- Reporting to the ARMC on any matters of risk significance.

In 2009, a total of 48 risks including three new risks were identified. These risks comprised reputational, operational, strategic and financial risks were monitored by RMU on a monthly basis and subsequently reported to the ARMC. Under the ERM framework, these risks were discussed at the management level through the Risk Management Working Group and tabled at the ARMC for further deliberation. RMU conducted briefings and discussion with the Head of Departments, risk champions and key staff to internalise risk management awareness.

The BCP is a key component of integrated risk management initiative that is formalised under the ERM framework for Labuan FSA. Its primary objective is to ensure that Labuan FSA is well prepared to manage its critical business functions and to ensure that these critical operations continue to be available under adverse conditions.

45	Labuan Companies
46	Labuan Banks
51	Labuan Investment Banks
51	Labuan Insurance
58	Labuan Leasing
60	Labuan Fund Management
61	Debt Issuance Activities
62	Labuan International Financial Exchange
63	Islamic Financial Services
65	Trust Companies

BUSINESS

ACTIVITIES OF LABUAN IBFC



THE GLOBAL ECONOMY HAD SHOWN SIGNS OF IMPROVEMENT TOWARDS THE END OF 2009, LED BY THE STRONG PERFORMANCE OF ASIAN ECONOMIES AND STABILISATION OR MODEST RECOVERY ELSEWHERE. NEVERTHELESS, THE PACE OF RECOVERY IS SLOW, AND BUSINESS ACTIVITIES REMAIN BELOW PRE-CRISIS LEVELS. LABUAN IBFC IS ALSO EXPERIENCING SLOWER GROWTH IN TERMS OF THE NUMBER OF REGISTRATION OF COMPANIES. FOR LICENSED FINANCIAL INSTITUTIONS, A NUMBER OF BANKS AND INSURANCE COMPANIES HAD RATIONALISED THEIR GLOBAL OPERATIONS AND SURRENDERED THEIR LICENCES IN LABUAN IBFC. NOTWITHSTANDING, THE NUMBER OF FOREIGN BANKS AND INSURANCE COMPANIES SETTING THEIR SIGHTS ON LABUAN IBFC HAS BEEN INCREASING.

Despite the slower rate of growth, Labuan IBFC continues to be an attractive destination for holding companies, captive insurance, trust and foundations, wealth management and Islamic financial services. With the enactment of the new Labuan legislation in February 2010, Labuan companies are now under the purview of Labuan Companies Act 1990, whereas all licensed entities including trust companies, banks, insurance and insurance-related companies, capital markets and Labuan financial businesses are now governed by the new Labuan Financial Services and Securities Act 2010. The new legislation enhances the financial and business activities and diversifies the range of products and services offered in Labuan IBFC. In addition, it enables Labuan FSA to improve its delivery systems particularly pertaining to registration of companies and licensing process. Furthermore, Labuan FSA continues to emphasise on the due diligence process on the applicants to ensure that only genuine and credible individuals and institutions will be allowed to carry on business in Labuan IBFC. In this regard, Labuan FSA requires the service providers such as trust companies and licensed financial institutions to undertake the necessary screening process prior to submission of applications to Labuan FSA.

Generally, Labuan IBFC had recorded a respectable growth in various financial sectors during the year under review despite global economy downturn with the leasing sector recording the highest growth in terms of the approvals granted. Registration of companies grew by 8.1% compared to 9.1% during the previous year. In addition, insurance and insurance-related companies achieved an 8.8% increase in gross premiums, while the banking industry recorded a 5.0% growth in total loans and 16.6% increase in pre-tax profits.

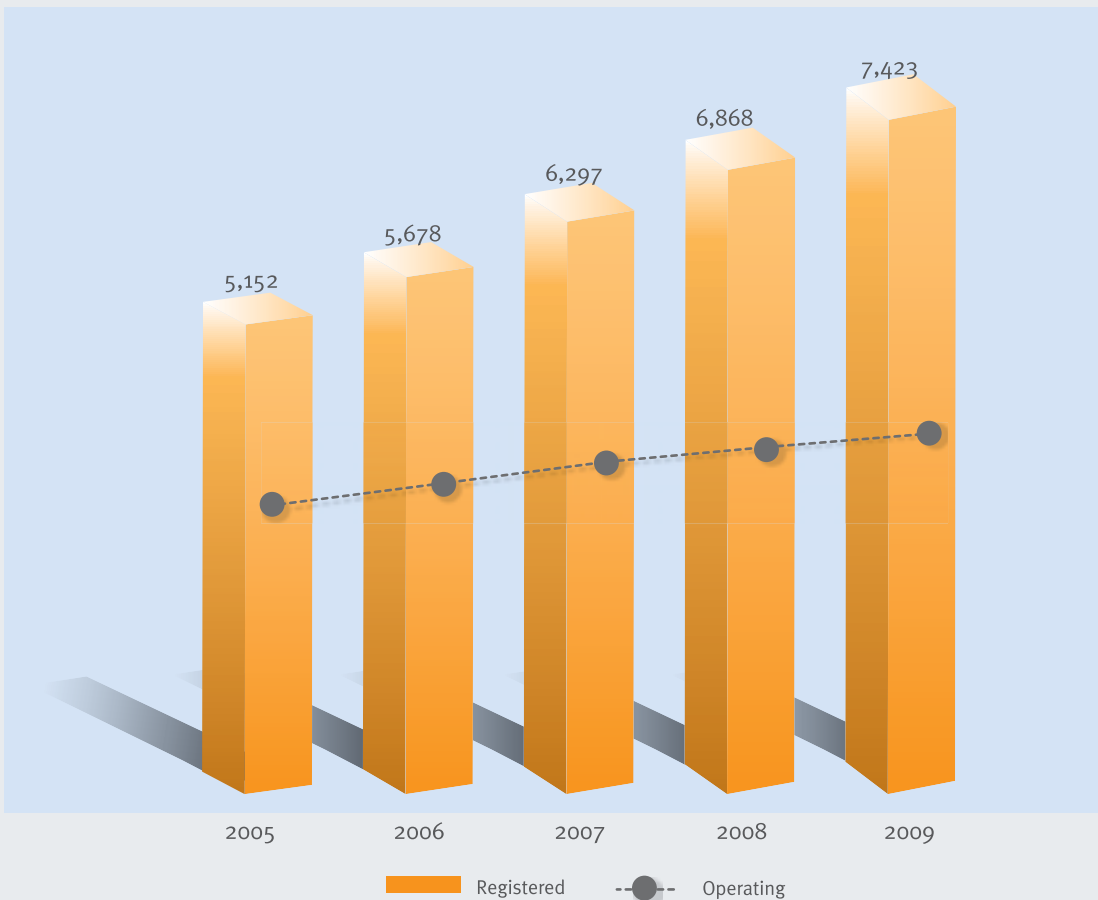
In order to further enhance the conducive and flexible business environment in line with the internationally accepted regulatory framework, Labuan FSA continued to maintain its consultative approach with industry players on issues and developments affecting the industry such as legal framework, product developments and human capital. Similarly, Labuan FSA maintained its regular collaboration with fellow regulators from domestic and international jurisdictions on regulation and supervisory developments.

LABUAN COMPANIES

During 2009, Labuan IBFC sustained the registration of new companies albeit a slight reduction. A total of 555 new Labuan companies were registered in 2009 under the Labuan Companies Act 1990, which is 2.8% lower compared to the previous year (2008: 571). This resulted in an 8.1% growth in the total number of Labuan companies from 6,868 in 2008 to 7,423 in 2009.

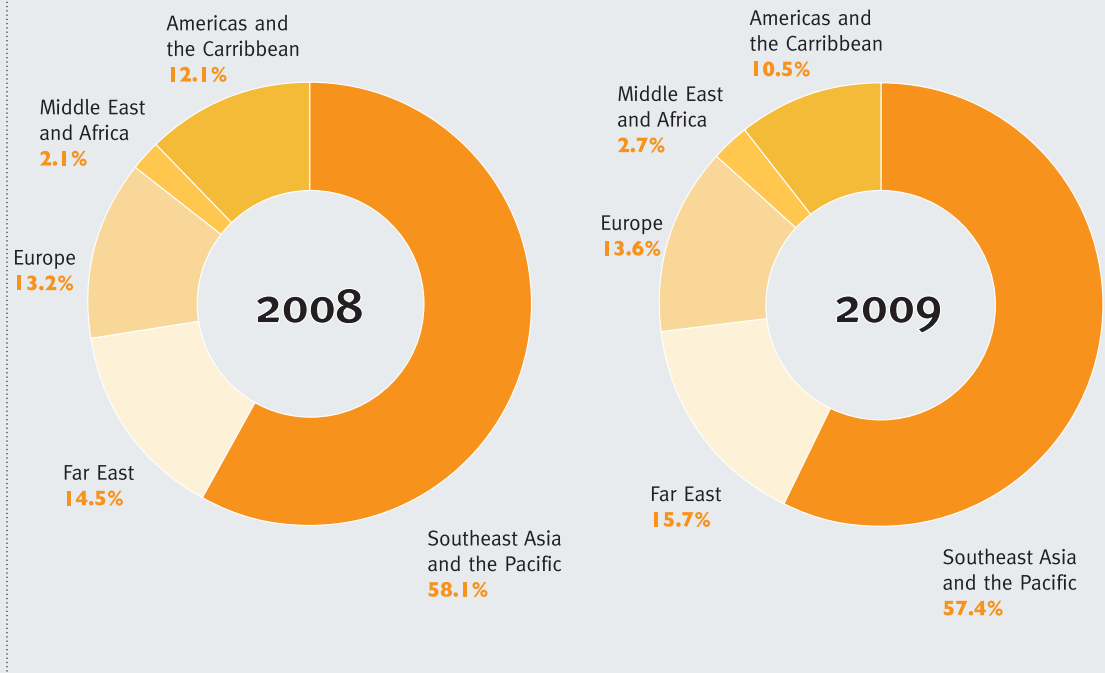
The fourth quarter recorded the highest number of new companies with 153 or 24.4% higher than the same period in 2008 (2008: 123), partly contributed by the reduction of annual fees which came into effect from 1 July 2009. The number of companies that ceased operations also displayed a decreasing trend in the last quarter of 2009 compared to the previous quarters.

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



The Labuan companies registered in Labuan IBFC originated from more than 90 countries, an indication of the acceptance of Labuan as an international business and financial centre. In terms of segregation by region, 57.4% (2008: 58.1%) of Labuan companies were from the Southeast Asia and the Pacific region, largely from Malaysia, Indonesia, Australia, Singapore and Thailand. This was followed by the Far East countries, namely, Hong Kong, Taiwan, Korea, Japan and The People's Republic of China that made up 15.7% (2008: 14.5%) of the total. Europe contributed 13.6% (2008: 13.2%), Americas and the Caribbean contributed 10.5% (2008: 12.1%) while the Middle East and Africa contributed the remaining 2.7% (2008: 2.1%).

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



Note: Figures may not necessarily add up due to rounding

Expatriates employed by Labuan companies are eligible to apply for a work permit subject to adherence to specified requirements. For year 2009, a total of 103 (2008: 103) work permit applications were processed (excluding applications from Labuan financial institutions). The work permits were for new applications as well as extension of work permit tenures. The applications were processed and forwarded to the Labuan Immigration Department for consideration.

LABUAN BANKS

As at end-2009, five new banks were granted approvals comprising one commercial and four investment banks. Nevertheless, the total number of approved Labuan banks and investment banks remained at 59 as three existing banks had surrendered their licenses due to the worldwide group restructuring exercises, while two Labuan investment banks had their approvals declared as null and void due to the non-compliance to the conditional licensing requirements.

Out of the 59 approved banks, 54 were in operation, comprising 12 subsidiaries and six branches of Malaysian-owned banks and 11 subsidiaries and 25 branches of foreign-owned banks.

Table 1: Labuan Banks - Sources and Uses of Funds

	2007	2008*	2009	2009	
	USD Million			change (%)	share (%)
Sources:					
Deposits	9,024.2	9,406.2	10,235.3	8.8	34.2
Deposits and Placements of Banks and Other Financial Institutions	3,166.9	5,393.4	5,162.0	(4.3)	17.2
Balances due to Head Office and Branches Outside Malaysia	11,004.0	10,279.8	11,855.5	15.3	39.6
Others	3,783.9	3,918.1	2,707.7	(30.9)	9.0
Total	26,979.0	28,997.5	29,960.5	3.3	100.0
Uses:					
Cash and Short-term Funds	2,419.0	1,638.1	1,666.3	1.7	5.6
Balances due from Head Office and Branches Outside Malaysia	5,870.7	5,733.9	5,456.2	(4.8)	18.2
Investments	2,642.7	1,744.1	1,643.1	(5.8)	5.5
Loans and Advances	14,127.0	17,576.7	18,462.3	5.0	61.6
Fixed Assets	30.8	14.6	6.9	(52.7)	0.0
Others	1,888.8	2,290.1	2,725.7	19.0	9.1
Total	26,979.0	28,997.5	29,960.5	3.3	100.0

Note: Figures may not necessarily add up due to rounding

* Restated

Banking Operations

Total assets of Labuan banks increased by 3.3% to USD30.0 billion in 2009 (2008: USD29.0 billion), while loans and advances grew by 5.0% to USD18.5 billion (2008: USD17.6 billion).

As in previous year, the main source of funding for the Labuan banking industry was borrowing from head offices, comprising 39.6% of the total resources. Loans and advances constituted the bulk of the utilisation of resources, accounting for 61.6% or USD18.5 billion (2008: USD17.6 billion) of the total utilisation of funds for Labuan banks.

Table 2: Labuan Banks - Deposits and Loans Outstanding of Non-Bank Customers

	2007	2008	2009	% change (2009)
	USD Million			
Total Deposits	9,024.2	9,406.2	10,235.3	8.8
Residents	3,428.7	3,796.2	4,644.5	22.3
% share	38.0	40.4	45.4	
Non-Residents	5,595.5	5,610.0	5,590.9	(0.3)
% share	62.0	59.6	54.6	
Total Loans Outstanding	14,127.0	17,576.7	18,462.3	5.0
Residents	6,570.8	7,519.9	6,806.4	(9.5)
% share	46.5	42.8	36.9	
Non-Residents	7,556.2	10,056.8	11,655.9	15.9
% share	53.5	57.2	63.1	

Note: Figures may not necessarily add up due to rounding

Total deposits rose by 8.8% to USD10.2 billion in 2009 from USD9.4 billion in 2008 mainly due to the 22.3% increase in deposits from residents. Notwithstanding, the majority of the deposits were still derived from non-residents amounting to USD5.6 billion or 54.6% (2008: 59.6%).

In addition to providing loans and accepting deposits, the Labuan banks continued to transact in the off-balance sheet transactions such as commitments, guarantees and derivatives. As at end-2009, the total off-balance sheet items remained at USD13.6 billion.

Chart 3: Labuan Banks - Total Deposits And Loans Outstanding

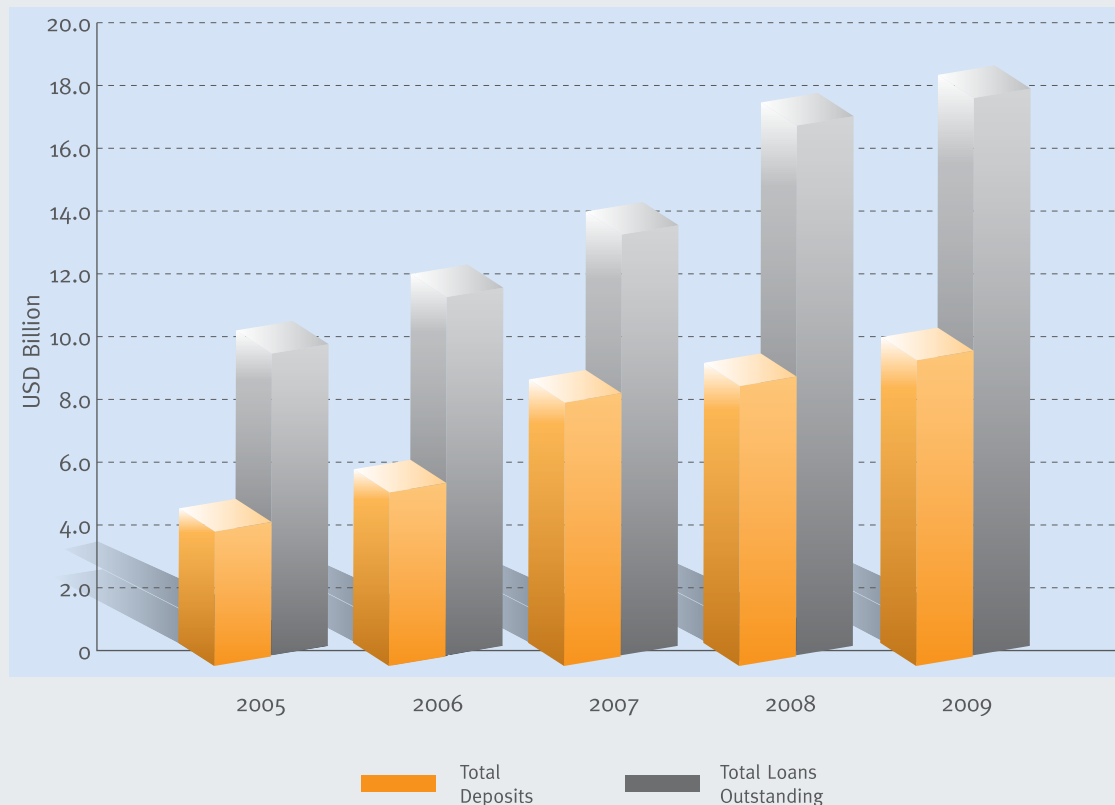
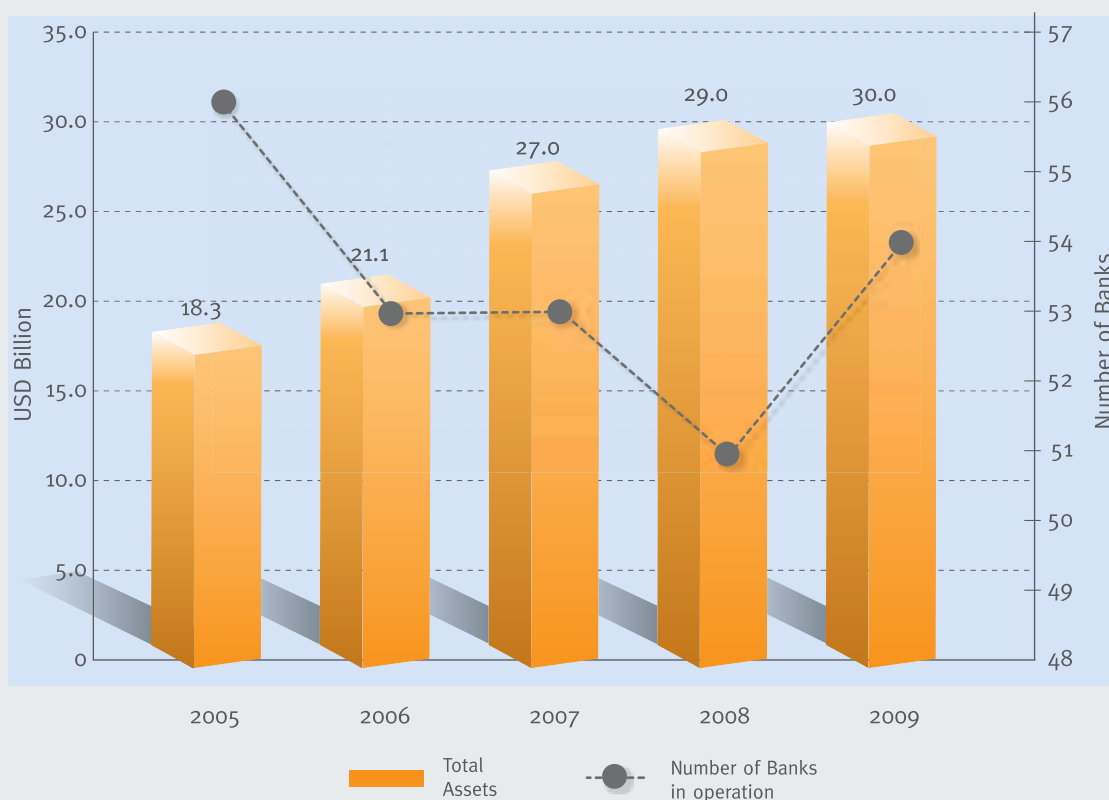


Chart 4: Labuan Banks - Total Assets and Number of Banks in Operation



The distribution of loans from the lending activities was mainly in the financing, insurance and business services sectors. It made up 30.8% or USD5.7 billion (2008: 21.8% or USD3.8 billion) of the overall total loans outstanding. This was followed by the transport, storage and communication sector amounting to USD3.8 billion or 20.3% (2008: USD3.9 billion or 22.4%) and manufacturing sector of USD2.1 billion or 11.4% (2008: USD2.2 billion or 12.5%) of the total industry loans.

Table 3: Labuan Banks - Direction of Lending by Sectors

Loans by Sectors	2007	2008	2009	2009	
	USD Million			change (%)	share (%)
Agriculture, Hunting, Forestry and Fishing	489.7	443.1	689.6	55.6	3.7
Mining and Quarrying	579.8	496.6	425.6	(14.3)	2.3
Manufacturing	2,205.8	2,200.5	2,095.6	(4.8)	11.4
Electricity, Gas and Water	1,966.4	1,381.0	1,397.4	1.2	7.6
Property of which:					
Real Estate	176.6	217.8	291.4	33.8	1.6
Construction	613.3	598.7	542.6	(9.4)	2.9
Housing	124.7	160.0	183.6	14.8	1.0
Wholesale and Retail Trade and Restaurants and Hotels	257.5	195.4	148.6	(24.0)	0.8
Transport, Storage and Communications	2,789.3	3,934.4	3,752.3	(4.6)	20.3
Financing, Insurance and Business Services	2,282.9	3,837.9	5,690.1	48.3	30.8
Other Services	5.6	13.7	22.5	64.2	0.1
Miscellaneous	2,635.4	4,097.6	3,223.0	(21.3)	17.5
Total	14,127.0	17,576.7	18,462.3	5.0	100.0

The ratio of gross non-performing loans remained low at 1.9% in 2009 as Labuan banks continued to lend prudently to creditworthy borrowers which assisted in maintaining the overall safety and soundness of the banking system in Labuan IBFC.

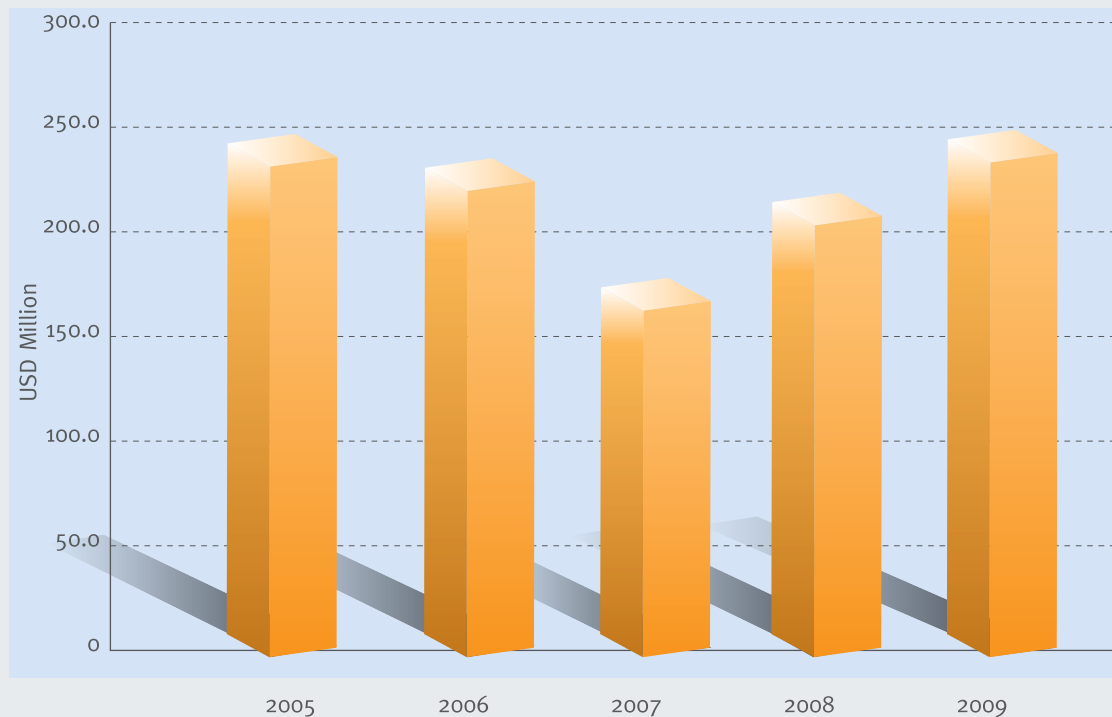
Table 4: Labuan Banks - Key Data

	2007	2008*	2009
Return on Assets (%)	0.6	0.7	0.8
Pre-tax Profit per Employee (USD'000)	346.9	438.7	513.8
Staff Cost per Employee (USD'000)	31.2	33.6	31.1
Average Assets per Bank (USD Million)	509.0	568.6	554.8
Pre-tax Profit (Loss) (USD Million)	170.0	214.1	249.7
Total Assets (USD Million)	26,979.0	28,997.5	29,960.5
Staff Cost (USD Million)	15.3	16.4	15.1
Number of Employees	490	488	486
Number of Banks in Operation	53	51	54
Number of Banks Approved	56	59	59

* Restated

Despite the continuous uncertainties in the global financial market, the banking industry in Labuan IBFC recorded an increase of 16.6% in pre-tax profit to USD249.7 million (2008: USD214.1 million). The return on assets of the banks remained stable at 0.8% (2008: 0.7%).

Chart 5: Labuan Banks - Profit Before Tax



The total staff strength in the Labuan banking industry reduced to 486 as at end-2009 (2008: 488). Malaysians comprised 87.4% of the total number of employees of which 44 and 79 were at senior management and middle management levels, respectively. The number of non-Malaysians holding senior and middle management positions increased to 49 (2008: 44).

Table 5: Labuan Banks - Employment

	Staff Position	Malaysian	Others	Total
2007	Senior Management	50	26	76
	Middle Management	89	19	108
	Supervisory Staff	121	7	128
	Others	173	5	178
	Total Staff	433	57	490
2008	Senior Management	44	25	69
	Middle Management	84	19	103
	Supervisory Staff	122	7	129
	Others	175	12	187
	Total Staff	425	63	488
2009	Senior Management	44	28	72
	Middle Management	79	21	100
	Supervisory Staff	129	4	133
	Others	173	8	181
	Total Staff	425	61	486

LABUAN INVESTMENT BANKS

The total number of approved investment banks increased to 17 (2008: 15) as at end-2009 with 13 (2008: 9) banks in operation. The major revenue for Labuan investment banks were mainly derived from the non-interest income which accounted for 86.2% (*2008: 87.7%) of the total income and mainly comprised of the proceeds from the foreign exchange transactions and the commissions/fees arising from the corporate finance advisory services.

LABUAN INSURANCE

The total number of approved Labuan insurance and insurance-related entities increased to 149 (2008: 140) as at end-2009. During the year under review, 14 new licences were approved, comprising eight insurance brokers, four captive insurers and two reinsurers. Nevertheless, one captive insurer, one reinsurer and one underwriting manager surrendered their respective licences. Approvals that were granted to a captive insurance and an insurance broker were deemed as null and void for non-compliance with the licensing requirements within the stipulated time.

* Restated

In terms of country of origin, 70 insurance and insurance-related licensees originated from the Asia Pacific region, comprising Malaysia (39), Japan (8), Singapore (7), Hong Kong (5), Australia (4), Indonesia (4), Korea (1), India (1) and Taiwan (1). The remaining licensees were from Europe (48), the Americas and the Caribbean (22) and Middle East and Africa (9).

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

Type of Licence	2007	2008	2009
Life	1	2	2
General	5	6	6
Composite	2	2	2
Reinsurance	29	30	31
Captive	32	32	34
Insurance Manager	6	6	6
Underwriting Manager	11	11	10
Broker	44	51	58
Total	130	140	149

Total capitalisation of the industry grew by 4.8% to USD663.8 million in 2009 (2008: USD633.7 million) with total foreign shareholdings stood at 71.0% (2008: 69.5%).

Table 7: Labuan Insurance - Total Capitalisation

Held By	2007		2008		2009	
	USD'000	share (%)	USD'000	share (%)	USD'000	share (%)
Malaysian	196,199	33.5	193,150	30.5	192,210	29.0
Others	389,131	66.5	440,539	69.5	471,604	71.0
Total	585,330	100.0	633,689	100.0	663,814	100.0

Total assets of the insurance industry increased by 16.2% to USD2.4 billion as at end-2009 (2008: USD2.1 billion). In regard to the composition of the assets, fixed deposits and money market instruments continued to be the major bulk of total assets, amounting to USD1.2 billion (47.5% of the total assets). Other assets included amount due from ceding/related companies (14.8%), investments (8.9%), cash and bank balances (9.9%), fixed assets (0.6%) and others (18.3%).

Table 8: Labuan Insurance - Total Assets

Held By	2007		2008		2009	
	USD'000	share (%)	USD'000	share (%)	USD'000	share (%)
Fixed Assets	8,386	0.4	10,538	0.5	13,841	0.6
Due from Ceding/Related Companies	296,689	13.9	264,641	12.6	360,577	14.8
Fixed Deposits/Money Market	965,119	45.2	1,081,670	51.6	1,157,900	47.5
Cash and Bank Balances	151,726	7.1	159,195	7.6	240,919	9.9
Investments	173,894	8.1	192,926	9.2	217,042	8.9
Others	541,537	25.3	387,069	18.5	446,201	18.3
Total	2,137,351	100.0	2,096,039	100.0	2,436,480	100.0

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



For the year 2009, Labuan IBFC recorded an increase of 8.8% in total gross premiums to USD1.1 billion (2008: USD1.0 billion). The non-resident business continued to contribute a major portion of the business and accounted for 61.1% (2008: 57.0%) with the remaining 38.9% (2008: 43.0%) from the Malaysian risk. During the year, fire sector recorded a significant growth of 27.4% (2008: 9.3%). In terms of market share, the fire sector remained the largest contributor with 50.2% (2008: 42.8%), followed by other classes sector that includes liability, professional indemnity, energy and extended warranty with 17.1% (2008: 19.9%) and the engineering sector with 16.2% (2008: 16.7%).

Table 9: Labuan Insurance - Distribution of Gross Premiums

Year	Malaysian	Others	Fire	Marine	Engineering	Motor	Other Classes	Total
USD'ooo								
2007	353,358	565,841	402,646	108,488	129,402	129,474	149,189	919,199
2008	442,201	585,116	440,058	140,699	171,661	70,790	204,110	1,027,318
2009	434,686	683,142	560,793	147,645	181,116	36,587	191,686	1,117,827
change (%)								
2007	15.5	62.0	52.6	20.2	18.6	181.7	2.2	40.3
2008	25.1	3.4	9.3	29.7	32.7	(45.3)	36.8	11.8
2009	(1.7)	16.8	27.4	4.9	5.5	(48.3)	(6.1)	8.8
share (%)								
2007	38.4	61.6	43.8	11.8	14.1	14.1	16.2	100.0
2008	43.0	57.0	42.8	13.7	16.7	6.9	19.9	100.0
2009	38.9	61.1	50.2	13.2	16.2	3.3	17.1	100.0

Note: Figures may not necessarily add up due to rounding

Chart 7: Labuan Insurance - Distribution of Gross Premiums

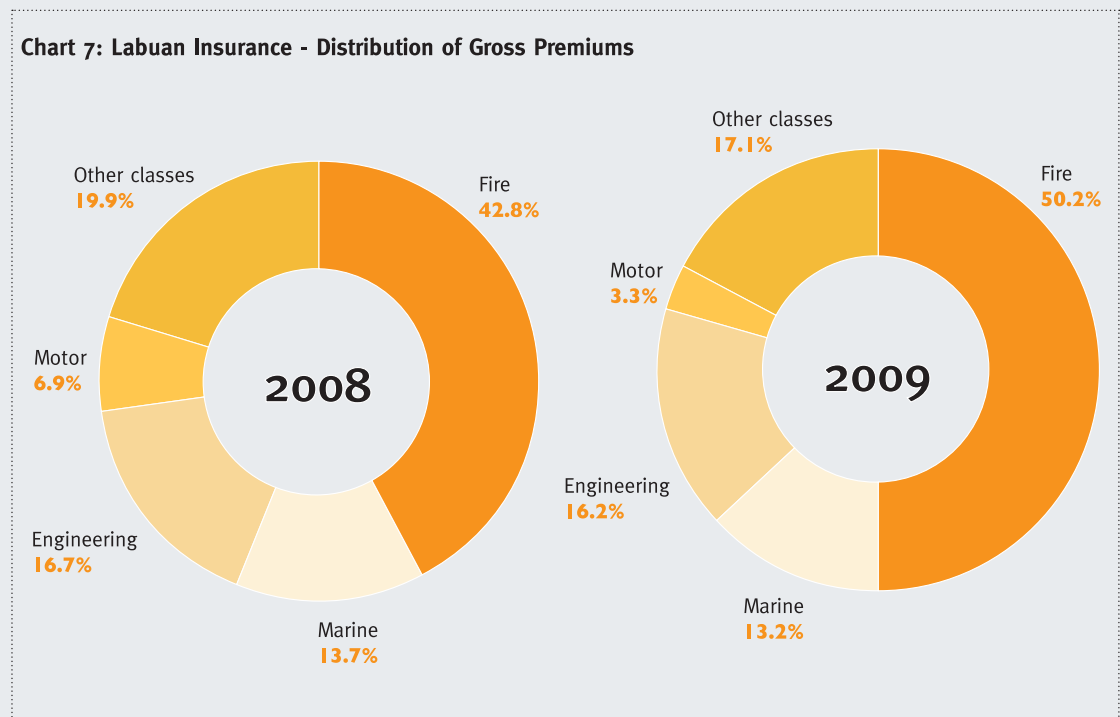


Table 10: Labuan Insurance - Distribution of Net Premiums

Year	Malaysian	Others	Fire	Marine	Engineering	Motor	Other Classes	Total
USD'ooo								
2007	238,281	438,781	291,094	82,299	67,394	110,727	125,548	677,062
2008	294,672	464,264	338,944	107,049	89,572	64,972	158,399	758,936
2009	289,714	502,384	398,182	109,573	83,389	47,829	153,124	792,098
change (%)								
2007	19.2	59.9	35.2	16.5	22.2	164.7	37.1	42.7
2008	23.7	5.8	16.4	30.1	32.9	(41.3)	26.2	12.1
2009	(1.7)	8.2	17.5	2.4	(6.9)	(26.4)	(3.3)	4.4
share (%)								
2007	35.2	64.8	43.0	12.2	10.0	16.4	18.5	100.0
2008	38.8	61.2	44.7	14.1	11.8	8.6	20.9	100.0
2009	36.6	63.4	50.3	13.8	10.5	6.0	19.3	100.0

Note: Figures may not necessarily add up due to rounding

The overall net retention (net premium over gross premium) for the industry in 2009 declined to 70.9% (2008: 73.9%). The motor sector remained the highest retention in the industry at 130.7% (2008: 91.8%), followed by other class sector at 79.9% (2008: 77.6%) and marine at 74.2% (2008: 76.1%).

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

Year	Malaysian	Others	Fire	Marine	Engineering	Motor	Other Classes	Total
2007	67.4	77.5	72.3	75.9	52.1	85.5	84.2	73.7
2008	66.6	79.3	77.0	76.1	52.2	91.8	77.6	73.9
2009	66.6	73.5	71.0	74.2	46.0	130.7	79.9	70.9

The ratio of net claims incurred to earned premium income (gross premium less cessions and reserves for unexpired risks) improved to 55.1% in 2009 (2008: 56.5%) during the year under review. The underwriting margin for 2009 fell to USD100.9 million (2008: USD128.8 million) as a result of a 1.9% reduction in total earned premium income to USD742.9 million in 2009 (2008: USD757.3 million) and an increase in the commission ratio to 26.4% (2008: 21.9%).

Table 12: Labuan Insurance - Underwriting Experience

Year	Earned Premium Income	Net Claims Incurred		Commission		Management Expenses		Underwriting Margin	
	USD'000	USD'000	ratio (%)	USD'000	ratio (%)	USD'000	ratio (%)	USD'000	ratio (%)
2007	604,487	440,408	72.9	165,517	27.4	32,183	5.3	(33,621)	(5.6)
2008	757,318	427,894	56.5	165,537	21.9	35,053	4.6	128,834	17.0
2009	742,921	409,086	55.1	196,126	26.4	36,785	5.0	100,924	13.6

As for investment-linked insurance products, 166 new policies were issued in the year 2009 (2008: 198). In terms of value, USD3.0 million premiums were written as compared to USD3.9 million in 2008. The significant drop of 25.2% in premium written for investment-linked policies was mainly due to weak market conditions with investors being more vigilant in their investment decisions.

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

Year		New Policies		Policies In Force	
		Malaysian	Others	Malaysian	Others
2007	No. of Policies	252	-	483	71
		USD'000			
	Sum Insured	5,101	24	12,625	569
	Single Premiums	4,548	5	11,205	548
2008	No. of Policies	196	2	630	52
		USD'000			
	Sum Insured	3,667	117	13,200	314
	Single Premiums	3,826	144	14,588	351
2009	No. of Policies	160	6	733	52
		USD'000			
	Sum Insured	4,285	578	17,140	864
	Single Premiums	2,409	561	16,285	879

In the captive insurance industry, the total gross premiums dropped slightly by 5.9% to USD175.8 million in 2009 (2008: USD186.9 million). As at end-2009, four new captives were approved while one surrendered its licence and another had its approval deemed as null and void. Subsequently, bringing the total number of captives to 34 (2008: 32).

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

Year	Malaysian	Others	Fire	Marine	Engineering	Other Classes	Total
USD'000							
2007	96,938	30,174	11,936	14,455	69,928	30,792	127,111
2008	125,517	61,389	31,019	21,704	101,063	33,120	186,906
2009	125,165	50,627	18,565	15,016	107,620	34,590	175,791
change (%)							
2007	20.1	(2.7)	23.1	28.8	14.6	3.3	13.8
2008	29.5	103.5	159.9	50.1	44.5	7.6	47.0
2009	(0.3)	(17.5)	(40.1)	(30.8)	6.5	4.4	(5.9)
share (%)							
2007	76.3	23.7	9.4	11.4	55.0	24.2	100.0
2008	67.2	32.8	16.6	11.6	54.1	17.7	100.0
2009	71.2	28.8	10.6	8.5	61.2	19.7	100.0

The total premiums processed by the insurance broking sector improved by 15.8% to USD443.6 million in 2009 (2008: USD383.0 million). Out of the amount, 85.2% (2008: 76.4%) were in respect of general insurance business. The general insurance premiums transacted by Labuan insurance brokers were for reinsurance cessions placed with overseas insurers (41.3%), Malaysian insurers (38.3%) and Labuan insurers (20.4%). For life insurance business, all were direct business placed with overseas insurers, representing 14.8% of the total premiums processed in 2009.

Table 15: Labuan Insurance - Premiums Placement by Insurance Brokers

	2007	2008	2009
General Business	USD'000		
Labuan	67,224	69,280	77,194
Malaysia	93,499	115,718	144,721
Others	80,500	107,699	156,059
Sub Total	241,223	292,697	377,974
Life Business	USD'000		
Labuan	-	-	-
Malaysia	-	-	-
Others	56,405	90,329	65,625
Sub Total	56,405	90,329	65,625
Grand Total	297,628	383,026	443,599

The total amount of brokerage earned by the Labuan insurance broking sector grew by 19.9% to USD28.8 million (2008: USD24.0 million) as a result of the higher amount of premiums processed. Brokerage fee earned from general insurance business comprised 78.2% of the total brokerage income, consistent with the proportion of general insurance premiums processed during the year.

Table 16: Labuan Insurance - Brokerage Earned by Insurance Brokers

	2007	2008	2009
General Business	USD'000		
Labuan	3,073	3,389	4,050
Malaysia	3,981	5,698	7,702
Others	4,387	8,599	10,788
Sub Total	11,441	17,686	22,540
Life Business	USD'000		
Labuan	-	-	-
Malaysia	-	-	-
Others	5,488	6,363	6,285
Sub Total	5,488	6,363	6,285
Grand Total	16,929	24,049	28,825

The total number of employees in the insurance industry grew by 10.4% to 626 (2008: 567), comprising 496 Malaysians and 130 non-Malaysians.

Table 17: Labuan Insurance - Employment

	Staff Position	Malaysian	Others	Total
2007	Senior Management	89	69	158
	Middle Management	79	25	104
	Supervisory Staff	105	5	110
	Others	150	14	164
	Total Staff	423	113	536
2008	Senior Management	82	78	160
	Middle Management	77	36	113
	Supervisory Staff	108	10	118
	Others	164	12	176
	Total Staff	431	136	567
2009	Senior Management	79	74	153
	Middle Management	92	41	133
	Supervisory Staff	123	11	134
	Others	202	4	206
	Total Staff	496	130	626

LABUAN LEASING

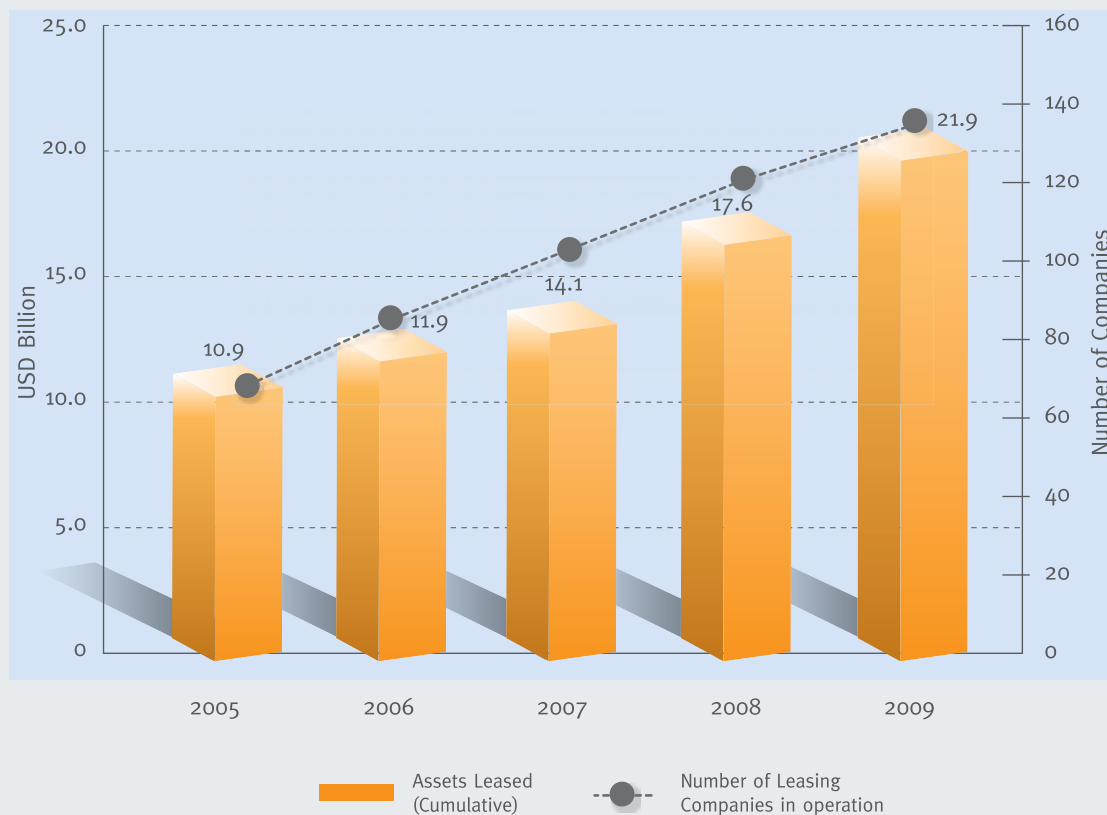
During the year under review, Labuan leasing remained as the highest growth sector in Labuan IBFC in terms of new approvals granted. The number of leasing companies grew by 13.3% to 136 companies in 2009 (2008: 120). Twenty six new companies were established during the year, seven ceased operations due to completion of the lease agreements, while three approvals granted were deemed as null and void.

The cumulative amount of assets leased recorded an increase of 23.9% to USD21.9 billion in 2009 (2008: USD17.6 billion), mainly contributed by the leasing of floating production systems and offshore vessels. The oil and gas sector dominated the leasing business activities with 76 companies (2008: 67), followed by 48 companies (2008: 52) in the aviation sector.

Table 18: Labuan Leasing - Growth

	2005	2006	2007	2008*	2009
Number of Leasing Companies In Operation	69	83	104	120	136
	change (%)				
	15.0	20.3	25.3	15.4	13.3
Asset Leased (Cumulative)	USD Million				
	10,913	11,908	14,130	17,643	21,866
	change (%)				
	52.9	9.1	18.7	24.9	23.9

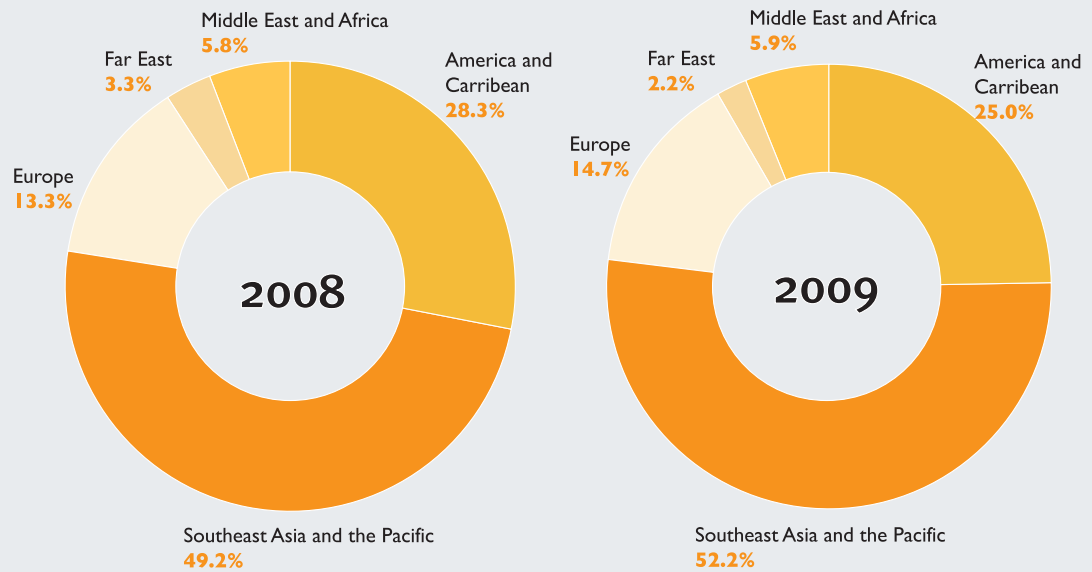
Chart 8: Labuan Leasing - Asset Leased and Number of Leasing Companies in Operation



* Restated

Out of the total number of leasing companies, 52.2% originated from the Southeast Asia and the Pacific region, followed by 25.0% from the Americas and Caribbean. The majority of the foreign-owned leasing companies were established as special purpose vehicles to facilitate leasing transactions in the oil and gas and aviation sectors.

Chart 9: Labuan Leasing - Breakdown of Origin by Region



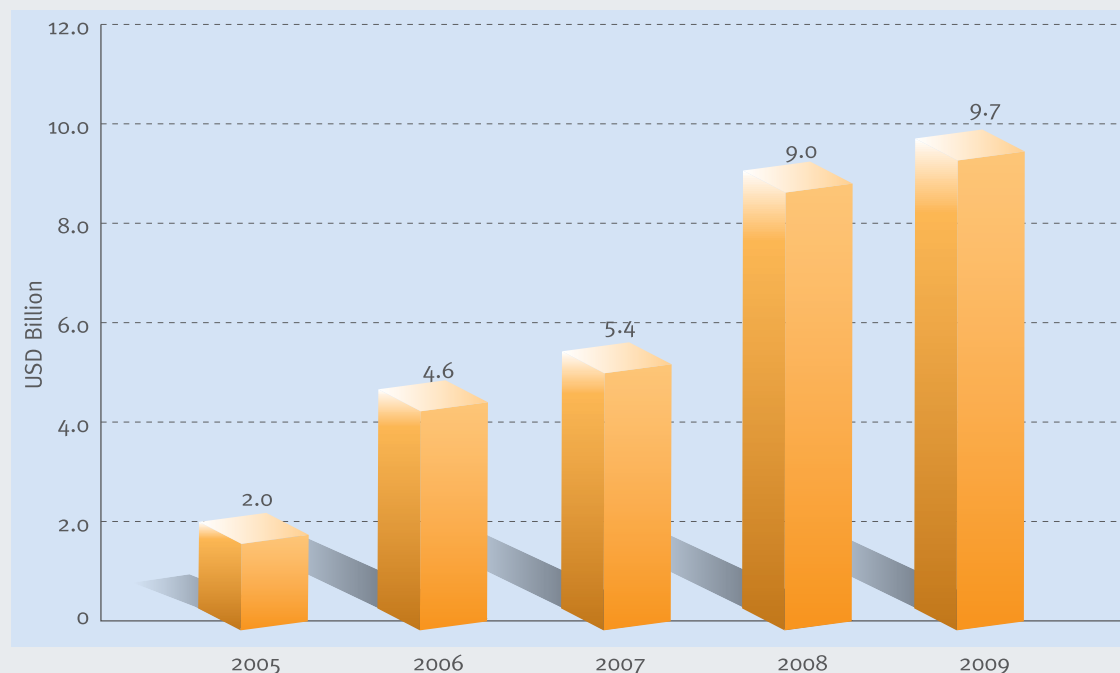
LABUAN FUND MANAGEMENT

In the year 2009, only one approval was granted (2008: 10) to a Shariah-compliant private fund with an approved fund size of USD500.0 million. The total number of registered funds decreased to 38 (2008: 40) due to the surrender of one private fund certificate, while two private funds approved in 2008 were deemed as null and void. The number of public funds remained at two.

Table 19: Mutual Funds - Approved Fund Size (Cumulative)

	2005	2006	2007	2008	2009
	USD Million				
Private Fund	1,900	4,484	5,250	8,884	9,590
Public Fund	130	130	130	130	130
Cumulative Approved Fund Size	2,030	4,614	5,380	9,014	9,720

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



With regard to fund management licence, two approvals were granted in year 2009 to companies originating from Kuwait and Malaysia. One approval was deemed as null and void, bringing the total number of fund management companies to 22 (2008: 21).

DEBT ISSUANCE ACTIVITIES

Generally, potential issuers continued to be cautious in debt raising activities through the capital market in 2009. Two new issuance were approved in 2009 (2008: 4) but one issuer withdrew its proposed debt issuance due to volatile market conditions. Consequently, the total number of approval for debt issuance at the end of 2009 was 40 (2008: 39) with market capitalisation of USD16.6 billion. To facilitate the offer of debt securities to investors, Labuan banks and investment banks were appointed as managers and bookrunners for the issuances.

Table 20: Debt Instruments - Market Capitalisation and Total Approved Issuance (Cumulative)

	2005	2006	2007	2008	2009
Total Approved Issuance	20	30	35	39	40
Market Capitalisation (USD Million)	8,084	11,974	14,074	16,034	16,634

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



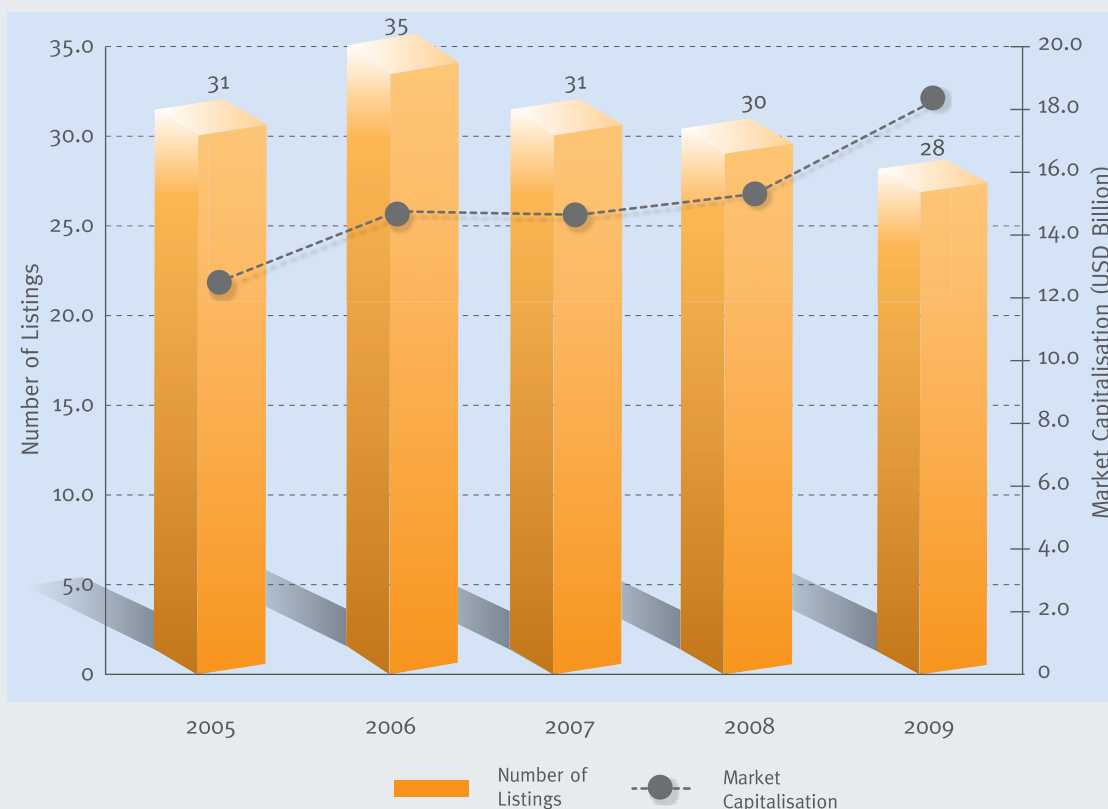
LABUAN INTERNATIONAL FINANCIAL EXCHANGE

Labuan International Financial Exchange (LFX) recorded two listings from the national petroleum company, Petronas Nasional Berhad (PETRONAS). In August 2009, PETRONAS, via its Labuan incorporated special purpose vehicles, listed a five-year USD1.5 billion sukuk and a ten-year USD3.0 billion conventional bonds on the LFX. The PETRONAS maiden global sukuk listing on the LFX is structured based on the globally accepted Shariah principle of Ijarah. The new listings by LFX for the year 2009 were as follows:

- Trust Certificates – Due 2014, USD1.5 billion by PETRONAS Global Sukuk Limited
- Guaranteed Notes – Due 2019, USD3.0 billion by PETRONAS Capital Limited

The market capitalisation of LFX as at 31 December 2009 stood at USD18.1 billion, with a total of 28 listed instruments.

Chart 12: LFX - Number of Listings and Market Capitalisation

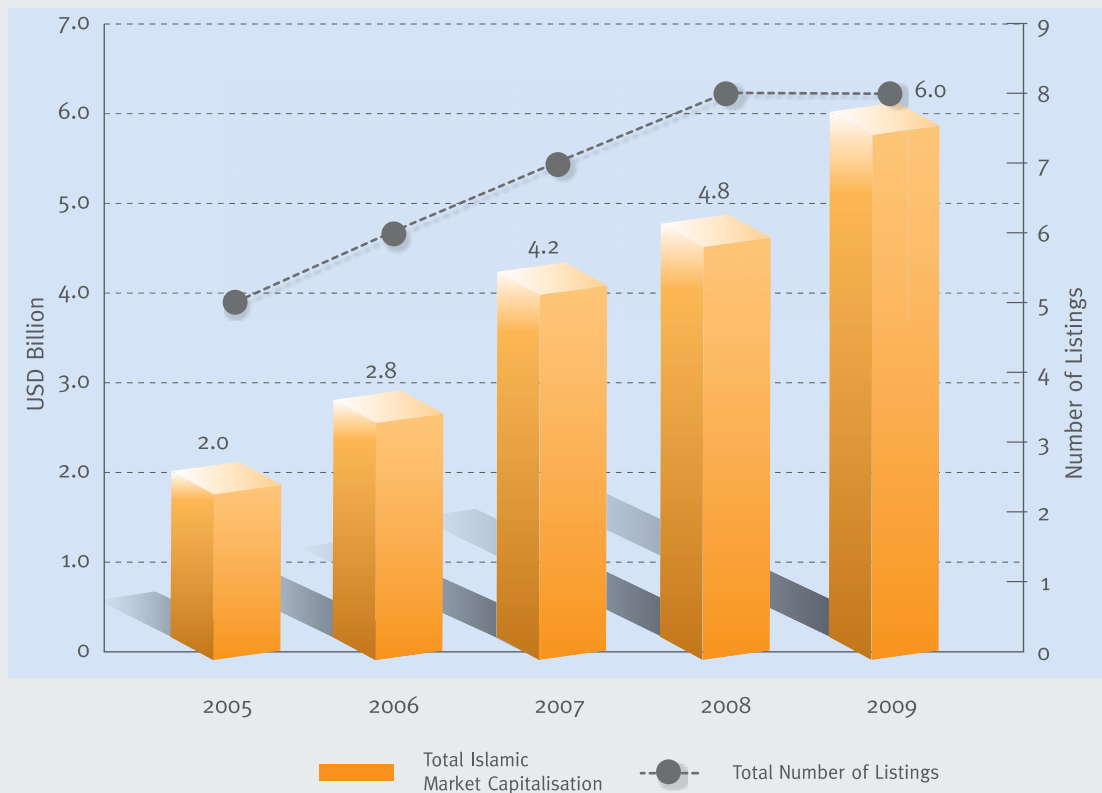


ISLAMIC FINANCIAL SERVICES

There were six full-fledged Islamic banks and six Islamic windows of conventional banks operating in Labuan IBFC that generated a total deposits of USD386.4 million as at 31 December 2009, an increase of 14.5% compared to that of corresponding period last year of USD337.3 million. The year 2009 recorded a significant increase in the non-resident deposits, where the bulk of the deposits were placed in institutions operating Islamic windows. The placements by non-residents as at 31 December 2009 increased to USD135.1 million, a significant increase of 87.9% when compared to the preceding year of USD71.9 million. Total Islamic financing as at 31 December 2009 decreased slightly to USD226.4 million (2008: USD231.8 million) contributed mainly by the reduction of financing to residents. Non-residents remained the major borrowers accounting for almost all of total Islamic financing given with total Islamic financing of USD226.4 million. A corresponding decrease in the total Islamic assets was recorded as at 31 December 2009 with total Islamic assets of USD794.7 million (2008: USD957.3 million). The decrease reduced the Islamic assets market share over the total assets of the banking industry from 3.3% in 2008 to 2.7% as at 31 December 2009.

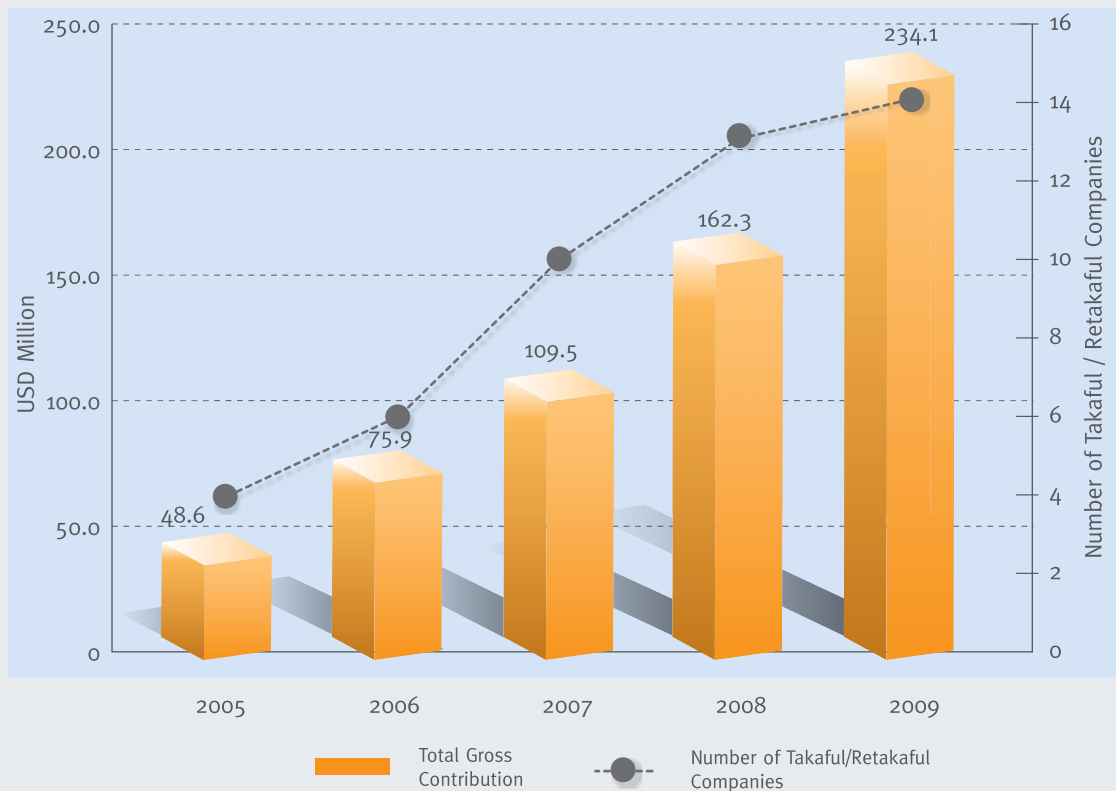
The Islamic capital market in Labuan IBFC grew modestly during the year 2009 after a landmark issuance of USD1.5 billion sukuk out of Labuan IBFC. The sukuk which was oversubscribed by 19 times, and listed on the LFX highlighted that the Labuan IBFC remained a major centre for sukuk issuance. As of 31 December 2009, there were eight Islamic capital market instruments listed in LFX with a market capitalization of USD6.0 billion (2008: USD4.8 billion) which represented 33.1% of market share of the industry.

Chart 13: Islamic Market Capitalisation and Total Number of Listings (Cumulative)



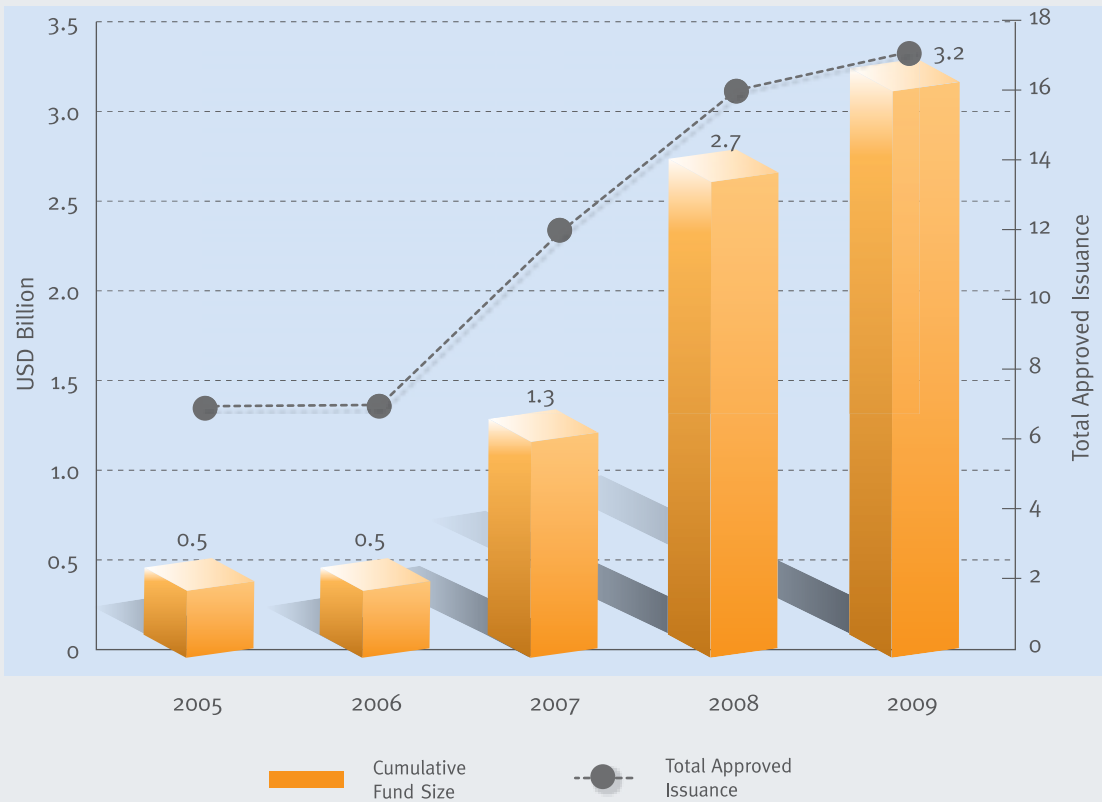
The retakaful industry in Labuan IBFC recorded its third consecutive year of growth exceeding 40.0% by the end of 2009. As at 31 December 2009, the total takaful and retakaful contribution recorded an increase of 44.2% in gross contributions amounting to USD234.1 million (2008: USD162.3 million). The non-resident contribution remained the bulk of the total takaful and retakaful contribution with more than three quarter market share. The Islamic divisions of conventional institutions also improved in their overall operations with increase in their takaful and retakaful contributions. As of 31 December 2009, there were five full-fledged retakaful companies, nine retakaful windows and 10 retakaful brokers in Labuan IBFC

Chart 14: Labuan Takaful/Retakaful – Total Gross Contribution and Number of Takaful/Retakaful Companies



As at 31 December 2009, the total Islamic private funds in Labuan IBFC stood at USD3.2 billion with market share of 33.4% (2008 : USD2.7 billion with market share of 30.4%). The establishment of an Islamic Infrastructure Fund with fund size of USD500.0 million out of Labuan IBFC in August 2009 had increased the number of Islamic private funds issued out of Labuan IBFC to 17.

Chart 15: Islamic Private Funds – Fund Size and Total Approved Issuance (Cumulative)



TRUST COMPANIES

During the year under review, one trust company had been deregistered due to the merger with another Labuan trust company, bringing the total number of registered trust companies to 22 (2008: 23). The major activities of these trust companies apart from company registration include secretarial services, accounting, trustees, business processing and advisory services. The trust companies reported an aggregate operating income of USD13.0 million, a reduction of 11.2% from USD14.6 million achieved in the previous year. Although the number of trust companies had reduced, the number of total employees increased by 10.1% comprising 306 Malaysians (2008: 277) and 11 non-Malaysians.

Table 21: Trust Companies - Key Data

	2005*	2006*	2007*	2008*	2009	Annual change
Number of Trust Companies	20	21	21	23	22	
	USD'ooo					(%)
Operating Income	6,536	10,333	15,240	14,670	13,021	(11.2)
Profit Before Tax	2,682	4,565	6,560	6,770	5,236	(22.7)

* Restated

- 69 | Banking Industry
- 69 | Insurance Industry
- 70 | Anti-Money Laundering and Terrorism Financing
- 71 | Regulatory Developments

SUPERVISION REGULATION OF LABUAN FINANCIAL INSTITUTIONS



N AND

IN 2009, THE SUPERVISORY ENGAGEMENTS WITH LABUAN FINANCIAL INSTITUTIONS WERE FOCUSED ON OVERSEEING THE IMPACT OF THE GLOBAL FINANCIAL CRISIS ON INDIVIDUAL FINANCIAL INSTITUTIONS AND THE INDUSTRY AT LARGE. AS CONDITIONS REMAINED HIGHLY UNCERTAIN THROUGHOUT THE YEAR, FREQUENT MEETINGS WITH SENIOR MANAGEMENT AND THE BOARD OF FINANCIAL INSTITUTIONS WERE HELD. THE ENGAGEMENTS SERVED AS A PLATFORM TO COMMUNICATE SUPERVISORY CONCERNS, AS WELL AS TO MONITOR AND ASSESS THE IMPACT OF THE CRISIS ON THE GROWTH AND PERFORMANCE OF INDIVIDUAL FINANCIAL INSTITUTIONS.

Labuan FSA continued to monitor closely the operations and affairs of Labuan financial institutions. In 2009, Labuan FSA conducted 67 supervisory engagements with Labuan financial institutions and nine investigations on Labuan companies. Labuan FSA has taken and will continue to take stern actions against institutions found to be in breach of applicable Labuan legislation, guidelines or carry on businesses deemed detrimental to the reputation and credibility of Labuan IBFC. With the full implementation of the enhanced risk-based supervisory framework in 2007, the intensity and cycle of supervision will be dependent on the risk profile of Labuan financial institutions, with more focus on areas that pose higher risks. The focus has been shifted from the ruled-based, towards the principles-based supervision.

The principles-based supervision presents a number of challenges for both Labuan financial institutions and supervisors. A greater responsibility is put on senior management, which needs to ensure that processes and controls are suitable for the business being undertaken and that the specified regulatory outcomes are met. In meeting these challenges, outcomes must be carefully monitored and processes increasingly require the exercise of professional judgement through transversal organisational functions such as risk management, internal audit and compliance. As for the supervisor, the principle-based approach involves a change in the extent and type of supervisory work undertaken. Instead of merely checking compliance with rules and regulations, supervisors need to exercise judgment in assessing organisational processes and controls in relation to the size and complexity of the business. Supervisors need to understand complex issues and keep up to date with constantly changing markets and continuous innovations. In many instances, this requires an enlargement of the workforce and further expansion of the knowledge and capabilities in place.

The financial institutions in Labuan IBFC, particularly banking and insurance industries remained sound and resilient with strong capitalisations, high quality of assets, ample liquidity positions and sustained profitability as at 31 December 2009. Through the supervisory activities, the supervisors have observed a general strengthening of risk management systems among licensed and regulated entities. More specifically, there has been a heightened recognition of risk culture by the Authority members and senior management at the head office level on Labuan's operations. Financial soundness key indicators suggested that the financial industry, in particular banking sector, has withstood the crisis well. The financial sector is currently characterised by the stronger capital levels and profitability positions.

Moving forward, there is a need for supervisors in different jurisdictions and financial sectors to cooperate and work more closely together to compare and align supervisory approaches as well as exchange of information. The increasing integration of financial markets and the growing number of internationally financial institutions in Labuan IBFC has clearly indicated a more urgent need for mutual cooperation and information exchange. In this regard, Labuan FSA has made engagements with other regulatory authorities including Japan FSA, Korean FSC and FSC Mauritius to establish and maintain home-host supervisory relationships and ensure that regulatory gaps are identified and minimised. Acknowledging the importance of enhancing cooperation with other supervisors, Labuan FSA will establish and maintain more formal and informal relationships with international colleges of supervisors.

BANKING INDUSTRY

The Labuan banking industry has recorded a slight expansion in its assets base. The total assets have increased by 3.3% to USD30.0 billion as compared with the corresponding period of 2008, primarily due to new loans disbursed amounting to USD900.1 million. Loans and advances totaling USD18.5 billion remained as the main contributor to the assets composition with a share of 61.1%. Despite the increase in the amount of non-performing loans (NPL) by 5.5% to USD362.5 million, the gross and net NPL ratio remained low at 1.9% and 0.7%, respectively. These new NPLs had been fully provided for the unsecured portion.

For the financial year ended 31 December 2009, the earnings performance saw another considerable improvement of 16.6% to USD249.7 million compared with the corresponding period of 2008, attributed to lower interest expense on deposits. The return on assets was hovering around 0.8% at the back of the higher profit and larger assets size. The resilient capital position of the Labuan banking industry continued, with both the risk-weighted capital ratio and core capital ratio improved further to 17.3%.

Based on Labuan FSA's supervisory assessments conducted under the Risk-Based Supervisory Framework (RBSF), the banking institutions in Labuan IBFC remained sound. The implementation of the Basel II Capital Framework by most of the international banks operating in Labuan IBFC had further strengthened the risk management standards of the banks concerned. Labuan FSA continues to support banking institutions in Labuan IBFC to move towards meeting the standards set by the Basel Committee on Banking Supervision.

INSURANCE INDUSTRY

The business growth of Labuan insurance industry remained positive despite global soft market conditions. Driven mainly by the expansion in the fire segment, the total gross premium of the industry registered an increase of 8.8% to USD1.1 billion as compared with USD1.0 billion reported in the corresponding period of 2008. In terms of the profitability, the insurance industry continued to record a stable performance with preliminary unaudited pre-tax profits amounting to USD133.0 million (2008: USD132.9 million), mainly driven by lower claims ratio and higher income from investment portfolio.

In general, the insurance industry remained resilient with an aggregate solvency surplus of USD733.0 million (on an audited basis) and a solvency margin of four times above the minimum regulatory requirement. The Labuan insurance companies are expected to continuously strengthen the underwriting practices and risk management capability to remain responsive to business and operational challenges.

ANTI-MONEY LAUNDERING AND TERRORISM FINANCING

While the risk of money laundering and terrorism financing (ML/TF) activities remains low, Labuan FSA continued to exercise vigilance on the evolving ML/TF threats that could potentially undermine confidence in the Labuan financial sector.

In 2009, Labuan FSA continued with its efforts to enhance the awareness of all reporting institutions in Labuan on the Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) issues, in compliance with international requirements. This is a crucial role required of Labuan FSA to maintain the recognition of the international agencies such as the International Monetary Fund (IMF), Financial Action Task Force (FATF) and Asia/Pacific Group on Money Laundering (APG) on the integrity of the AML/CFT framework in Labuan IBFC. The awareness program had successfully enhanced the understanding of reporting institutions in terms of Suspicious Transaction Reports (STR), thus reflecting the consciousness of the players in Labuan IBFC to be more vigilant against illicit financial activities. The pro-active approach implemented by Labuan FSA indicated its commitment to deter and detect money laundering and terrorism financing and to ensure Labuan IBFC remains a “low risk” centre against money laundering and terrorism financing activities.

As at 31 December 2009, three officers from Labuan FSA had qualified as Certified Financial Investigator under the Certified Financial Investigation Programme (CFIP). The program is sponsored by Bank Negara Malaysia (BNM) in collaboration with the Attorney-General's Chambers, Royal Malaysian Police, Malaysia Anti-corruption Academy, Inland Revenue Board, Cyber Security Malaysia, International Islamic University Malaysia, and MARA University of Technology. This would greatly enhance Labuan FSA's capability in the investigation and enforcement of AML/CFT measures, thus ensuring that the operations of the Labuan institutions are supervised by qualified and competent officers. The CFIP program which is only offered to regulatory and enforcement agencies throughout the country would continue to serve as an invaluable platform for Labuan FSA to provide specialist training to its financial regulators.

Apart from active and meaningful participations in the meetings organised by the National Coordinating Committee to Counter Money Laundering (NCC), Labuan FSA hosted, for the second year running, the NCC meeting in Labuan IBFC in November 2009. This event has further enhanced the professional relationship between the authorities with other members of the NCC and greatly facilitated cooperation between the members. Aside from domestic events, Labuan FSA also participated in the regional money laundering and terrorism financing typology initiatives conducted by the APG in Siem Reap, Cambodia. Labuan FSA's participation in such international forums provided a platform for the Authority to share knowledge and experiences while fostering a better networking environment with other regulators. It also enabled Labuan FSA to share the latest developments with other jurisdictions in combating ML/TF.

Capacity development was also a major focus in 2009 and Labuan FSA organised a two day awareness programme in Labuan IBFC for all compliance officers of Labuan reporting institutions. Distinguished speakers with hands-on experiences in AML/CFT were invited to share their experiences and knowledge with the compliance officers. Labuan FSA also organised a briefing by the Financial Intelligence Unit, BNM on the latest development on AML/CFT to improve online STR reporting.

Though there is a credible and effective framework to counter AML/CFT in Labuan IBFC, Labuan FSA will continue to remain vigilant on the matter and continue to enhance its supervisory framework to ensure the credibility and integrity of Labuan IBFC remains intact.

REGULATORY DEVELOPMENTS

Labuan FSA issued the Guideline on Co-location of Labuan Holding Companies (LHC) in May 2009 as part of the exercise undertaken under the repositioning of Labuan IBFC. This new flexibility is aimed at attracting multinationals to enhance operating efficiencies by relocating their corporate headquarters to take advantage of Kuala Lumpur's competitive offerings of first-grade facilities and infrastructure in a low-cost operating environment with quality human capital and professional services. Under this guideline, LHC will primarily deal with non-residents in non-Ringggit business and pay tax under the Income Tax Act 1967 (ITA).

The issuance of this guideline is timely as to provide efficient cost solution for LHC. Apart from lower cost, the LHC will also be eligible to benefit from the Double Tax Agreement (DTA) that Malaysia has with more than 60 countries since they would be taxed under the ITA. Under the current trends of international tax, more tax authorities are requiring companies to demonstrate "substance" before according to treaty benefits. Essentially, "substance" requirements refer to the level of presence and activity in the country where the companies are tax resident. Some of the criteria include physical office, employees, bank account, director meetings, etc. Hence in choosing a location for its holding company, organisations would favour a location which is cost-effective, convenient, has good service providers and readily available talent pool.

In another related key development, Labuan banking institutions licensed by Labuan FSA that meet the predetermined criteria had been accorded flexibility to have a physical onshore presence from 2010 onwards. Similarly, Labuan FSA is also in the midst of drafting out a Guideline for Labuan insurance companies licensed by Labuan FSA that meet the predetermined criteria to have a physical presence onshore effective from 2011. This flexibility will be complemented by strengthened regulatory and supervisory framework that governs these players.

To maintain the quality and reputation of the financial institutions in Labuan IBFC, Labuan FSA had reviewed and raised the entry requirements for investment banking effective October 2009. This is to further strengthen the investment banking activity and to ensure that investment banks have the necessary capacity and capability to withstand global developments and comply with the international accepted standards. In this regard, banking institutions, and corporations with the necessary expertise and experience in financial industry with at least three years of good track records and regulated by an Authority in their home country would be allowed to establish an investment bank in Labuan IBFC.

In November 2009, Labuan FSA has been admitted by the International Organization of Securities Commissions (IOSCO) as a signatory in Appendix B of the MMoU. This is a recognition of Labuan FSA's commitment to meet international standard and best practices in securities industry. As a signatory of the MMoU, the capacity of Labuan FSA to obtain cooperation from foreign counterparts whom are also signatories is further enhanced. Labuan FSA is committed to take necessary action to become full signatory of the MMoU.



DEVELOPMENTS

REVIEW



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NTAL

LABUAN FSA CONTINUED TO IMPLEMENT STRATEGIC INITIATIVES WITH THE OBJECTIVE OF FURTHER ENHANCING THE VALUE PROPOSITIONS OF LABUAN IBFC. THESE INITIATIVES WERE IMPLEMENTED IN LINE WITH THE REPOSITIONING OF LABUAN IBFC UNDERTAKEN SINCE 2007. THE RECOMMENDATIONS UNDER THE REPOSITIONING WERE DIVIDED INTO FIVE CLUSTERS NAMELY THE LEGAL FRAMEWORK, TAX FRAMEWORK, MARKETING, INFORMATION AND COMMUNICATION TECHNOLOGY AND ORGANISATIONAL CHANGE.

(i) New Legal Framework

The year 2009 set another milestone for Labuan IBFC when the new legal framework was tabled and approved by the Parliament of Malaysia. The new framework provides Labuan IBFC with updated legislation that is flexible and conducive for the conduct of international business. The details of the legislative change are provided in the Box Article I.

Among the highlights of the new legislation is the name change from Labuan Offshore Financial Services Authority (LOFSA) to Labuan Financial Services Authority (Labuan FSA). This is in line with the strategic direction to reposition Labuan as an international business and financial centre. Consequently, all reference to the term “offshore” was deleted from Labuan laws and the distinction between Labuan and domestic markets was made through the term “Labuan” with clear provisions on the applicability of relevant law, domestic or otherwise.

The new laws allowed for a wider range of entities that may be established in Labuan IBFC, such as Labuan Protected Cell Companies (PCCs), Labuan Special Trusts and Labuan Foundations. The introduction of the Labuan Foundations Act 2010 represented a significant effort to further diversify the business structures offered in Labuan IBFC to global investors. This would enable investors from civil law countries to enjoy the benefits offered in Labuan IBFC by using foundation as a viable alternate to trusts. The introduction of the new entities are set to spur growth in captive, mutual funds and private wealth management.

The amendments in Labuan Companies Act 1990 encapsulated modern development in company law that have been adopted by many fast growing and well developed financial centres. This included the introduction of the no par value concept, amalgamation of companies, reconstruction of shares by introducing treasury shares as well as hassle-free winding-up procedures for solvent Labuan companies. This would enhance the facilitative and investor-friendly business environment in Labuan IBFC.

A notable development is the introduction of the Labuan Islamic Financial Services and Securities Act 2010 (LIFSSA). This legislation is designed to cater to the demands of Islamic finance, one of the fastest growing industries globally. It complements the conventional law for financial services i.e. the Labuan Financial Services and Securities Act 2010 (LFSSA) by providing the platform to create Shariah-compliant entities and the enhanced roles and functions of the Shariah Supervisory Council.

The main objective of the LFSSA was to provide a more flexible and transparent framework to regulate licensed institutions in Labuan IBFC. The “omnibus” approach that was undertaken would provide greater transparency to potential investors whilst facilitating business transactions in accordance with international standards.

The new legal framework is also designed to ensure that the business practices of Labuan IBFC are in compliance with standards set by international standard setting bodies and organisations such as the International Monetary Fund (IMF), International Association of Insurance Supervisors (IAIS), International Organization of Securities Commissions (IOSCO), Financial Action Task Force (FATF) and Organization for Economic Co-operation and Development (OECD). This would enhance the capacity of Labuan IBFC to foster closer international cooperation and ensure the continued recognition of the high standards implemented in Labuan IBFC.

As the businesses in Labuan IBFC are internationally linked to the rest of the world, it is imperative that necessary standards are put in place to maintain the reputation, cleanliness and credibility of the financial centre. In essence, the revamped legislation marked a major watershed point for Labuan IBFC and set the strategic direction for the future.

(ii) Tax Framework

One of the key positive changes in the review of laws for Labuan IBFC was in relation to tax which was designed to enhance the incentives for business conducted out of Labuan. The key changes in the Labuan Business Activity Tax Act 1990 are as follows:

- Lifting of restriction on shipping operations but limited to only operations carried out in Labuan or outside Malaysia.
- Designating of any activity carried out by any Labuan entity as Labuan business activity and approve the carrying out such activities with residents or in Malaysian currency.
- According the same tax treatment for new entities introduced in Labuan IBFC, namely Labuan foundations, Labuan limited liability partnerships, PCCs, whether undertaken under conventional or Islamic principles; and
- Introducing advance tax ruling to grant tax certainty for transactions structured out of Labuan IBFC.

With effect from 1 January 2009 all payments that fall under Section 2(1) (f) of Income Tax Act 1967 (ITA) and made by Labuan Companies will be exempted from withholding taxes under Section 109(f) of ITA. In addition, several tax exemptions under the ITA were extended up to year of assessment 2020 as follows:

- 50% exemption on Labuan and housing allowances for Malaysian citizen employee working in a Labuan entity;
- 50% exemption on gross employment income of non-citizen employees employed in managerial capacity in a Labuan entity;
- 100% exemption on Director Fees of Non-Citizen and Non-Resident Director of a Labuan entity; and
- 65% of statutory income of service providers providing qualifying professional services such as accounting and legal to Labuan entities.

Moving forward, Labuan FSA will continue to ensure that Labuan IBFC remains a financial and business centre of high repute and integrity that caters for legitimate businesses.

(iii) Marketing

During the year 2009, Labuan FSA and its marketing arm, Labuan IBFC Inc. Sdn. Bhd. (LIBFC Inc.) continued to carry out promotional and marketing initiatives in efforts to further promote the benefits of conducting business out of Labuan IBFC. Labuan FSA participated in several trade missions and road shows including those organised by Malaysian Industrial Development Authority (MIDA), Malaysia External Trade Development Corporation (MATRADE) and Malaysia International Islamic Financial Centre (MIFC). In addition, LIBFC Inc. conducted various international and local events, joint seminars and road shows as well as interviews with local and international publication agencies focusing on wealth management, leasing, trusts, insurance and investment holding companies. With the enactment of the new Acts, Labuan IBFC is well poised to be the preferred international business and financial centre in the Asia Pacific region.

(iv) Information and Communication Technology

In 2009, Labuan FSA embarked on several Information and Communication Technology (ICT) projects in line with its ICT Strategic Plan to further enhance the delivery system to customers and stakeholders. The ICT projects were as follows:

a) myLofsaz

myLofsaz, which is an updated version of myLofsa will be implemented to improve system performance, reliability and operational efficiency of the company registration online link between Labuan FSA and trust companies. myLofsaz provides a complete and integrated solution for the submission of documents by trust companies and for facilitating the operations of the registrar of department. The system is expected to be fully operational in 2010.

b) Statistic Management System

Statistic Management System (SMS) is a system that simplifies the processes for preparation, verification, submission, storage, dissemination and analysis of statistical data. The SMS provides facilities for submission of data through the Internet, comprehensive data validation features and automatic messaging features to remind reporting institutions of submission deadlines and to generate acknowledgement upon receipt of data. Among the benefits of having SMS are the ability to do in-depth analysis of data as and when needed so that decisions can be made and actions can be taken in a timely manner, users can generate and tailor reports according to their requirements and relevant information from the data can be published on Labuan FSA's website automatically.

c) Web Content Management System

Web Content Management System (WCMS) is a system that ensures website contents are accurate and up-to-date by simplifying the task of updating and facilitating the creation of a dynamic website. The system enables non-technical staff from various departments to update the website to ensure the information is current and reliable.

d) Human Resource Management Information System

The Human Resource Management Information System (HRMIS) is a systematic and holistic approach to human capital management, incorporating all areas of HR functions. The system provides a more effective decision making process enabled by easy access to and processing of integrated data sources. It is a web-based system for convenience of access to HR information. It improves operational efficiency by automating key processes including electronic forms submission and approach.

ISLAMIC FINANCIAL SERVICES

The Islamic finance industry in Labuan IBFC continued its positive development across all four main sectors namely the banking, retakaful, private funds and capital markets. The Islamic banking sector in Labuan remained well capitalised. The retakaful sector maintained its double digit growth rate of more than 40.0% over the past three years, a reflective of the strong demand and high business potential the sector has to offer. The industry also saw new entrants from the conventional reinsurance companies and intermediaries embarking on shariah-compliant activities through the formation of Islamic windows.

Labuan FSA is committed to further enhance the breadth and depth of the takaful and retakaful sectors in Labuan IBFC by creating greater linkages with the international financial system. The efforts to increase capacity among the retakaful players would be enhanced with greater participation of global retakaful players as members of the Global Takaful Group (GTG), which is based in Labuan IBFC. The growing membership that came from more than 30 countries provided the drive for the establishment to create business capacity. Labuan FSA is facilitating the GTG initiative to set up a Lloyds Retakaful Syndicate (LRS). The GTG is a viable platform for regional cooperation in enhancing inter-linkages among global takaful players. This would also raise the profile of MIFC.

Regulatory Strength and Conducive Shariah Compliant Business Environment

The positive development of Islamic financial industry in Labuan IBFC was a result of the regulatory strength and conducive business environment for Shariah-compliant businesses. Continuous reviews have been undertaken to enhance the regulatory and business framework in order to meet market demands whilst ensuring market practices are at par with international standards.

The development of the Islamic financial market requires regular engagements with the industry players to ensure that strategic actions undertaken are market oriented. It is also necessary to tap on the expertise and knowledge of industry players. The consultative approach was operationalised through the establishment of the Shariah Supervisory Council (SSC) and the Islamic Financial Committee (IFC) that comprised Shariah scholars and industry practitioners. Many successful business structures and strategic decisions were put forward by these bodies to enhance Islamic business in Labuan IBFC. In addition, Labuan FSA holds regular engagements with industry players through the industry associations for information dissemination and to obtain feedback on the business and regulatory framework of Islamic finance.

Labuan IBFC succeeded in attracting many global players to establish their operations in Labuan. This spurred the need for continuous legal updates or changes on the legislation to create a more facilitative, flexible and frictionless environment for businesses to prosper. Realising this, Labuan IBFC's legislation was reviewed in 2009 to address business and legal impediments for the players to offer a wider range of Islamic financial products and services. The enactment of the LIFSSA is set to enhance the competitiveness of Labuan IBFC by streamlining the licensing of Islamic financial institutions and expanding products and services offerings including Shariah-compliant trust, foundation and captive.

Islamic financial services in Labuan IBFC has also benefitted from the unwavering support of the Malaysian government. In the Budget 2010 announced in September 2009, the government introduced several new incentives for Islamic finance aimed at providing further clarity on tax treatment for Islamic financial instruments issued out of Labuan IBFC. The new incentives ensure that conventional finance and Islamic finance are treated on the same basis, thus reducing compliance costs and removing unnecessary impediments for Shariah-compliant businesses to take place.

Enhancing Visibility in the International Markets

In the international financial market arena, Labuan FSA played an active role in the area of global convergence to establish, develop and promote Islamic capital and money market via the International Islamic Financial Market (IIFM) in which Labuan FSA sits as a permanent Board member. Following the success of the Master Agreement in Treasury Placement (MATP) that facilitates Over-the-Counter (OTC) Commodity Murabahah transactions, IIFM would be issuing another standard document, the Tahawwut (Hedging) Master Agreement (TMA). This will be the first global cross-border Shariah-compliant standard legal document for OTC derivatives in the Islamic financial market. The TMA is a collaborative effort between IIFM and the International Swaps and Derivatives Association (ISDA).

Labuan FSA also actively participated in the working committee under the Memorandum of Understanding (MoU) between the Islamic Development Bank (IDB) and the Government of Malaysia. Labuan FSA spearheads the Task Force on Mobilisation of Funds (TFMF). The TFMF, comprising of representatives from Labuan FSA, Bank Negara Malaysia (BNM), Bursa Malaysia and the IDB, has been undertaking efforts to enhance further investment and mobilisation of funds among Islamic countries. This includes programmes on sharing of technical know-how pertaining to structuring Islamic financial instruments.

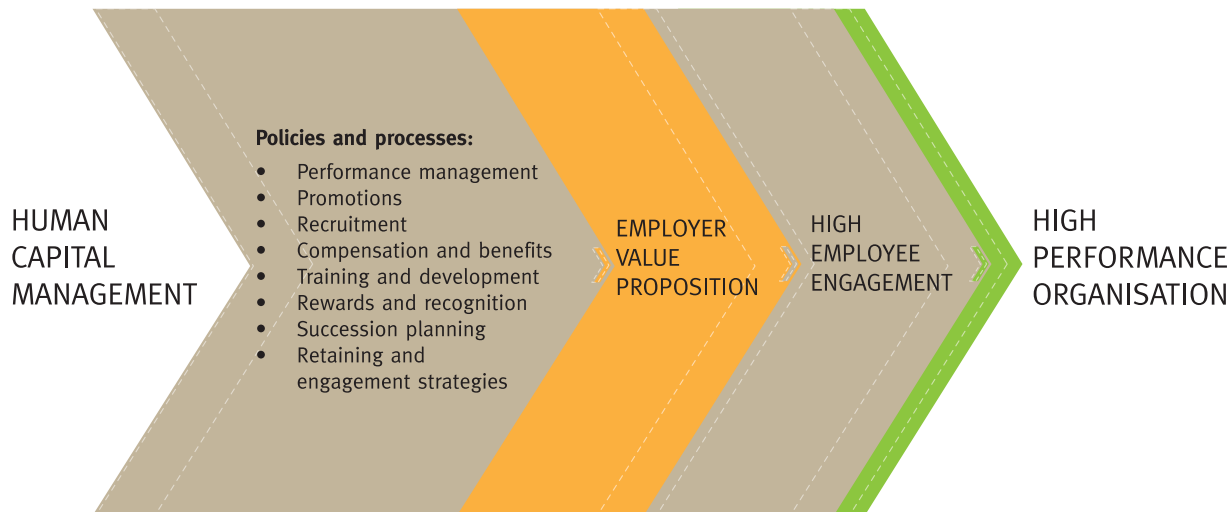
The annual Labuan International Islamic Finance (LIIF) Lecture Series IV was graced by the Regent of Perak, Raja Nazrin Shah Ibni Sultan Azlan Muhibuddin Shah who presented a paper on “The Road Ahead for Islamic Finance” (Featured in the Box Article II). This annual event is organised to feature prominent personalities and experts in the field of business, economics and finance with the main objective of further developing the understanding of Islamic finance concept and discovering new opportunities in the Islamic finance market. Labuan industry players, relevant government agencies, financial regulators and authorities, academicians and scholars, and the global business community attended the event that provided a platform for exchanging views and discussions on Islamic finance industry.

Moving forward, Labuan IBFC aims to become a vibrant and progressive international business and financial centre for Shariah-compliant activities. Efforts towards this end have been undertaken through the enhancement of the regulatory framework, improvement in critical internal processes and continuous capability development. This is complemented by improvements in areas of governance, risk management, research and development as well as internal and external communication. Labuan FSA remains steadfast in ensuring that Labuan IBFC continues its positive momentum in contributing significantly towards strengthening Malaysia’s position as an international Islamic financial centre.

HUMAN CAPITAL DEVELOPMENT

As Labuan FSA continues to attract, develop, motivate and retain current and potential employees, it embarked on Human Capital Development (HCD) programme which is regarded as a core developmental initiative of human capital management. The HCD programme represents an investment on people to enhance the growth of Labuan FSA and in turn the overall economic growth of Labuan IBFC.

Through systematic and targeted human capital management processes, Labuan FSA administered performance management, training and development, promotions, rewards and recognition, recruitment, succession planning and compensation and benefits. These are embodied in Employer Value Proposition. By implementing these initiatives and policies, the ability to provide for developmental opportunities, energised work environment and a flexible rewards and benefits scheme will be significantly enhanced. Labuan FSA recognises that high employee engagement leads to a high performance organisation.



Labuan FSA's approach to compensation and career development is designed to recognise merit, support personal contribution and professional development and align the interest of employees and stakeholders. This is a key part in the implementation of the human capital strategy.

Compensation and Benefits

Labuan FSA's approach has been developed according to the principles that compensation should be:

- Based on performance;
- An incentive for employees to create value; and
- Aligned with market.

This would assist in achieving the following objectives:

- Attract and retain employees and motivate them to achieve results with integrity and fairness;
- Reward and recognise individual employee contributions that benefit the entire organisation;
- Support a performance culture that is based on merit and differentiates and rewards excellent performance; and
- Ensure employees create sustainability value for our stakeholders.

Employer Value Proposition

It is the policy of Labuan FSA to continue investing in training and development programs to enhance the skills and capabilities of staff. This is to drive performance change by advancing competencies through developing communication and leadership skills and increasing employee engagement. Team work dynamics are emphasised in these programs. Staff are provided with ample training opportunities through participation in courses, seminars and workshops by agencies such as BNM, Institut Bank-Bank Malaysia, Financial Stability Institute and International Centre for Education in Islamic Finance and other recognised institutions.

In addition, Labuan FSA's internal Reinforcement Education Program was organised throughout the year to provide employees with the opportunity to learn from in-house experts. In these programs, selected head of departments would impart knowledge based on their fields of expertise. This program provides a platform for knowledge sharing amongst staff and for coaching and mentoring.

As at 31 December 2009, Labuan FSA has a total of 97 (2008: 93) full time employees. Recruitment initiatives are being done to attract the best talents to drive the development of Labuan IBFC. Labuan FSA remains committed to human capital development to enhance employee performance and Labuan FSA's role as a credible and effective regulator in Labuan IBFC.

CORPORATE SOCIAL RESPONSIBILITY

Labuan FSA continued to practise good Corporate Social Responsibility (CSR) in its commitment to good business practices and standards, based on ethical values and respect to employees, the community, the environment and stakeholders. During the year, Labuan FSA organised various outreach programs that benefitted key stakeholders as well as the Labuan IBFC community through its CSR initiatives. Labuan FSA had also inculcated a balance between good business and moral ethics amongst its employees.

The followings were some of the activities carried out in 2009:

Community Relationship

The "LOFSA Run" is a yearly event that has attracted interest and participation not only from the Labuan community but also participants from outside Labuan. The event underlined the affinity and relationship between Labuan FSA and the Labuan community, and the close collaboration between Labuan FSA and various Government and private agencies in Labuan. In 2009, the LOFSA Run was held in conjunction with the 25th Silver Jubilee of the Federal Territory of Labuan and attracted wider interest with more than 3,000 participants. Funds and donations raised from the event were channeled to several charitable organisations such as the Labuan Special Olympic Organisation, Handicapped Children, Senior Citizens Association and Association for the Orphanage.

Labuan FSA also supported various charitable events and sporting activities including the 25th Silver Jubilee of the Federal Territory Golf Tournament, the MAKSAK Tenpin Bowling Competition and Labuan Cricket Association's Six-A-Side Cricket Tournament.

Education Programs

Labuan FSA advocates and encourages the pursuance of education as reflected in the various educational and awareness programs organised in 2009. Labuan FSA also hosted the meeting on National Coordinating Committee on Anti-Money Laundering for various enforcement agencies in Malaysia, with the aim of sharing knowledge and expertise among industry players. A workshop on the Development and Analysis Methods Related to Anti-Money Laundering Exercises was organised for Labuan industry players as part of the education program to develop greater understanding and awareness on the subject.

Labuan FSA fully supports the academic programs of the Universiti Malaysia Sabah, Labuan International Campus (UMS-KAL) through an incentive scheme to reward those who have excelled in their education. Labuan FSA gives out annual "Excellence Awards" to outstanding graduates of UMS-KAL. Labuan FSA had also engaged UMS to conduct research. Staff of Labuan FSA are also encouraged to participate in lecture programs in the UMS School of International Business and Finance. University students were also given the opportunity to undergo practical attachment and training programs in Labuan FSA.

Staff Welfare

In order to achieve a healthy work-life balance for employees, Labuan FSA had organised various sports, charitable and recreational activities amongst its employees through its Staff Recreational and Welfare Club. This is part of Labuan FSA's plan to build trust, confidence and generate teamwork among employees.

For staff personal development, Labuan FSA offers scholarships for those who wish to pursue further studies in related fields. This is part of Labuan FSA's efforts to enhance knowledge and skills amongst staff.

Health and Safety

Investing in and promoting a healthy and safe environment are part of Labuan FSA's moral and social responsibilities to its stakeholders, in particular to its employees, investors and visitors. During 2009, Labuan FSA embarked on continuous improvements to integrate health and safety measures into all aspects of work activities including talks on safety and health.

LABUAN INTERNATIONAL SCHOOL

Labuan FSA has been managing and financing the Labuan International School (LIS) since 1999. The school comprises three components, namely:

- International School, with primary and secondary level education based on the British National Curriculum for foreign students;
- Sekolah Sri Labuan, a private school that offers both the Malaysian Integrated Primary School and Malaysian Integrated Secondary School curriculum; and
- Tadika Manjaria, a preschool education for local and foreign children ages five and six.

The support of the Malaysian Government had been critical to the development and improvements of LIS. These improvements included upgrading of the school's facilities and infrastructure such as a half-Olympic-sized swimming pool, smart boards and computers, as well as additional classrooms.

The LIS is an important infrastructure facility to provide quality education for both local and expatriate community residing in Labuan, and subsequently enticing more expatriates to reside in Labuan. A new and modern school building is currently under construction and is expected to be completed by mid-2011. The new school would boost a state-of-the-art auditorium for performing arts, academic and administration block, computer-aided learning facilities and other educational amenities.

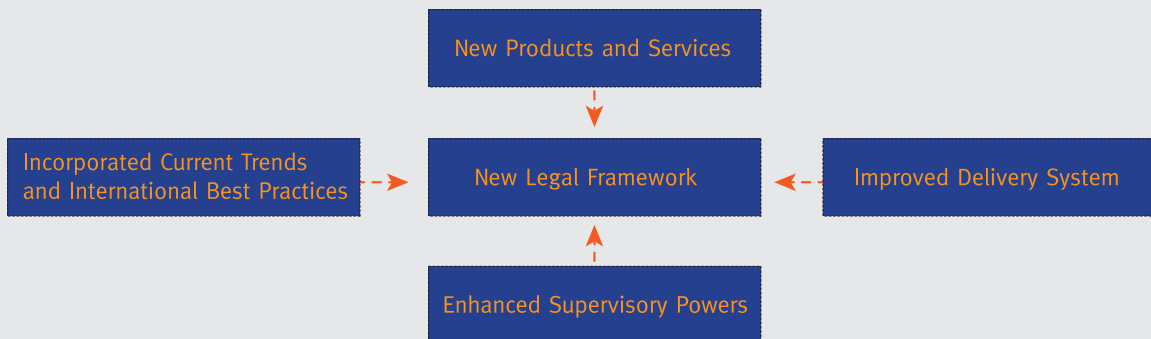
At the end of 2009, the school had a total of 281 students, an increase of 37.0% from 205 students in 2008, comprising both local and foreign students. The number of foreign students increased by 30.0%, which illustrates growing support of the community to the school. The quality of education coupled with modern facilities, have transformed LIS into a school of international standard, gaining it a reputation as the preferred school in Labuan. Labuan FSA is committed to transforming LIS into the international school of choice.

HIGHLIGHTS OF THE NEW LEGISLATION OF LABUAN IBFC

INTRODUCTION

The repositioning of Labuan IBFC in 2007 was undertaken to identify an appropriate business model for Labuan IBFC. One of the major recommendations was to review the existing laws in order to create a more facilitative, frictionless and flexible framework. Labuan FSA also undertook benchmarking exercises of several established and reputable international financial jurisdictions to update the laws for Labuan in line with latest developments. While the new legislation is geared towards further enhancing business opportunities in Labuan IBFC, it also encompasses international standards and best practices to maintain the status of Labuan IBFC as a well-regulated centre with strong corporate governance and high international supervisory standards.

KEY FOCUS OF THE LEGAL REVIEW



The holistic review of the regulatory framework focuses on four main areas namely:

- To update the laws in line with modern development and current industry needs as well as widen the scope of products and services offered through Labuan IBFC;
- To enhance Labuan IBFC's competitive and business-friendly environment through enhancement of the delivery system and simplification of business requirements;
- To facilitate a systematic and dynamic supervisory framework for Labuan FSA in ensuring the institutions operating in Labuan IBFC operates in a safe and sound manner in line with high standards of professionalism and prudent business practices; and
- To maintain the integrity of Labuan IBFC through a sound and solid legal framework that is in accordance with international standards and best practices on transparency, governance and anti-money laundering.

THE NEW LEGAL FRAMEWORK

The new legal framework which consists of four amended Acts and promulgation of four new Acts was designed to ensure the continuing recognition of the integrity of Labuan IBFC in accordance with international standards and best practices propagated by international standard setting organisations such as International Monetary Fund (IMF), World Bank, Financial Action Task Force (FATF), Asia/Pacific Group on Money Laundering (APG) and Organization for Economic Co-operation and Development (OECD). It also sought to improve the delivery system for Labuan IBFC and update the legal framework in line with modern development and current industry needs with the objective of ensuring that Labuan IBFC remains competitive, relevant and business-friendly.

<p>Four legislation have been retained with amendments</p>	<ul style="list-style-type: none"> • Labuan Financial Services Authority Act 1996 • Labuan Companies Act 1990 • Labuan Trusts Act 1996 • Labuan Business Activity Tax Act 1990
<p>Promulgation of four new legislation</p>	<ul style="list-style-type: none"> • Labuan Financial Services and Securities Act 2010 • Labuan Foundations Act 2010 • Labuan Limited Partnerships and Limited Liability Partnerships Act 2010 • Labuan Islamic Financial Services and Securities Act 2010

SIGNIFICANT CHANGES IN THE AMENDED ACTS

1. Labuan Financial Services Authority Act 1996

The Labuan Financial Services Authority Act 1996 was amended to streamline the supervisory and regulatory roles of the Labuan Financial Services Authority (Labuan FSA) so as to be in line with international best practices. The Act was also amended to eliminate existing ambiguous provisions which have impeded the effectiveness and efficiency of Labuan FSA in undertaking its function as a one-stop regulatory agency.

The key changes under this Act are the broadening of the scope of Labuan FSA's statutory objectives and functions, and empowering Labuan FSA to issue guidelines, directives and advisories. Other new provisions in the Act include gathering of information from Labuan institutions and the sharing of such information with other enforcement agencies. The Act has also expanded the supervisory and enforcement powers of Labuan FSA.

2. Labuan Companies Act 1990

The establishment and operation of companies in Labuan IBFC is regulated under the Labuan Companies Act 1990. The recent amendments to this Act repealed and replaced the existing provision dealing with the winding-up of companies, simplifying and updating the law in line with the modern international standards such as the introduction of no par value shares, no authorised capital, amalgamation of companies, permitting companies limited by guarantee, and flexibility in the shareholding and capital structures. The registration of Labuan companies and its constituent documents is allowed in any language or character.

Additional flexibilities are accorded to Labuan companies in terms of dealing with Malaysian residents, having controlling interest in Malaysian domestic companies, undertaking shipping operations and co-locating in designated areas in Malaysia. The amendments also introduced new corporate structures including the Labuan protected cell companies which provide additional flexibility and security for international investment mainly for captive and fund activities.

3. Labuan Trusts Act 1996

The Labuan Trusts Act 1996 (LTA) was amended to facilitate the adoption of the latest concepts in equity and trusts in Labuan IBFC while serving as a platform to modernise the application of trusts and enhance the regulatory framework to accord more transparency and improve the overall system.

HIGHLIGHTS OF THE NEW LEGISLATION OF LABUAN IBFC

The LTA facilitates more effective trust administration through updating of the trustee's powers and duties; defining the role of protector; and the recognition of purpose trusts, charitable trusts and protective trusts to cater for the fast-changing investment environment. A salient introduction to the Act is the provision allowing residents to establish trusts for their non-Malaysian assets whilst foreigners can be a settlor or beneficiary for Malaysian assets. The Act further allows trusts to have perpetual duration which means that a trust can be created for an unlimited period. The settlor also may have certain reserved powers in the Labuan trusts.

An innovative feature of the LTA is the introduction of the Labuan Special Trust which is a special form of trust that caters for the succession of shares in companies and disengages trustee from management responsibilities of the trust. The introduction of the Labuan Special Trust is intended to provide opportunities to those who wish to establish a trust to hold shares in a company but felt disinclined to do so due to the rigidity of the "prudent man of business" rule.

4. Labuan Business Activity Tax Act 1990

The amendments in Labuan Business Activity Tax Act 1990 (LBATA) are mainly consequential to the new legislation particularly pertaining to the new definition of Labuan business activity. The tax treatment under LBATA is now extended to include new Labuan entities that have been introduced in Labuan IBFC, namely Labuan foundations, Labuan limited liability partnerships, Labuan protected cell companies, Labuan Islamic foundations, Labuan Islamic partnership, Labuan Islamic protected cell companies and Labuan entities undertaking shipping operations carried out in Labuan or outside Malaysia.

The Act empowers the Minister of Finance to designate any activity carried out by Labuan entity as Labuan business activity, hence accorded tax treatment under LBATA. In addition, a significant feature of the Act is that Labuan entities are now allowed to seek tax certainty through advance tax rulings from the Inland Revenue Board (IRB), on specific structures transacted out of Labuan IBFC.

The Act also allows IRB to have direct access of information from Labuan entities and share information obtained under the Act with foreign competent tax authority under Double Tax Agreement signed and concluded by Malaysia.

THE NEW ACTS

5. Labuan Financial Services and Securities Act 2010

The omnibus Labuan Financial Services and Securities Act 2010 (LFSSA) consolidates the Offshore Banking Act 1990, Offshore Insurance Act 1990, Labuan Trust Companies Act 1990, and Labuan Offshore Securities Industry Act 1998, into one comprehensive Act. The Act provides for the regulation and administration of financial services and securities industry including securities, mutual funds, market intermediaries, Labuan trust company, Labuan banks, Labuan insurance companies, company management, exchanges and self-regulatory organisation.

A major feature of this omnibus Act is the elevation of the power of the Minister of Finance as the appellate authority in matters relating to all businesses in Labuan IBFC. Other key provisions of the law include the introduction of a new securities license for investment advisory and administrative services, Labuan private trust company, Labuan managed trust company and self-regulatory organisation. The Act also streamlines procedures and simplifies administrative requirements to enable Labuan FSA to enhance its delivery system.

6. Labuan Foundations Act 2010

The new Labuan Foundations Act 2010 serves to complement and enhance the wealth management industry in Labuan IBFC and to address the needs of clients from civil law jurisdictions. This is consistent with Labuan FSA's efforts aimed at establishing a legal framework that is attractive to international investors.

The Act introduced a civil law concept into the traditionally common law system in Labuan IBFC. Foundations are seen as appealing to investors from countries with civil law tradition that are often unfamiliar with trusts and more comfortable with the contractual obligation under foundation. As such, foundations are expected to appeal to countries especially Middle East, Indonesia, Thailand and China which practise civil law.

The Act addresses all key issues regarding the formalities, administration and juridical nature of Labuan foundations. In particular, the Labuan foundation preserves confidentiality whilst providing clients an alternative vehicle through which to successfully plan for the future. The Act also states that a Labuan foundation is not subject to foreign claims or judgements for divorce, succession rights and claims of creditors.

7. Labuan Limited Partnerships and Limited Liability Partnerships Act 2010

The Labuan Limited Partnerships and Limited Liability Partnerships Act 2010 enhances the provisions relating to the establishment and operation of Limited Partnership and introduced a new form of business vehicle namely the Limited Liability Partnerships (LLP). A Labuan LLP is a partnership in which the partners have limited liability. It features elements that combine both partnership and corporation. Labuan LLP is a vehicle suitable for businesses where all investors wish to actively participate in management, without being personally liable for another partner's liabilities arising from negligence or misconduct. This is different from typical company shareholders who are not entitled to actively participate in the company's management or Labuan Limited Partnerships where limited partners act only as the passive limited investors in the partnership.

8. Labuan Islamic Financial Services and Securities Act 2010

The introduction of the Labuan Islamic Financial Services and Securities Act 2010 (LIFSSA) signifies a landmark achievement for Labuan IBFC as a major business and financial centre that caters to the specific requirements of Islamic finance industry covering banking, takaful, retakaful, sukuk issuance, trusts and fund management. Though largely similar to the conventional LFSSA, the LIFSSA provides a greater degree of comfort for investors in Islamic financial activities as it is a dedicated piece of omnibus legislation that serves to ensure compliance with Islamic Shariah principles in modern business times.

A key change is the elevation of the Shariah Advisory Council to Shariah Supervisory Council (SSC). Among the functions of SSC that are outlined in the Act include to ascertain the Islamic law in relation to any business regulated in Labuan IBFC that are referred to the SSC, and any rulings made by the SSC can be used as reference by the court in arriving at a decision.

THE ROAD AHEAD FOR ISLAMIC FINANCE

This is an extract from the speech delivered by HRH Raja Nazrin Shah Ibni Sultan Azlan Muhibbuddin Shah, the Regent of Perak Darul Ridzuan, Malaysia at the Labuan International Islamic Finance Lecture Series IV on 6 November 2009.

From humble beginnings more than thirty years ago, Islamic financial institutions now have a discernible presence in the international financial system. They have 'come of age'. Islamic finance has not only gained a strong foothold in western economies, it is also assuming growing importance within mainstream international finance. An increasing number of international financial centres in the west, eager to profit from the lucrative Islamic finance business, are tapping into investors' appetite for Shariah-compliant products and services. Financial centres such as London, Hong Kong and Singapore have already made the raising of Islamic finance a part of their activities, and are aspiring to join the ranks of the more established financial centres like Kuala Lumpur, Dubai and Bahrain. The assets of Islamic financial institutions worldwide are currently valued at between USD700.0 billion and USD1.0 trillion. The Shariah-Fortune database lists 810 companies, operating in 50 countries worldwide, offering Shariah-compliant financial products and services.

STAGES OF GROWTH

The first stage needs little elaboration and has to do with the establishment of the viability of Islamic finance. The fact that many conventional financial institutions have opened Islamic finance windows and established subsidiaries specialising in Islamic finance speaks volumes about its viability in the modern age. If establishing the viability of Islamic finance was the first stage, the second stage, which is where we are now, is to establish its stability. Following the global financial meltdown and the ensuing global economic recession, many commentators have highlighted the natural attractions of Islamic finance. The conventional financial system has many times shown a tendency to be unstable, and dramatically so in the past year. In contrast, Islamic financial institutions have been better able to weather the sharp collapse of asset prices.

The greatest challenge facing the international financial system today is the restoration of trust and confidence. Trust and confidence will not return as a result of more complex financial engineering and more sophisticated mathematical models. They may not return fully with stricter laws and more aggressive enforcement. Regulations can punish bad behaviour but they cannot instigate good conduct. Trust and confidence will only return when financial transactions are based on sound and mutually beneficial principles. Islamic finance has well-known characteristics that allow for more non-exploitative, equitable and productive means of raising capital. These include the prohibition against interest (or *riba*), excessive risk-taking (*gharar*) and speculation (*maysir*). These features have contributed to the creation of a system of financial intermediation that is inherently more stable.

THE ROAD AHEAD

The global financial crisis has opened a substantial window of opportunity for the advantages of Islamic finance to be showcased. The third stage is one that represents a significant challenge, and that is to deepen the acceptability of Islamic finance not only to the Muslim community but also to the non-Muslim world. In fact, even expanding its reach to a greater number of the global ummah presents a tremendous growth opportunity. Muslims account for 20% of the global population, but Islamic finance accounts for less than one percent of global financial instruments. In countries where the industry is most advanced like here in Malaysia and in Saudi Arabia, conventional assets far outstrip Islamic assets.

The growth potential of the industry is more apparent in consideration of its prospective non-Muslim market. While conventional finance cannot serve those who demand Shariah-compliant, Islamic finance can serve everyone – and as revealed in the wake of the financial crisis, it can do so more consistently and more reliably. This third stage therefore is a critical one if Islamic finance is going to be a growing influence in the years to come. I believe that in order to make the transition, we will have to be much more deliberate in charting our course and our strategies. In many respects, the easy part of the road is behind us; we now face the task of negotiating the more difficult winding and uphill portions. Insyallah, we will be able to bring the resources and co-operation needed, and will succeed.

INNOVATION

In engaging the third stage of the journey, the first challenge is to respond to current global needs, without losing sight of the principles upon which Islamic finance is based. Islamic finance emerged in response to the needs of Muslim consumers, but like conventional finance, it is a profit-seeking industry, albeit one which follows a different code and set of rules. Because Islamic financial institutions are profit-seeking institutions, they have to be organised and managed in keeping with the best corporate and commercial practices. Among these is the need for continual product innovation. If they are really to be a different model of financial intermediation, they must have presence, and for that, they must stand out. Coming at a time when even the strongest conventional banks have suffered a great loss of reputation, Islamic financial institutions must be models of excellence in every respect.

Innovation should trump imitation. If Islamic financial instruments do no more than imitate conventional financial products, they would not reflect the uniqueness of Islamic financial intermediation. Their edge and differentiating factors would become diluted. Replicating conventional structures is also destabilising in the long run, especially since the quantum of risk in the Islamic structure is very much different under Shariah. The current financial turbulence is a prime illustration of the probable disruptive effects of unbridled adaptation of conventional models.

The increasing shift of attention toward Islamic finance means we should continually come up with new and innovative instruments of financial intermediation. In the past few years, original and sophisticated deals and structures have been offered on a global scale. Sukuk is probably the most important innovation so far and I am proud and happy to acknowledge Labuan FSA's role in launching it. It has become the preferred method of financing for governments and corporations alike. Advancement in areas of Islamic securitisation, private equity and real estate investment trust represents the new wave of product innovation.

While on this subject, let me take a minute to highlight a subject of particular and personal interest. Contemporary Islamic finance has largely been disengaged from its socio-economic aspects. One instrument that ties the two together is waqf or Islamic endowments. Traditionally, revenue from waqf has been used for building and maintaining religious buildings. This, however, is changing. As an Islamic public finance instrument, waqf has the potential to be both a source of financing and a mechanism for wealth distribution. From an economic view point, waqf can be looked upon as a savings-investment mechanism where funds are diverted from consumption and invested in productive assets that provide either usufruct or revenue for future consumption. Proceeds are now being used for building hospitals, universities and commercial complexes. It can be even used to facilitate microfinancing. Such innovative uses have assisted in unlocking its economic potential, as well as its philanthropic objectives.

THE ROAD AHEAD FOR ISLAMIC FINANCE

As new Islamic financial instruments continue to pervade the global financial markets, it is important that innovation in turn does not dilute the authenticity of Shariah. Newcomers to the industry, whether players or products, have bearing upon the reputation of the entire industry. It is imperative in going forward, that only the scrupulous and the compliant are welcomed as participants, and that the true essence of Islamic finance is at all times upheld. Therefore, new financial instruments and practices must be infused with intimate knowledge of Islamic jurisprudence as well as the inner workings of banking and finance.

CONVERGENCE AND HARMONISATION

The second challenge in the road ahead is to ensure greater alignment and convergence across national jurisdictions. This includes the harmonisation of Shariah standards and regulatory practices. Without it, there will not be the consistency and predictability needed to ensure deep and liquid international Islamic financial markets. Convergence towards some standards has grown and this is expected to increase in the future. But still more needs to be done. For example, mutual recognition of financial standards and products in different jurisdictions is still low. Standards issued by standards-setting bodies depend on voluntary adoption and are not legally enforceable. Some jurisdictions have adopted them but others only use them as guidelines. Standard regulatory practices must be harmonised if Islamic financial markets are to integrate smoothly into the global financial system.

The global financial crisis has underscored the need for concerted commitments by authorities and regulators at the national and international level to institute policies, regulations and governance mechanisms to address transparency, prudence, risk management and accountability issues. With increased integration of Islamic financial markets into the global financial system comes the added possibility of contagion effects. This poses a new set of challenges for Islamic financial regulators and industry to rethink stability and governance policies. Just as Islamic finance stresses the principle of partnership between the parties to the transaction, so should there be a strong spirit of partnership among countries promoting Islamic finance, their regulators and financial institutions. Cooperation and smart partnership amongst international financial centres ensure the stability of the international Islamic financial system.

INSTITUTIONAL STRENGTHENING

The third challenge in moving forward is to fortify the institutional foundations that will sustain the Islamic financial sector. We are fortunate to already have a supporting architecture to promote sound regulation and development. International boards such as the Islamic Financial Services Board (IFSB), the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the International Islamic Financial Market (IIFM) are important initiatives towards developing international best practices for the industry.

As the global financial architecture undergoes structural reforms, the Islamic financial services industry will have to follow suit. A result of the global financial crisis has been the increasing scrutiny of financial institutions by regulators and international organizations. As Islamic finance becomes an integral part of the financial mainstream, it will be increasingly exposed to requirements of transparency, good governance, information-sharing and cooperation promoted by international bodies.

There is also a great need to enhance skills sets at both ends of the spectrum. Collaborative efforts among stakeholders are especially critical in the area of capacity building and human capital development. This calls for a systematic and goal-directed framework in order to develop a pool of high calibre Islamic finance professionals. The industry, however, currently lacks a global industry body to oversee standardisation of continuous education and training to break the human resource bottlenecks that are holding back advancement in virtually all areas.

I am pleased to note that Malaysia has taken a lead role in talent development by establishing the International Centre for Education in Islamic Finance (INCEIF), the first ever Islamic finance university. Another strategic initiative by the Malaysian government is the setting up of a think tank, the International Shari'ah Research Academy for Islamic Finance (ISRA), with the aim of promoting better understanding of the different regulatory and supervisory regimes across jurisdictions. These strategic initiatives to advance human capital development and Shariah harmonisation reflect the full commitment of the Malaysian government to the progress of the industry. Such efforts must be intensified to create a significant support system for the industry, which will ensure its continued viability and overall success.

CONCLUSION

The structural break in the thinking about financial markets as a result of the global financial turmoil offers Islamic finance a unique opportunity to present itself as a financial system that is more resilient to the very forces that brought about the crisis in the first place. We must not let this opportunity slip by. Going forward, we must ensure that the investments we make are sustainable, that they promote productive economic activity, thereby creating real value for society.



FINANCIAL

STATEMENTS

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**CERTIFICATE OF THE AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF THE
LABUAN FINANCIAL SERVICES AUTHORITY
FOR THE YEAR ENDED 31 DECEMBER 2009**

The financial statements of Labuan Financial Services Authority (formerly known as Labuan Offshore Financial Services Authority) and the Group for the year ended 31 December 2009 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 the Labuan Financial Services Authority and the Group as at 31 December 2009 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 financial statements. I am satisfied that these financial statements of the subsidiary companies that has been consolidated with the Labuan Financial Services Authority's financial statements are in form and content appropriate and 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.

**(HJH. ZAINUN BINTI TAIB)
for AUDITOR GENERAL
MALAYSIA**

**PUTRAJAYA
2 APRIL 2010**

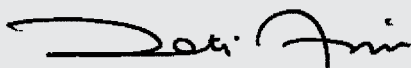


STATEMENT BY THE MEMBERS

Labuan Financial Services Authority (formerly known As LABUAN OFFSHORE FINANCIAL SERVICES AUTHORITY)

We, **DR. ZETI AKHTAR AZIZ** and **AZIZAN ABDUL RAHMAN**, being two of the Members of **LABUAN FINANCIAL SERVICES AUTHORITY** (formerly known as LABUAN OFFSHORE FINANCIAL SERVICES AUTHORITY) state that, in the opinion of the Members of the Authority, the accompanying balance sheets and statements of income, cash flows and changes in reserves are properly drawn up in accordance with the provisions of the Labuan Financial Services Authority Act, 1996 and Financial Reporting Standards in Malaysia so as to give a true and fair view of the state of affairs of the Group and of the Authority at 31 December 2009 and of the results of their operations and cash flows for the year ended on that date.

On behalf of the Members of the Authority,



DR. ZETI AKHTAR AZIZ
CHAIRMAN



AZIZAN ABDUL RAHMAN
DIRECTOR-GENERAL

Labuan, Malaysia

1 April 2010

STATUTORY DECLARATION

By The Officer Primarily Responsible For The Financial Management Of Labuan Financial Services Authority
(formerly known As LABUAN OFFSHORE FINANCIAL SERVICES AUTHORITY)

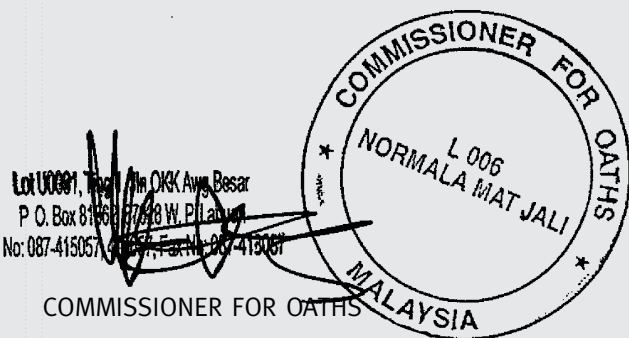
I, **DANIAL MAH ABDULLAH** (600626-07-5151), the officer primarily responsible for the financial management of **LABUAN FINANCIAL SERVICES AUTHORITY** (formerly known as LABUAN OFFSHORE FINANCIAL SERVICES AUTHORITY), do solemnly and sincerely declare that the accompanying balance sheets and statements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



DANIAL MAH ABDULLAH

Subscribed and solemnly declared by the above named
DANIAL MAH ABDULLAH at LABUAN, MALAYSIA on this
1 day of April 2010

Before me,



CONSOLIDATED INCOME STATEMENT

For The Year Ended 31 December 2009

	Note	2009 RM	2008 RM
Revenue	4	24,222,798	27,296,744
Government grant	18	17,269,952	14,986,991
Other operating income	5	599,044	418,228
Staff costs	6	(17,842,565)	(16,152,285)
Depreciation of property, plant and equipment	9	(2,594,335)	(2,273,708)
Other operating expenses	5	(21,330,242)	(27,698,643)
Surplus/(Deficit) from operations		324,652	(3,422,673)
Income from other investments	7	691,198	1,020,245
Surplus/(Deficit) before tax		1,015,850	(2,402,428)
Tax expense	8	-	-
Net surplus/(deficit) for the year		1,015,850	(2,402,428)

The accompanying Notes form an integral part of the Financial Statements.

INCOME STATEMENT

For The Year Ended 31 December 2009

	Note	2009 RM	2008 RM
Revenue	4	23,192,550	26,542,809
Government grant	18	17,186,751	17,977,094
Other operating income	5	531,056	330,365
Staff costs	6	(13,759,813)	(13,255,315)
Depreciation of property, plant and equipment	9	(1,005,485)	(1,187,842)
Other operating expenses	5	(26,536,555)	(29,996,648)
(Deficit)/Surplus from operations		(391,496)	410,463
Income from other investments	7	678,990	1,019,734
Surplus before tax		287,494	1,430,197
Tax expense	8	-	-
Net surplus for the year		287,494	1,430,197

The accompanying Notes form an integral part of the Financial Statements.

CONSOLIDATED BALANCE SHEET

At 31 December 2009

	Note	2009 RM	2008 RM
ASSETS			
Property, plant and equipment	9	7,536,001	9,554,760
Other receivables	11	8,756,426	7,797,175
Prepaid lease payment	12	436,300	436,818
Total non-current assets		16,728,727	17,788,753
Fees receivable	13	6,535,849	5,443,379
Other receivables	11	1,881,467	2,159,177
Cash and cash equivalents	15	30,438,138	32,357,407
Total current assets		38,855,454	39,959,963
Total assets		55,584,181	57,748,716
RESERVES			
Accumulated surplus		25,591,252	24,575,402
LIABILITIES			
Employee benefits	16	386,000	436,000
Government loans	17	13,000,000	13,000,000
Total non-current liabilities		13,386,000	13,436,000
Deferred income	18	10,587,190	11,857,142
Fees received in advance	19	1,972,775	1,698,976
Refundable deposits	20	1,100,000	1,200,000
Other payables and accruals	21	2,946,964	4,981,196
Total current liabilities		16,606,929	19,737,314
Total liabilities		29,992,929	33,173,314
Total reserves and liabilities		55,584,181	57,748,716

The accompanying Notes form an integral part of the Financial Statements.

BALANCE SHEET

At 31 December 2009

	Note	2009 RM	2008 RM
ASSETS			
Property, plant and equipment	9	2,629,689	3,465,122
Investments in subsidiaries	10	1	1
Other receivables	11	8,756,426	7,797,175
Prepaid lease payment	12	436,300	436,818
Total non-current assets		11,822,416	11,699,116
Fees receivable	13	6,370,005	5,356,900
Other receivables	11	1,566,740	1,898,854
Amount owing by subsidiaries	14	4,002,832	4,000,000
Cash and cash equivalents	15	28,150,967	31,748,016
Total current assets		40,090,544	43,003,770
Total assets		51,912,960	54,702,886
RESERVES			
Accumulated surplus		29,348,000	29,060,506
LIABILITIES			
Employee benefits	16	386,000	436,000
Government loans	17	13,000,000	13,000,000
Total non-current liabilities		13,386,000	13,436,000
Deferred income	18	5,074,291	6,261,042
Fees received in advance	19	1,972,775	1,698,976
Refundable deposits	20	1,100,000	1,200,000
Other payables and accruals	21	874,656	2,103,727
Amount owing to a subsidiary	22	157,238	942,635
Total current liabilities		9,178,960	12,206,380
Total liabilities		22,564,960	25,642,380
Total reserves and liabilities		51,912,960	54,702,886

The accompanying Notes form an integral part of the Financial Statements.

STATEMENT OF CHANGES IN RESERVES

For The Year Ended 31 December 2009

	Accumulated surplus RM
GROUP	
Balance at 1 January 2008	26,977,830
Net deficit for the year	(2,402,428)
Balance at 31 December 2008	24,575,402
Balance at 1 January 2009	24,575,402
Net surplus for the year	1,015,850
Balance at 31 December 2009	25,591,252
AUTHORITY	
Balance at 1 January 2008	27,630,309
Net surplus for the year	1,430,197
Balance at 31 December 2008	29,060,506
Balance at 1 January 2009	29,060,506
Net surplus for the year	287,494
Balance at 31 December 2009	29,348,000

The accompanying Notes form an integral part of the Financial Statements.

CONSOLIDATED CASH FLOW STATEMENT

For The Year Ended 31 December 2009

	2009 RM	2008 RM
CASH FLOWS FROM OPERATING ACTIVITIES		
Surplus/(Deficit) before tax	1,015,850	(2,402,428)
Adjustments for:		
Depreciation of property, plant and equipment	2,594,335	2,273,708
Government grant	(17,269,952)	(14,986,991)
Gain on disposal of property, plant and equipment	(14)	(531)
Other long term employee benefits	(50,000)	168,000
Property, plant and equipment written off	433,300	3,478
Interest income	(882,489)	(1,184,761)
Amortisation of prepaid lease payment	518	518
Operating Deficit Before Working Capital Changes	(14,158,452)	(16,129,007)
Changes in working capital:		
Fees receivable	(1,092,470)	(3,572,021)
Other receivables	(818,223)	188,949
Fees received in advance	273,799	629,430
Refundable deposits	(100,000)	-
Other payables and accruals	(2,034,232)	1,146,367
Cash Used In Operations	(17,929,578)	(17,736,282)
Interest received	191,290	164,516
Net Cash Used In Operating Activities	(17,738,288)	(17,571,766)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	3,651	1,301
Additions to property, plant and equipment	(1,012,513)	(5,702,122)
Interest received	827,881	1,516,237
Net Cash Used In Investing Activities	(180,981)	(4,184,584)
CASH FLOWS FROM FINANCING ACTIVITY		
Government grant received	16,000,000	14,308,012
Net Cash From Financing Activity	16,000,000	14,308,012
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,919,269)	(7,448,338)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	32,357,407	39,805,745
CASH AND CASH EQUIVALENTS AT END OF YEAR (NOTE 15)	30,438,138	32,357,407

The accompanying Notes form an integral part of the Financial Statements.

CASH FLOW STATEMENT

For The Year Ended 31 December 2009

	2009 RM	2008 RM
CASH FLOWS FROM OPERATING ACTIVITIES		
Surplus before tax	287,494	1,430,197
Adjustments for:		
Depreciation of property, plant and equipment	1,005,485	1,187,842
Government grant	(17,186,751)	(17,977,094)
Gain on disposal of property, plant and equipment	-	(531)
Other long term employee benefits	(50,000)	168,000
Property, plant and equipment written off	6,345	2,107
Interest income	(870,281)	(1,184,250)
Amortisation of prepaid lease payment	518	518
Operating Deficit Before Working Capital Changes	(16,807,190)	(16,373,211)
Changes in working capital:		
Fees receivable	(1,013,105)	(3,573,320)
Other receivables	(765,317)	392,917
Amount owing by subsidiaries	(2,832)	(4,000,000)
Fees received in advance	273,799	629,430
Refundable deposits	(100,000)	-
Other payables and accruals	(1,229,071)	(732,346)
Amount owing to a subsidiary	(785,397)	942,635
Cash Used In Operations	(20,429,113)	(22,713,895)
Interest received	191,290	164,516
Net Cash Used In Operating Activities	(20,237,823)	(22,549,379)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	-	1,301
Additions to property, plant and equipment	(176,397)	(980,608)
Interest received	817,171	1,516,237
Net Cash From Investing Activities	640,774	536,930
CASH FLOWS FROM FINANCING ACTIVITY		
Government grant received	16,000,000	14,308,012
Net Cash From Financing Activity	16,000,000	14,308,012
NET CHANGE IN CASH AND CASH EQUIVALENTS	(3,597,049)	(7,704,437)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	31,748,016	39,452,453
CASH AND CASH EQUIVALENTS AT END OF YEAR (NOTE 15)	28,150,967	31,748,016

The accompanying Notes form an integral part of the Financial Statements.

1. GENERAL INFORMATION

The Labuan Financial Services Authority (formerly known as Labuan Offshore Financial Services Authority) was established on 15 February 1996. 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.

The total number of employees of the Authority at year end was 96 (2008: 94).

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 Authority changed its name from Labuan Offshore Financial Services Authority to Labuan Financial Services Authority pursuant to the amendments to the Labuan Financial Services Authority Act, 1996 which came into effect on 11 February 2010.

The financial statements have been approved by the Members of the Authority for issuance on 1 April 2010.

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements of the Group and of the Authority have been prepared in accordance with the provisions of the Labuan Financial Services Authority Act, 1996 and Financial Reporting Standards (FRSs) in Malaysia.

The Group and the Authority have not applied the following accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board (MASB) but are not yet effective for the Group and the Authority:

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2009

- FRS 8, *Operating Segments*

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2010

- FRS 4, *Insurance Contracts*
- FRS 7, *Financial Instruments: Disclosures*
- FRS 101, *Presentation of Financial Statements*
- FRS 123, *Borrowing Costs* (revised)
- FRS 139, *Financial Instruments: Recognition and Measurement*
- Amendments to FRS 1, *First-time Adoption of Financial Reporting Standards* and FRS 127, *Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
- Amendments to FRS 2, *Share-based Payment: Vesting Conditions and Cancellations*
- Amendments to FRS 132, *Financial Instruments: Presentation* and FRS 101, *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*

2. BASIS OF PREPARATION (Cont'd)

(a) Statement of compliance (Cont'd)

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2010 (Contd)

- Amendments to FRS 139, *Financial Instruments: Recognition and Measurement*, FRS 7, *Financial Instruments: Disclosures and IC Interpretation 9, Reassessment of Embedded Derivatives*
- Amendments to FRS 139, *Financial Instruments: Recognition and Measurement*
- Improvements to FRSs (2009)
- IC Interpretation 9, *Reassessment of Embedded Derivatives*
- IC Interpretation 10, *Interim Financial Reporting and Impairment*
- IC Interpretation 11, *FRS 2 – Group and Treasury Share Transactions*
- IC Interpretation 13, *Customer Loyalty Programmes*
- IC Interpretation 14, *FRS 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction*

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2010

- FRS 1, *First-time Adoption of Financial Reporting Standards* (revised)
- FRS 3, *Business Combinations* (revised)
- FRS 127, *Consolidated and Separate Financial Statements* (revised)
- Amendments to FRS 2, *Share-based Payment*
- Amendments to FRS 5, *Non-current Assets Held for Sale and Discontinued Operations*
- Amendments to FRS 138, *Intangible Assets*
- IC Interpretation 12, *Service Concession Agreements*
- IC Interpretation 15, *Agreements for the Construction of Real Estate*
- IC Interpretation 16, *Hedges of a Net Investment in a Foreign Operation*
- IC Interpretation 17, *Distribution of Non-cash Assets to Owners*
- Amendments to IC Interpretation 9, *Reassessment of Embedded Derivatives*

The Group and the Authority plan to apply the abovementioned standards, amendments and interpretations:

- from the annual period beginning 1 January 2010 for those standards, amendments or interpretations that are applicable to the Group and the Authority which will be effective for annual periods beginning on or after 1 July 2009 or 1 January 2010; and
- from the annual period beginning 1 January 2011 for those standards, amendments or interpretations that are applicable to the Group and the Authority which will be effective for annual periods beginning on or after 1 July 2010.

The initial application of a standard, an amendment or an interpretation, which will be applied prospectively, is not expected to have any financial impacts to the current and prior periods financial statements upon their first adoption.

The impacts and disclosures as required by FRS 108.30(b), *Accounting Policies, Changes in Accounting Estimates and Errors*, in respect of applying FRS 4, FRS 7, FRS 139 and IC Interpretation 12 are not disclosed by virtue of the exemptions given in these respective FRSs.

2. BASIS OF PREPARATION (Cont'd)

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except as disclosed in the notes to the financial statements.

(c) Functional and presentation currency

These financial statements are presented in Ringgit Malaysia (RM), which is the Group's and the Authority's functional currency.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than those disclosed in Note 3(d) and 3(i) to the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities, including unincorporated entities, controlled by the Group. Control exists when the Group has the ability to exercise its power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. Subsidiaries are consolidated using the purchase method of accounting.

Under the purchase method of accounting, the financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investments in subsidiaries are stated in the Authority's balance sheet at cost less any impairment losses, unless the investment is held for sale.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(b) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Group at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the exchange rates at that date. Non-monetary assets and liabilities denominated in foreign currencies are translated at exchange rates at the dates of the transactions except for those that are measured at fair value, which are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in the income statement.

(c) Revenue recognition

Fee income from businesses

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

Other fees

Revenue is recognised upon performance of services and to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Interest income

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

Rental income

Rental income is recognised on an accrual basis.

(d) Government grants

Grants that compensate the Group for the cost of an asset are recognised initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grants. The grants are recognised in the income statement on a systematic basis over the useful life of the asset.

Grants that compensate the Group for expenses incurred are recognised in the income statement on a systematic basis in the same periods in which the expenses are recognised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(e) Property, plant and equipment

Recognition and measurement

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within “other income” or “other operating expenses” respectively in the income statements.

Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

Depreciation

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives for the current and comparative periods are as follows:

Buildings	50 years
Motor vehicles	4 years
Computers	3 years
Furniture, fittings, office equipment, and renovation	3 to 7 years

Depreciation methods and useful lives are reassessed at the balance sheet date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(f) Prepaid lease payments - Leasehold properties

Leases, where the Group does not assume substantially all the risks and rewards of the ownership are classified as operating leases and, the leased assets are not recognised on the Group's balance sheet.

Leasehold land that normally has an indefinite economic life and title is not expected to pass to the lessee by the end of the lease term is treated as an operating lease. The payment made on entering into or acquiring a leasehold land is accounted for as prepaid lease payment.

Payments made under operating leases are recognised in the income statement on a straight line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(g) Impairment of assets

The carrying amounts of the assets, other than financial assets (other than investments in subsidiaries), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statements. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (groups of units) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to the income statements in the year in which the reversals are recognised.

(h) Receivables

Fee and other receivables are reduced by the appropriate allowance for estimated irrecoverable amounts and fee income-in-suspense.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(i) Employee benefits

Short term employee benefits

Short term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Short term employee benefits

The Group's contributions to the Employees Provident Fund are charged to the income statement in the year to which they relate. Once the contributions have been paid, the Group has no further payment obligations.

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 balance sheet date on high quality corporate bonds or government bonds.

(j) Payables

Payables are measured initially and subsequently at cost. Payables are recognised when there is a contractual obligation to deliver cash or another financial asset to another entity.

(k) Loans and borrowings

Loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the loans and borrowing using the effective interest method.

(l) Interest income and borrowing costs

Interest income is recognised as it accrues, using the effective interest method.

All borrowing costs are recognised in the income statements using the effective interest method, in the period in which they are incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(m) Cash flow statement

The Group adopts the indirect method in the preparation of the cash flow statement.

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in value.

(n) Tax expense

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

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

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

Deferred tax liability is recognised for all taxable temporary differences.

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

4. REVENUE

	Group		Authority	
	2009 RM	2008 RM	2009 RM	2008 RM
Fee income	23,192,550	24,723,039	23,192,550	24,723,039
Movement in fee income-in-suspense	-	1,819,770	-	1,819,770
Other fees	1,030,248	753,935	-	-
	24,222,798	27,296,744	23,192,550	26,542,809

5. OTHER OPERATING INCOME/(EXPENSES)

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

	Group		Authority	
	2009 RM	2008 RM	2009 RM	2008 RM
Other operating income:				
Interest income from staff loans:				
- Key management personnel	35,283	26,792	35,283	26,792
- Others	156,008	137,724	156,008	137,724
Rental income	80,661	72,655	78,217	70,530
Miscellaneous income	322,578	180,526	257,048	94,788
Gain on disposal of property, plant and equipment	14	531	-	531
Reversal of allowance for doubtful debts	19,500	-	19,500	-
Other operating expenses:				
Project expenditure incurred under the Ninth Malaysia Plan government grant				
- Third parties	(6,651,311)	(14,986,991)	(3,235,479)	(11,005,269)
- Subsidiaries	-	-	(13,951,272)	(6,971,825)
Audit fees				
- current year	(38,165)	(40,000)	(16,665)	(19,000)
- over/(under) provision in prior year	345	(2,050)	1,345	(1,050)
Members' remuneration:				
- Executive	(891,947)	(829,204)	(891,947)	(829,204)
- Non-executive	(99,000)	(87,200)	(99,000)	(87,200)
Other key management personnel compensation:				
- Short term employee benefits	(3,285,920)	(3,008,161)	(2,500,845)	(1,973,897)
Reversal/(Expense) relating to long term employee benefit	50,000	(168,000)	50,000	(168,000)
Rental expenses	(1,362,723)	(1,319,335)	(1,084,272)	(1,084,272)
Bad debts/Fees receivable written off	(176,003)	(802,700)	(143,100)	(802,700)
Amount owing by subsidiary companies written off	-	-	(769,891)	(1,805,459)
Property, plant and equipment written off	(433,300)	(3,478)	(6,345)	(2,107)
Contributions to Labuan FSA				
Staff Welfare Fund	(317,000)	(442,000)	(317,000)	(442,000)
Lease of machinery and equipment	(71,955)	(79,320)	(71,955)	(79,320)
Amortisation of prepaid lease payment	(518)	(518)	(518)	(518)
Management fees	(1,500,000)	(1,500,000)	-	-
Tuition fees paid to a subsidiary	-	-	(177,395)	(144,807)
Allowance for uncollected fee	(781,061)	(601,239)	(781,061)	(601,239)

6. STAFF COSTS

	Group		Authority	
	2009 RM	2008 RM	2009 RM	2008 RM
Staff costs	17,842,565	16,152,285	13,759,813	13,255,315

Included in staff costs are the Group's and the Authority's contributions to the Employees Provident Fund of RM1,867,768 (2008: RM1,564,399) and RM1,586,455 (2008: RM1,419,128) respectively.

7. INCOME FROM OTHER INVESTMENTS

	Group		Authority	
	2009 RM	2008 RM	2009 RM	2008 RM
Interest received from:				
Fixed deposits	649,269	1,007,693	637,061	1,007,182
Money at call	41,929	12,552	41,929	12,552
	691,198	1,020,245	678,990	1,019,734

8. TAX EXPENSE

Group

Domestic current income tax is calculated at the statutory tax rate of 25% (2008: 26%) of the estimated assessable profit for the year. The domestic statutory tax rate will be reduced to 25% from the previous year's rate of 26%, effective year of assessment 2009. The computation of deferred tax as at 31 December 2009 has reflected these changes.

The Authority

No provision for taxation was made although the Authority made a surplus as the Authority has been exempted from tax on all its income, other than dividend income, under the Income Tax (Exemption) (No.33) Order 1997 [PU(A) 221/97], Income Tax (Exemption) (Amendment) (No.2) Order 2003 [PU(A) 198/2003] and pursuant to Section 127(3A) of the Income Tax Act, 1967 until the year of assessment 2010.

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

8. TAX EXPENSE (Cont'd)

Reconciliation of tax expense

	Group		Authority	
	2009 RM	2008 RM	2009 RM	2008 RM
Surplus/(Deficit) before tax	1,015,850	(2,402,428)	287,494	1,430,197
Taxation at Malaysian statutory tax rate of 25% (2008: 26%)	253,963	(624,631)	71,874	371,851
Effect of income not subject to tax	(576,084)	(752,102)	(71,874)	(371,851)
Effect of expenses not deductible for tax purposes	451,317	166,529	-	-
Deferred tax assets (utilised)/not recognised	(129,196)	1,210,204	-	-
Tax expense for the year	-	-	-	-

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

	Group	
	2009 RM	2008 RM
Property, plant and equipment	(192,835)	(239,361)
Provisions	270,000	21,000
Unutilised tax losses	6,024,829	6,727,224
Unabsorbed capital allowances	538,640	648,552
	6,640,634	7,157,415

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 therefrom.

9. PROPERTY, PLANT AND EQUIPMENT

Group	Buildings RM	Motor vehicles RM	Computers RM	Furniture, fittings, office equipment and renovation RM	Total RM
Cost					
At 1 January 2008	688,000	806,160	2,325,501	8,042,515	11,862,176
Additions	-	564,309	521,262	4,616,551	5,702,122
Disposal	-	-	(57,848)	(15,120)	(72,968)
Write-off	-	-	(4,469)	(52,566)	(57,035)
At 31 December 2008/ 1 January 2009	688,000	1,370,469	2,784,446	12,591,380	17,434,295
Additions	-	-	194,974	817,539	1,012,513
Disposal	-	-	(6,879)	-	(6,879)
Write-off	-	-	(81,814)	(499,740)	(581,554)
At 31 December 2009	688,000	1,370,469	2,890,727	12,909,179	17,858,375
Accumulated depreciation					
At 1 January 2008	134,665	626,896	1,792,480	3,177,541	5,731,582
Charge for the year	13,788	185,382	376,762	1,697,776	2,273,708
Disposal	-	-	(57,845)	(14,353)	(72,198)
Write-off	-	-	(4,468)	(49,089)	(53,557)
At 31 December 2008/ 1 January 2009	148,453	812,278	2,106,929	4,811,875	7,879,535
Charge for the year	13,750	185,372	375,526	2,019,687	2,594,335
Disposal	-	-	(3,242)	-	(3,242)
Write-off	-	-	(78,488)	(69,766)	(148,254)
At 31 December 2009	162,203	997,650	2,400,725	6,761,796	10,322,374
Carrying amounts					
At 1 January 2008	553,335	179,264	533,021	4,864,974	6,130,594
At 31 December 2008/ 1 January 2009	539,547	558,191	677,517	7,779,505	9,554,760
At 31 December 2009	525,797	372,819	490,002	6,147,383	7,536,001

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

9. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

The Authority	Buildings RM	Motor vehicles RM	Computers RM	Furniture, fittings, office equipment and renovation RM	Total RM
Cost					
At 1 January 2008	688,000	729,775	2,325,501	4,755,201	8,498,477
Additions	-	190,391	251,223	538,994	980,608
Disposal	-	-	(57,848)	(15,120)	(72,968)
Write-off	-	-	(4,469)	(31,611)	(36,080)
At 31 December 2008/ 1 January 2009	688,000	920,166	2,514,407	5,247,464	9,370,037
Additions	-	-	112,899	63,498	176,397
Write-off	-	-	(76,126)	(62,474)	(138,600)
At 31 December 2009	688,000	920,166	2,551,180	5,248,488	9,407,834
Accumulated depreciation					
At 1 January 2008	134,665	614,196	1,792,480	2,281,903	4,823,244
Charge for the year	13,788	115,575	346,528	711,951	1,187,842
Disposal	-	-	(57,845)	(14,353)	(72,198)
Write-off	-	-	(4,468)	(29,505)	(33,973)
At 31 December 2008/ 1 January 2009	148,453	729,771	2,076,695	2,949,996	5,904,915
Charge for the year	13,750	76,616	277,346	637,773	1,005,485
Write-off	-	-	(76,119)	(56,136)	(132,255)
At 31 December 2009	162,203	806,387	2,277,922	3,531,633	6,778,145
Carrying amounts					
At 1 January 2008	553,335	115,579	533,021	2,473,298	3,675,233
At 31 December 2008/ 1 January 2009	539,547	190,395	437,712	2,297,468	3,465,122
At 31 December 2009	525,797	113,779	273,258	1,716,855	2,629,689

10. INVESTMENTS IN SUBSIDIARIES

	Authority	
	2009 RM	2008 RM
Unquoted shares, at cost	1	1

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

Name of Company	Effective Percentage of Ownership		Principal Activities
	2009 %	2008 %	
LOFSA Incorporated Sdn. Bhd. #	100	100	Investment holding
Subsidiary of LOFSA Incorporated Sdn. Bhd.:			
Pristine Era Sdn. Bhd. #	100	100	Provision of educational services
Labuan IBFC Inc. Sdn. Bhd. *	100	-	Marketing and promoting Labuan International Business and Financial Centre

* Audited by other member firms of KPMG International.

Not audited by KPMG.

In 2003, the Authority acquired the entire equity interest in Pristine Era Sdn. Bhd., (a company which manages the Labuan International School) through LOFSA Incorporated Sdn. Bhd. for a cash consideration of RM1 and undertakes to provide financial support to the said subsidiary.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

11. OTHER RECEIVABLES

	Group		Authority	
	2009 RM	2008 RM	2009 RM	2008 RM
Current				
Other receivables:				
Staff housing loans	463,537	899,214	463,537	899,214
Staff vehicle loans	266,803	201,682	266,803	201,682
Staff advances/ Sundry debtors	296,265	119,951	221,127	76,898
Refundable deposits	295,675	309,044	191,017	201,181
Interest receivable	515,723	653,906	515,723	653,906
Prepaid expenses	114,427	78,716	78,243	52,567
Others	98,747	83,258	-	-
	2,051,177	2,345,771	1,736,450	2,085,448
Less: Allowance for doubtful debts	(169,710)	(186,594)	(169,710)	(186,594)
	1,881,467	2,159,177	1,566,740	1,898,854
Non-current				
Other receivables:				
Staff housing loans	7,024,393	6,709,726	7,024,393	6,709,726
Staff vehicle loans	1,732,033	1,087,449	1,732,033	1,087,449
	8,756,426	7,797,175	8,756,426	7,797,175

Staff loans

Staff housing and vehicle loans are repayable over a maximum period of 25 years and 7 years respectively. The interest charged on these loans ranges from 2% to 3% (2008: 2% to 4%) per annum.

12. PREPAID LEASE PAYMENT

	Unexpired period of more than 50 years
Group and the Authority	RM
Cost	
At 1 January 2008/31 December 2008/1 January 2009/31 December 2009	442,000
Accumulated amortisation	
At 1 January 2008	4,664
Amortisation for the year	518
At 31 December 2008/1 January 2009	5,182
Amortisation for the year	518
At 31 December 2009	5,700
Carrying amount	
At 1 January 2008	437,336
At 31 December 2008/1 January 2009	436,818
At 31 December 2009	436,300

13. FEES RECEIVABLE

	Group		Authority	
	2009 RM	2008 RM	2009 RM	2008 RM
Fees receivable	7,196,649	6,044,618	7,030,805	5,958,139
Less: Allowance for uncollected fees	(660,800)	(601,239)	(660,800)	(601,239)
	6,535,849	5,443,379	6,370,005	5,356,900

Bad debts amounting to RM721,500 (2008: NIL) were written off against the allowance for uncollected fees during the year.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

14. AMOUNT OWING BY SUBSIDIARIES

The amount owing by subsidiaries is non-trade in nature, interest free and has no fixed terms of repayment.

15. CASH AND CASH EQUIVALENTS

	Group		Authority	
	2009 RM	2008 RM	2009 RM	2008 RM
Fixed deposits with licensed banks	21,845,000	20,667,817	20,000,000	20,622,817
Money at call with licensed banks	7,205,756	9,895,147	7,205,756	9,895,147
Cash on hand and at banks	1,387,382	1,794,443	945,211	1,230,052
	30,438,138	32,357,407	28,150,967	31,748,016

The effective interest rates are as follows:

	Group		Authority	
	2009 % p.a.	2008 % p.a.	2009 % p.a.	2008 % p.a.
Fixed deposits	2.82	3.56	2.94	3.56
Money at call	1.15	2.13	1.15	2.13

The fixed deposits have maturity of 1 year (2008: 30 days to 1 year) while money at call have maturity of 1 day (2008: 1 day to 6 days).

16. EMPLOYEE BENEFITS

Movements in the liability for other long term employee benefits:

	Group and the Authority	
	2009 RM	2008 RM
At 1 January	436,000	268,000
Recognised in income statement	(50,000)	168,000
At 31 December	386,000	436,000

16. EMPLOYEE BENEFITS (Cont'd)

Assumptions

Principal assumptions at the balance sheet date:

	Group and the Authority	
	2009	2008
	%	%
Discount rate at 31 December	4.38	3.81
Future salary increases	5.80	6.04

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

As at year end, other long term benefit is calculated based on the number of unutilised leave available of each entitled staff as at 31 December and the present value of last drawn salary of each entitled staff.

The increment rate of future salary is calculated based on the average yearly increment rate of future salary of each entitled staff after taking into consideration of the increment as a result of promotion.

The discount rate at 31 December is the market yield at the balance sheet date on high quality corporate bonds or government bonds.

17. 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 are unsecured and interest-free. The balance of the first loan and the second loan are repayable in the year 2010 or such other period as may be mutually agreed by the parties. However, Labuan FSA had submitted a formal request seeking an extension of the loan for another 10 years which is currently being considered by Bank Negara Malaysia.

18. DEFERRED INCOME

During the year, the Authority received a Government grant of RM16.0 million (2008: RM14.3 million) from the Ministry of Finance for the purpose of projects to be undertaken by the Authority under the Ninth Malaysia Plan. The grant forms part of the total allocation of RM80 million for the duration of the Ninth Malaysia Plan from 2006 to 2010.

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

	Group		Authority	
	2009 RM	2008 RM	2009 RM	2008 RM
Deferred income at 1 January	11,857,142	12,536,121	6,261,042	9,930,124
Government grant received	16,000,000	14,308,012	16,000,000	14,308,012
Less: Amount recognised in income statement	(17,269,952)	(14,986,991)	(17,186,751)	(17,977,094)
Deferred income at 31 December	10,587,190	11,857,142	5,074,291	6,261,042

19. FEES RECEIVED IN ADVANCE

Group and the Authority

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

20. REFUNDABLE DEPOSITS

Group and the Authority

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

	Group and the Authority	
	2009 RM	2008 RM
Trust companies security deposits	1,100,000	1,200,000

21. OTHER PAYABLES AND ACCRUALS

	Group		Authority	
	2009 RM	2008 RM	2009 RM	2008 RM
Other payables	2,297,072	3,865,522	795,678	1,642,278
Accruals	649,892	1,115,674	78,978	461,449
	2,946,964	4,981,196	874,656	2,103,727

Other payables comprise amounts outstanding for ongoing costs. The amounts owing are interest-free and have no fixed terms of repayment.

22. AMOUNT OWING TO A SUBSIDIARY

The amount owing to a subsidiary is non-trade in nature, interest free and has no fixed terms of repayment.

23. FINANCIAL INSTRUMENTS

Financial instruments are contracts that give rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

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

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

Credit risk

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

Liquidity risk

The Authority practises 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.

Cash flow risk

The Authority reviews its cash flow position regularly to manage the Group's exposure to fluctuations in future cash flows associated with its monetary financial instruments.

23. FINANCIAL INSTRUMENTS (Cont'd)

Financial assets

The Group's principal financial assets are fixed deposits, money at call, cash on hand and at banks and fee and other receivables.

The accounting policies applicable to the major financial assets are as disclosed in Note 3.

Financial Liabilities and Equity Instruments

Debts and equity instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement.

Significant financial liabilities include refundable deposits, other payables and interest-free Government loans.

Government loans are recorded at the proceeds received.

There were no equity instruments as of the financial year-end.

Fair Values

Cash and cash equivalents, fee and other receivables and refundable deposits and other payable

The carrying amounts of these financial instruments approximate their fair values because of the short maturity period for these instruments.

Government loans

The Authority considers that the carrying amounts of Government loans approximate their fair values.

24. CAPITAL COMMITMENTS

As of 31 December 2009, the Group and the Authority had the following capital commitments in respect of property, plant and equipment:

	Group and the Authority	
	2009 RM	2008 RM
Approved and contracted for	-	3,246,497
Approved but not contracted for	1,554,330	-
	1,554,330	3,246,497

25. OPERATING LEASES

Leases as Lessee

Non-cancellable operating lease rentals are payable as follows:

	Group		Authority	
	2009 RM	2008 RM	2009 RM	2008 RM
Less than one year	115,668	78,858	71,400	34,590
Between one and five years	101,500	46,070	101,500	46,070
	217,168	124,928	172,900	80,660

The Group leases a number of office equipment and an office premise under operating leases. The leases of office equipment typically run for a period of three to five years, with an option to renew the lease after that date. None of the leases include contingent rentals.

26. RELATED PARTIES

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

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group either directly or indirectly. The key management personnel includes all the Directors of the Group, and certain members of senior management of the Group.

The key management personnel compensations are as follows:

	Group and the Authority	
	2009 RM	2008 RM
Key management personnel		
- Staff housing loans	856,679	1,336,003
- Staff vehicle loans	207,013	128,550
- Personal loans	7,222	7,639
- Computer loans	276	1,381
	1,071,190	1,473,573

Related party transactions

Significant related party transactions of the Group and of the Authority are disclosed in Note 5.



APPENDICE



126 | Significant Events Undertaken by Labuan FSA

128 | Listings of Labuan Financial Institutions



SIGNIFICANT EVENTS UNDERTAKEN BY Labuan FSA

11 May

Press Conference on Labuan FSA's Annual Report 2008 at Bank Negara Malaysia by Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz, Chairman of Labuan FSA.

13 May

Briefing to Foreign Ambassadors and High Commissioners in Malaysia on the developments of Labuan IBFC by Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz, Chairman of Labuan FSA.

26 May

Signing of Memorandum of Understanding (MoU) between Labuan FSA and Companies Commission of Malaysia (SSM) in Labuan to enhance inter-agency cooperation.

29 May

Guideline on Co-Location of Labuan Holding Companies was issued in line with the financial liberalisation package announced by Yang Amat Berhormat Dato' Sri Mohd Najib Tun Abdul Razak, Prime Minister of Malaysia on 27 April 2009.

24 June

The 10th Shariah Supervisory Council (SSC) meeting was held in Kuala Lumpur to discuss issues and endorse Shariah-compliant financial products and services.

25 June

The 8th International Advisory Panel (IAP) meeting was held in Kuala Lumpur to deliberate on strategic initiatives identified for the development and promotion of Labuan IBFC.

1 July

Dato' Azizan Abdul Rahman's tenure as the Director-General of Labuan FSA extended for another two years.

21 July

Labuan FSA as part of the Malaysian delegation met the Organisation for Economic Co-operation and Development (OECD) in Paris to affirm Malaysia's commitment to the Agreed International Tax Standard and Sharing of Information with other jurisdictions.

13 August

A visit by Mr Milan J.N Meetarban, CEO of Financial Services Commission, Mauritius to foster closer regulatory relationship with Labuan FSA.

2 November

The IAP held its 2nd meeting of the year in Hong Kong in conjunction with the Seminar on Labuan IBFC.

6 November

HRH Raja Nazrin Shah Ibni Sultan Azlan Muhibbuddin Shah, the Regent of Perak Darul Ridzuan, Malaysia delivered a royal address on “The Road Ahead for Islamic Finance” at the Labuan International Islamic Finance Lecture Series IV.

9 November

Visits by HE David Collins, High Commissioner of Canada and HE T. Jasudasen, High Commissioner of Singapore where they were updated on the developments and opportunities of Labuan IBFC.

10 November

Labuan FSA delegation met Japan Financial Services Agency (Japan FSA) in Tokyo to establish home-host supervisory relationships.

14 November

The Minister of Transport Malaysia, Dato’ Sri Ong Tee Keat officially launched the Malaysian International Ship Registry (MISR) in Labuan. In conjunction with the launch, two ships owned by Labuan companies were registered under MISR.

17 November

Labuan FSA delegation met Korean Financial Services Commission (Korean FSC) in Seoul to discuss on mutual regulatory issues.

20 November

Labuan FSA accepted as a signatory to Appendix B of the International Organization of Securities Commissions’ (IOSCO) Multilateral Memorandum of Understanding concerning Consultation and Cooperation and the Exchange of Information.

23 December

The new legislation of Labuan IBFC were passed by the Parliament of Malaysia. The legislation came into effect on 11 February 2010.

LISTINGS OF LABUAN FINANCIAL INSTITUTIONS

As At 15 April 2010

LABUAN BANKS (COUNTRY OF ORIGIN)

1 Affin Bank Berhad, Labuan Branch (Malaysia)

Tel: 087-411931

Fax: 087-411973

E-mail: kttan@affinbank.com.my

Mr Tan Kok Toon

2 AmBank (M) Berhad, Labuan Offshore Branch (Malaysia)

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Fax: 087-425211

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Mr Mohamad Iskandar Hafidz

3 AmInternational (L) Ltd (Malaysia)

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Fax: 087-425211

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Mr Mohamad Iskandar Hafidz

4 AmInvestment Bank Berhad (Malaysia)

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Mr Mohamad Iskandar Hafidz

5 Bank Islam Malaysia Berhad, Labuan Offshore Branch (Malaysia)

Tel: 087-451802

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Mr Jaafar bin Abu

6 Bank Muamalat Malaysia Berhad, Labuan Offshore Branch (Malaysia)

Tel: 087-412898

Fax: 087-451164

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Mr Ahmad Najib bin Nazlan

7 Bank of America National Association, Labuan Branch (United States of America)

Tel: 087-411778

Fax: 087-424778

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Ms Joanne Oh Phaik Ean

8 Barclays Bank Plc, Labuan Branch (United Kingdom)

Tel: 087-425571

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Mr Miaw Siaw Loong

9 BNP Paribas, Labuan Branch (France)

Tel: 087-422328

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Mr Dayakrishna Vaidynatha Chetti

10 Cathay United Bank, Labuan Branch (Taiwan)

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Mr Pan Chung-En

11 CIMB Bank (L) Limited (Malaysia)

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Ms Jemima Haziz

12 CIMB Bank Berhad, Labuan Offshore Branch (Malaysia)

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Ms Jemima Haziz

**13 Citibank Malaysia (L) Limited
(United States of America)**

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Ms Clara Lim Ai Cheng

**14 Cr dit Agricole Corporate and Investment Bank
(formerly known as Calyon, Labuan Branch)
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Mr Tan Chin Yang

**15 Credit Suisse AG, Labuan Branch
(Switzerland)**

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Mr Lee Chee Meng

**16 DBS Bank Ltd, Labuan Branch
(Singapore)**

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Mr Jeffrey Ling Hee Keong

**17 Deutsche Bank AG, Labuan Branch
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Mr Raymond Yeoh Cheng Seong

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Mr Ishammudin Mansor

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Mr Ishammudin Mansor

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Mr Nawaf A N M Almenayekh

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As At 15 April 2010

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