GUIDANCE NOTE FOR GUIDELINES ON BANKING AND ISLAMIC BANKING CAPITAL ADEQUACY FRAMEWORK (CREDIT RISK)

1.0 General Instructions

1.1 This guidance note is applicable to all Labuan banks as listed below in completing the statutory reporting under the *Guidelines on Banking and Islamic Banking Capital Adequacy Framework (Credit Risk)*:

(i) Labuan banks and Labuan investment banks licensed under Part VI of the Labuan Financial Services and Securities Act 2010 (LFSSA);

(ii) Labuan Islamic banks and Labuan Islamic investment banks licensed under Part VI of the Labuan Islamic Financial Services and Securities Act 2010 (LIFSSA); and

(iii) Labuan banks and Labuan investment banks undertaking Labuan Islamic banking business or Labuan Islamic investment banking business approved under Part VI of the LIFSSA.

Unless otherwise stated, the term "Labuan bank(s)" under the guidance note refers collectively to all Labuan banking licensees as specified under paragraph 1.1.

1.2 Labuan banks are required to complete and submit the relevant reporting forms to Labuan Financial Services Authority (Labuan FSA) on a quarterly basis as follows:

(i) During the parallel run (1 July 2026 to 30 June 2027): submit a softcopy of the completed reporting forms to the Data Management & Analytics Unit of Labuan FSA via email (iru@labuanfsa.gov.my) within 30 days after the end of reporting period; and

(ii) Upon full implementation (from 1 July 2027 onwards): submit the completed reporting forms no later than 15 days after the quarter-end reporting date. Labuan FSA will notify Labuan banks of the applicable submission channel when the system is ready.

1.3 The cells are shaded to denote the requirement/function of the cell.

(i) All cells shaded in yellow must be filled. Where not relevant, a value of '0' shall be keyed-in.

(ii) Cells shaded in green have been pre-programmed with formulae.

(iii) Cells shaded in blue refer to other cell from different tab.

1.4 All amounts are to be reported and rounded up to the nearest US Dollar (USD).

1.5 Labuan FSA places significant emphasis on the quality of information submitted for the purpose capital adequacy. In this regard, the Principal Officer of the Labuan bank is responsible and will be held accountable for the quality of the information submitted in all reporting forms to Labuan FSA under this framework.

2.0 Components of the Reporting Forms for Credit Risk

2.1 The reporting forms are divided into three major components:

No.	Category	Title	Entity Worksheet		Consolidated Worksheet
			Conventional	Islamic	
1	Validation Rules	• Validation Rules (Simple Approach under Credit Risk Mitigation) • Validation Rules (Comprehensive Approach under Credit Risk Mitigation)	• CR-01 • CR-02	• CRi-01 • CRi-02	• CR-01 • CR-02
2	Summary Sheet	Consolidated Exposures, Risk-Weighted Assets and Capital Requirements	CR-03	CRi-03	CR-03
3	Quantitative Section Standardised Approach for Credit Risk	Consolidated Risk-Weighted Asset Computation	CR-04	CRi-04	CR-04
		Real Estate (excluding Currency Mismatch)	CR-05	CRi-05	CR-05
		Subordinated Debt, Equity and Other Capital Instruments	CR-06	CRi-06	CR-06
		Currency Mismatch	CR-07	CRi-07	CR-07
		Equity Investments in Funds	CR-08	CRi-08	CR-08
		Consolidated Risk-Weighted Amounts and Capital Deductions for Securitisation	CR-09	CRi-09	CR-09
		On Balance Sheet Risk-Weighted Asset Equivalent for Securitisation Exposures	CR-10	CRi-10	CR-10
		Off-Balance Sheet Risk Securitisation Exposures	CR-11	CRi-11	CR-11
		Qualitative	CR-12	CRi-12	CR-12

No.	Category	Title	Entity Worksheet		Consolidated Worksheet
			Conventional	Islamic	
		Disclosure of Exposures to Securitisation Transaction (Non-originating Banking Institution)			
		Qualitative Disclosure of Exposures to Securitisation Transaction (Originating Banking Institution)	CR-13	CRi-13	CR-13
		Qualitative Disclosure of Exposures to Securitisation Transaction (Labuan Bank Acting as a Sponsor)	CR-14	CRi-14	CR-14
		Counterparty Risk Requirements (Unsettled Trade)	CR-15	CRi-15	CR-15
		Risk-Weighted Asset Disclosure for Failed Trades	CR-16	CRi-16	CR-16
		Other Assets	CR-17	CRi-17	CR-17
		Off-balance Sheet Disclosure	CR-18	CRi-18	CR-18
		Counterparty Exposures - Derivative Contracts	CR-19	CRi-19	CR-19
		Counterparty Exposures - Derivative Contracts (Bilateral Netting Arrangements)	CR-20	CRi-20	CR-20
		Credit Exposure and RWA by Shariah Contract	Not Applicable (NA)	CRi-21	CR-21
		Credit Risk Amount Absorbed by Investment Account (by Exposure Class)	NA	CRi-22	CR-22

No.	Category	Title	Entity Worksheet		Consolidated Worksheet
			Conventional	Islamic	
		Credit Risk Amount Absorbed by Investment Account (by Shariah Contract)	NA	CRi-23	CR-23
		Credit Risk Mitigation (Simple Approach)	CR-21	CRi-24	CR-24
		Credit Risk Mitigation (Comprehensive Approach)	CR-22	CRi-25	CR-25
		Financing-to-Value Disclosure for Real Estate Exposures	CR-23	CRi-26	CR-26
		Reconciliation to Consolidated Balance Sheet	CR-24	CRi-27	CR-27
		Reconciliation to Consolidated Balance Sheet for Others (Less)	CR-25	CRi-28	CR-28
		Reconciliation to Consolidated Balance Sheet for Others (Add)	CR-26	CRi-29	CR-29

3.0 Validation Rules

CR-01 AND CRi-01: VALIDATION RULES (SIMPLE APPROACH UNDER CREDIT RISK MITIGATION)

3.1 The template includes validation checks for Labuan banks adopting Credit Risk Mitigation (CRM) (Simple Approach).

CR-02 AND CRi-02: VALIDATION RULES (COMPREHENSIVE APPROACH UNDER CREDIT RISK MITIGATION)

3.2 The template includes validation checks for Labuan banks adopting CRM (Comprehensive Approach).

4.0 Summary Sheet

CR-03 AND CRi-03: CONSOLIDATED EXPOSURES, RISK-WEIGHTED ASSETS AND CAPITAL REQUIREMENTS

4.1 This form contains the summary of pre- and post-effect of CRM on exposures (including on- and off-balance sheet exposures), risk-weighted assets (RWA) and capital requirements computed based on the *Guidelines on Banking and Islamic Banking Capital Adequacy Framework (Credit Risk)*.

4.2 Further details on columns are as follows:

Heading	Description
Loans, advances & financing and other on-balance sheet exposures[1]	Refers to on-balance sheet exposures net of specific provisions before the application of CRM.

[1] In certain cases, credit exposures arising from derivative contracts may already be reflected on-balance sheet. For example, Labuan banks may have recorded current credit exposures to counterparties (i.e., mark-to-market values) under foreign exchange and interest rate related contracts on the balance sheet as “other assets” or “sundry debtors”. To avoid double counting, such exposures should be excluded from the on-balance sheet exposures and treated as off-balance sheet exposures for the purpose of this form.

Heading	Description
Commitments and Contingencies & other off-balance sheet exposures (Notional Principal Amount)	Refers to off-balance sheet exposures before the application of credit conversion factors (CCF) and CRM.
Converted to Credit Equivalent Amount	Refers to off-balance sheet exposures net of specific provisions after the application of CCF and before the application of CRM.
Total On & Off-Balance Sheet Exposures	Refers to the total on and off-balance sheet exposures. These are non-input cells/ formularised cells.
Exposures post-CRM	Refers to total credit exposure after the application of CCF and CRM.
Risk-Weighted Assets (RWA)[2]	Refers to RWA amount after CRM.
Capital Requirement	Refers to capital requirement amount. These are non-input cells/ formularised cells.

4.3 For avoidance of doubt, exposures to Malaysian and Labuan stock exchanges and clearing houses as prescribed under paragraph 19.2 of the *Guidelines on Banking and Islamic Banking Capital Adequacy Framework (Credit Risk)* must be reported under the 'General Corporates' exposure class.[3]

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[2] Exposures reported should be mutually exclusive. Where a credit exposure under "retail" and "residential real estate" has a different financing currency than its obligor's source of income and qualifies under "Currency Mismatch", Labuan banks should only report these exposures under "Currency Mismatch" to avoid double counting. For avoidance of doubt, such exposures should not be reported again in the "Retail" and "Real Estate: RRE" asset class for the purpose of this form **and** CR-04.

[3] This expectation will apply throughout the Basel III *Guidelines on Banking and Islamic Banking Capital Adequacy Framework (Credit Risk)* reporting template, where relevant.

5.0 Quantitative Section: Standardised Approach for Credit Risk

CR-04 AND CRi-04: CONSOLIDATED RISK-WEIGHTED ASSET COMPUTATION

5.1 This form reports the breakdown of RWA according to each exposure class after taking into account CRM effects. Each exposure class is segregated into either performing rated, performing unrated, or defaulted categories with a few exceptions.

5.2 All 'exposures after netting and CRM' should be reported according to the appropriate exposure class and risk weights set out in this form. The exposure amount is then multiplied by the appropriate risk weight to compute the RWA.

5.3 For guaranteed exposures, "exposures post-CRM" shall be reported according to the exposure class of the underlying obligor with applicable risk weight of the guarantor. Examples and illustrations of the reporting treatment are as follows:

Example 1

Corporate A is unrated (100% risk weight) and has an exposure of USD500,000 with 5-year residual maturity. This exposure is fully secured by debt securities issued by a bank and rated AA (20% risk weight) with a remaining maturity of 7 years.

Solution (Simple Approach)

(i) **Exposures pre-CRM**: USD500,000 should be reported as "performing" exposure under the "General Corporates" exposure class with risk weight of 100% in worksheet CR-03/CRi-03.

(ii) **Exposures post-CRM:** USD500,000 should be reported as "performing rated" exposure under the "General Corporates" exposure class with risk weight of 20% in worksheet CR-04/CRi-04.

Example 2

Corporate B is rated as BBB and has an exposure of USD1,000,000. Half of the exposure is secured by AAA-rated Malaysian Government Securities (MGS) with residual maturity of 2 years.

Solution (Comprehensive Approach)

(i) **Exposures pre-CRM:** USD1,000,000 should be reported as “performing rated” exposure under the “General Corporates” exposure class with 100% risk weight in worksheet CR-03/CRi-03.

(ii) **Exposures post-CRM:** USD510,000 should be reported as “performing rated” exposure under the “General Corporates” exposure class with 100% risk weight in worksheet CR-04/CRi-04.

Adjusted exposure (E*)	= Max {0, [E × (1+He) – C × (1- Hc - Hfx)]}
	= [1,000,000 × (1+0) – 500,000 × (1 - 0.02 - 0)]
	= **USD 510,000**

CR-05 AND CRi-05: REAL ESTATE (EXCLUDING CURRENCY MISMATCH)

5.4 This form reports Labuan bank’s exposures to real estate based on its sub-asset classes, as defined by paragraph 23.0 of the *Guidelines on Banking and Islamic Banking Capital Adequacy Framework (Credit Risk)*. For the purposes of this form, Labuan banks shall report the real estate exposures excluding the currency mismatch exposures for ‘residential real estate’.

CR-06 AND CRi-06: SUBORDINATED DEBT, EQUITY AND OTHER CAPITAL INSTRUMENTS

5.5 This form reports Labuan bank’s exposures to subordinated debt, equity and other capital instruments based on its risk weights, as defined by paragraph

21.0 of the *Guidelines on Banking and Islamic Banking Capital Adequacy Framework (Credit Risk)*.

CR-07 AND CRi-07: CURRENCY MISMATCH

5.6 This form reports Labuan bank's exposures to currency mismatch, as defined by paragraph 24.0 of the *Guidelines on Banking and Islamic Banking Capital Adequacy Framework (Credit Risk)*. For the avoidance of doubt, the reported currency will be based on the **currency of financing**.

CR-08 AND CRi-08: EQUITY INVESTMENTS IN FUNDS

5.7 This form reports Labuan bank's exposures to equity investments in funds based on the approaches, as defined by paragraph 29.0 of the *Guidelines on Banking and Islamic Banking Capital Adequacy Framework (Credit Risk)*.

CR-09 AND CRi-09: CONSOLIDATED RISK-WEIGHTED AMOUNTS AND CAPITAL DEDUCTIONS FOR SECURITISATION

5.8 This form summarises the RWA and deduction in the calculation of Common Equity Tier 1 (CET1) Capital for increase in equity capital resulting from securitisation transactions, as defined by part F.3 of the *Guidelines on Banking and Islamic Banking Capital Adequacy Framework (Risk-Weighted Assets)*. This form is fully automated.

CR-10 AND CRi-10: ON BALANCE SHEET RISK-WEIGHTED ASSET EQUIVALENT FOR SECURITISATION EXPOSURES

5.9 This form reports the breakdown of RWA for on-balance sheet securitisation exposures taking into account CRM effects, as defined by part F.3.2 of the *Guidelines on Banking and Islamic Banking Capital Adequacy Framework (Risk-Weighted Assets)*. The exposures are segregated by exposures arising from traditional and synthetic securitisations, and by non-originating and originating banking institution.

5.10 On-balance sheet securitisation exposures where guarantees and credit derivatives have been employed for CRM purposes should continue to be reported on this form and risk-weighted according to the risk weights of the protection provider. For securitisation exposures where other forms of risk mitigants have been employed (i.e. collateralised transactions and on-balance sheet netting), only the net exposure amount should be reported on this form.

CR-11 AND CRi-11: OFF-BALANCE SHEET RISK SECURITISATION EXPOSURES

5.11 This form reports the breakdown of RWA for off-balance sheet securitisation exposures taking into account CRM effects, as defined by part F.3.3 of the *Guidelines on Banking and Islamic Banking Capital Adequacy Framework (Risk Weighted-Assets)*. The exposures are segregated by exposures arising from traditional and synthetic securitisations, and by non-originating and originating banking institution. The calculation of the capital requirement for early amortisation provisions is also reported in this form.

5.12 All ‘net exposure after CRM’ should be reported according to the appropriate risk weights set out in this form. The exposure amount is then multiplied by the appropriate risk weight to compute the RWA.

5.13 Off-balance sheet securitisation exposures where guarantees and credit derivatives have been employed for CRM purposes should continue to be reported on this form and risk-weighted according to the risk weights of the protection provider. For securitisation exposures where other forms of risk mitigants have been employed (i.e. collateralised transactions and on-balance sheet netting), only the net exposure amount should be reported on this form.

5.14 For unrated exposures that are eligible for the application of the ‘look-through approach’ as specified in the *Guidelines on Banking and Islamic Banking*

Capital Adequacy Framework (Risk-Weighted Assets), Labuan banks are required to report the exposures in the appropriate range of risk-weight columns and compute the resultant RWA for each risk weight range.

5.15 For unrated eligible liquidity facilities, exposures should be risk-weighted by applying the highest risk weight assigned to any of the underlying individual exposures covered by the facility.

5.16 For the early amortisation provision, Labuan banks are required to first calculate the capital requirement according to the *Guidelines on Banking and Islamic Banking Capital Adequacy Framework (Risk-Weighted Assets)* to arrive at the exposure amount for the item 'Early amortisation provision'. If the maximum capital requirement is met, Labuan banks may reduce the actual early amortisation requirement by the amount reported in 'Adjustment for early amortisation' (which represents the difference between RWA required for the retained securitisation exposures and the capital requirement that would apply had the exposures not been securitised).

CR-12 AND CRi-12: QUALITATIVE DISCLOSURE OF EXPOSURES TO SECURITISATION TRANSACTION (NON-ORIGINATING BANKING INSTITUTION)

CR-13 AND CRi-13: QUALITATIVE DISCLOSURE OF EXPOSURES TO SECURITISATION TRANSACTION (ORIGINATING BANKING INSTITUTION)

CR-14 AND CRi-14: QUALITATIVE DISCLOSURE OF EXPOSURES TO SECURITISATION TRANSACTION (LABUAN BANK ACTING AS A SPONSOR)

5.17 This form reports detailed information of securitisation transactions that a Labuan bank is exposed to as an originating banking institution, non-originating banking institution or a Labuan bank acting as a sponsor.

5.18 The format of this form is free flow whereby Labuan banks are allowed to add extra rows to fill in the tables provided.

CR-15 AND CRi-15: COUNTERPARTY RISK REQUIREMENTS (UNSETTLED TRADE)

5.19 This form discloses the market value of unsettled trades and its counterparty risk requirements (CRR).

5.20 It aims to measure the amount necessary to accommodate a given level of a counterparty risk (the risk of a counterparty defaulting on its financial obligation to the bank) specifically for unsettled trades (unsettled agency purchase/sale or an unsettled principal sale/purchase) and free deliveries with respect to a Labuan bank's equity business.

5.21 The CRR capital charge (listed in **Appendix V** of the *Guidelines on Banking and Islamic Banking Capital Adequacy Framework (Credit Risk)*) will be multiplied by a factor of 12.5 to arrive at the CRR RWA amount.

CR-16 AND CRi-16: RISK-WEIGHTED ASSET DISCLOSURE FOR FAILED TRADES

5.22 This form reports the number of failed trades and the equivalent RWA. Unsettled or failed securities, commodities and foreign exchange transactions shall be subject to capital charges as specified in **Appendix V** of the *Guidelines on Banking and Islamic Banking Capital Adequacy Framework (Credit Risk)*.

5.23 For failed 'delivery versus payment' (DvP) trades, Labuan banks are required to report the number of failed trades. The value of such failed trades or 'positive current exposure' should be reported. The standard risk multipliers are set out, resulting in corresponding RWA.

5.24 For failed non-DvP trades (or free deliveries), Labuan banks are required to report the number of failed trades. For failed non-DvP trades, the current positive exposure of the receivable amount should be reported in column 'Balance'. The amount of the exposure should be reported under the class to which the counterparty belongs and risk-weighted at the risk weight applicable to that counterparty. The standard risk weights are set out which will result in corresponding RWA.

CR-17 AND CRi-17: OTHER ASSETS

5.25 This form reports the breakdown of RWA for other assets exposures taking into account CRM effects, as defined by paragraph 33.0 of the *Guidelines on Banking and Islamic Banking Capital Adequacy Framework (Credit Risk)*.

CR-18 AND CRi-18: OFF-BALANCE SHEET DISCLOSURE

5.26 This form reports the principal amount of off-balance sheet exposures, credit equivalent (CE) amount and RWA after CRM, as specified in **Appendix II** of the *Guidelines on Banking and Islamic Banking Capital Adequacy Framework (Risk-Weighted Assets)*.

5.27 The RWA of all off-balance sheets is determined as follows:

(a) The CE amount of an off-balance sheet item is determined by multiplying the off-balance sheet exposure by the appropriate CCF.

(b) The CE amount of an off-balance sheet item is treated like an on-balance sheet exposure and assigned to the appropriate risk category according to the counterparty or where applicable, the guarantor or the collateral.

5.28 Where an exposure is fully or partially covered by a recognised CRM, the calculation is similar to that of an on-balance sheet exposure, using either the Simple or Comprehensive Approach.

5.29 Where over-the-counter (OTC) and credit derivative contracts are covered by a valid bilateral netting agreement, the Labuan bank may report them on a net basis under sheet CR-19 and CR-20 as well as CRi-19 and CRi-20. The exposure in rows 8 of sheet CR-18 and CRi-18 should be manually inputted and correspond with numbers reported sheet CR-19 and CR-20 as well as CRi-19 and CRi-20, as appropriate.

CR-19 AND CRi-19: COUNTERPARTY EXPOSURES - DERIVATIVE CONTRACTS

CR-20 AND CRi-20: COUNTERPARTY EXPOSURES - DERIVATIVE CONTRACTS (BILATERAL NETTING ARRANGEMENTS)

5.30 This form reports the notional principal amount, CE amount and RWA for derivative contracts.

5.31 Labuan banks should use the 'current exposure method' in **Appendix II** of the *Guidelines on Banking and Islamic Banking Capital Adequacy Framework (Risk-Weighted Assets)* to calculate the CE amount for counterparties under OTC and credit derivative contracts. Individual OTC derivative transactions and individual credit derivative transactions should be reported under sheet CR-19 and CRi-19. Where OTC derivative transactions and credit derivative contracts are covered by a valid bilateral netting agreement, they should be reported on a net basis under sheet CR-20 and CRi-20.

5.32 The principal amount, CE amount and RWA should correspond with the numbers reported under sheet CR-18 and CRi-18, as appropriate.

CRi-21 (ENTITY WORKSHEET) AND CR-21 (CONSOLIDATED WORKSHEET): CREDIT EXPOSURE AND RWA BY SHARIAH CONTRACT

5.33 This form collects data on credit exposure and RWA by various types of Shariah contracts and exposure class, as specified in part E on 'Exposures to Assets under Shariah Contracts' of the *Guidelines on Banking and Islamic Banking Capital Adequacy Framework (Credit Risk)*.

5.34 For other Shariah contracts that do not fall under any of the specified categories, participating Labuan banks are required to report the credit RWA under the "Other Shariah contracts" category.

5.35 Please find more details on the columns in the table below:

Heading	Description
Exposures post-CRM	Refers to total credit exposure after CRM effects by the Shariah contracts.
RWA	Refers to RWA amount after CRM effects by the Shariah contracts.

CRi-22 (ENTITY WORKSHEET) AND CR-22 (CONSOLIDATED WORKSHEET): CREDIT RISK AMOUNT ABSORBED BY INVESTMENT ACCOUNT (BY EXPOSURE CLASS)

5.36 This form reports the Islamic banking operation's credit exposure amount and RWA by exposure classes that are funded by Investment Account (IA) holders, as specified in **Appendix VI** of the *Guidelines on Banking and Islamic Banking Capital Adequacy Framework (Risk-Weighted Assets)*.

5.37 Labuan banks are required to fill in the exposure amount and RWA by **exposure class** that are funded by Restricted Investment Account (RA) and Unrestricted Investment Account (UA).

CRi-23 (ENTITY WORKSHEET) AND CR-23 (CONSOLIDATED WORKSHEET): CREDIT RISK AMOUNT ABSORBED BY INVESTMENT ACCOUNT (BY SHARIAH CONTRACT)

5.38 This form reports the Islamic banking operation's credit exposure amount and RWA by type of Shariah contract that are funded by IA holders, as specified in **Appendix VI** of the *Guidelines on Banking and Islamic Banking Capital Adequacy Framework (Risk-Weighted Assets)*.

5.39 Labuan banks are required to fill in the exposure amount and RWA by **Shariah contract** that are funded by RA and UA.

CR-21 (ENTITY WORKSHEET), CRi-24 (ENTITY WORKSHEET) AND CR-24 (CONSOLIDATED WORKSHEET): CREDIT RISK MITIGATION (SIMPLE APPROACH)

5.40 This form reports the performing and defaulted of a Labuan bank that are eligible for on-balance sheet netting and CRM, resulting in capital relief under the Simple Approach[4].

5.41 However, Labuan banks are only allowed to use the Comprehensive Approach for exposures in the 'Islamic banking operations' that are collateralised by eligible physical assets. This is subject to all the requirements set in **Appendix VIII** of the *Guidelines on Banking and Islamic Banking Capital Adequacy Framework (Credit Risk)* being met.

5.42 Labuan banks are required to report the following items:

- 'Exposures before CRM' includes on-balance sheet exposures and CE of off-balance sheet exposures, net of specific provisions computed before CRM or any on-balance sheet netting effects.

- 'Amount Eligible for On-balance Sheet Netting' includes exposures that meet the netting requirements in the *Guidelines on Banking and Islamic Banking Capital Adequacy Framework (Credit Risk)*.

Labuan banks have to allocate 'Total Exposure After Netting' amount into either:

- 'Exposures eligible for CRM under the Substitution Approach'. These are exposures that are covered by CRM, such as guarantees, derivatives or financial collateral using the substitution approach. Exposures not covered by any form of CRM should also be included in this column; or

- 'Exposures eligible for CRM under Comprehensive Approach'. This should only consist of exposures that are collateralised by eligible physical assets.

[4] i.e., using the substitution approach.

CRM using the Substitution Approach

5.43 Labuan banks should report the following:

- The amount of 'Guarantees by Eligible Guarantors' as well as Eligible Financial Collateral, such as 'Hamish Jiddiyyah', 'Urbun', 'Cash'/'Investment Account, Cash or Other Deposits', 'Gold', 'Debt Securities or Sukuk', 'Equities (Main Index only)' and 'Unit Trust/Mutual Funds (Main Index only)'. For financial collateral, the value of credit protection is its market value.

- Risk-weighted Exposure Amount:

  (i) 'RWA of Exposures covered by CRM'. The RWA is derived by multiplying the exposures covered by CRM with the risk weight appropriate to the credit protection.

  (ii) 'RWA of Exposures not covered by CRM'. The RWA is derived by multiplying the uncovered exposure with the risk weight of the original counterparty or the appropriate risk weight for defaulted exposures.

CRM using the Comprehensive Approach (for exposures secured by eligible physical/leased assets)

5.44 Labuan banks should report the following:

- 'Exposures eligible for CRM under the Comprehensive Approach'. These are exposures secured wholly or partially by eligible physical assets. These exposures should be reported before any adjustments for CRM.

- Eligible physical assets. The value of physical assets should be reported based on the fair value (i.e., based on the requirements set in **Appendix**

VIII of the *Guidelines on Banking and Islamic Banking Capital Adequacy Framework (Credit Risk)* before the standard haircut.

- 'Eligible physical assets after haircut'. The value reported shall be the value of 'Eligible physical assets' after the standard haircut of 30%.

- Risk-weighted Exposure Amount:

  (i) 'RWA of Exposures not covered by CRM'. In calculating appropriate RWA for this column, exposures collateralised by physical or leased assets shall be accorded RWA which is the higher of:

    - RWA calculated using the CRM method; or

    - 50% risk weight applied on gross exposure amount (i.e., before deducting the value of collateral).

CR-22 (ENTITY WORKSHEET), CRi-25 (ENTITY WORKSHEET) AND CR-25 (CONSOLIDATED WORKSHEET): CREDIT RISK MITIGATION (COMPREHENSIVE APPROACH)

5.45 This form reports the performing and defaulted exposures of a Labuan bank that are eligible for on-balance sheet netting and CRM, resulting in capital relief under the Comprehensive Approach.

5.46 Labuan banks are required to report the following items:

- 'Exposures before CRM'. Exposures are reported net of specific provisions.

- 'Amount Eligible for On-balance Sheet Netting' which allows for calculation of capital requirements on the basis of net credit exposures. Labuan banks are only allowed to use on-balance sheet netting when all the requirements in paragraph 50.0 of the *Guidelines on Banking and*

Islamic Banking Capital Adequacy Framework (Credit Risk) have been met.

- Labuan banks have to allocate the 'Total Exposure After Netting' amount into either:

  (i) 'Exposures eligible for CRM under the Substitution Approach'. These are non-collateralised exposures covered by CRM, such as guarantees or derivatives using the substitution approach. Exposures not covered by any form of CRM should also be included in this column; or

  (ii) 'Exposures eligible for CRM under the Comprehensive Approach'. This consists of exposures collateralised by eligible financial collateral. It also includes Islamic banking exposures which are collateralised by eligible physical or leased assets.

CRM using the Substitution Approach

5.47 Labuan banks should report the following:

- The amount of 'Guarantees by Eligible Guarantors' and 'Credit Derivatives'.

- Risk-weighted Exposure Amount (Non-Collateralised Exposure):

  (i) 'RWA of Exposures covered by CRM' or the covered portion of the exposures. The RWA is derived by multiplying the covered portion of the exposure with the risk weight of the CRM.

  (ii) 'RWA of Exposures not covered by CRM'. The RWA is derived by multiplying the uncovered exposure with the risk weight of the original counterparty or the appropriate risk weight for defaulted exposures.

CRM using the Comprehensive Approach

5.48 The following should also be reported:

- 'Exposures eligible for CRM under the Comprehensive Approach'. These are collateralised exposures after taking into account netting effects but before CRM effects using the Comprehensive Approach.

- 'Exposure after Volatility Adjustment'. This is the value of exposure after taking into account the standard supervisory haircuts appropriate to the exposure as described under the Comprehensive Approach of the *Guidelines on Banking and Islamic Banking Capital Adequacy Framework (Credit Risk)*. Volatility adjustments are only made for exposures covered wholly or partially by financial collateral. Volatility adjustments are not required for exposures collateralised by eligible Physical/Leased Assets.

- 'Eligible physical assets after haircut'. The amount of physical assets should be reported based on its fair value (i.e. based on the requirements set in **Appendix VIII** of the *Guidelines on Banking and Islamic Banking Capital Adequacy Framework (Credit Risk)* and discounted using the standard haircut of 30%).

- Risk-weighted Exposure Amount (Collateralised Exposure)

    (i) 'RWA of Exposures not covered by CRM'. The RWA is derived by multiplying the uncovered exposure with the risk weight of the original counterparty or the appropriate risk weight for defaulted exposures. For exposures collateralised by physical or leased assets shall be accorded RWA which is the higher of:

    - RWA calculated using the CRM method; or

    - 50% risk weight applied on gross exposure amount (i.e., before deducting the value of collateral).

5.49 The amounts of CRM used are subjected to the appropriate volatility adjustments, haircuts on collateral and maturity adjustments, where applicable.

5.50 For the purpose of this reporting form, Labuan banks should ensure that the effects of over collateralisation for an exposure should not be used as CRM for the benefit of other exposures.

CR-23 (ENTITY WORKSHEET), CRi-26 (ENTITY WORKSHEET) AND CR-26 (CONSOLIDATED WORKSHEET): FINANCING-TO-VALUE DISCLOSURE FOR REAL ESTATE EXPOSURES

5.51 This form reports Labuan bank's real estate exposures based on its respective financing-to-value (FTV) ratios, as specified in paragraph 23.0 of the *Guidelines on Banking and Islamic Banking Capital Adequacy Framework (Credit Risk)*.

5.52 For exposures with multiple types of real estate collateral across different real estate categories, Labuan banks are allowed to sum the total value of the different types of real estate. However, the risk-weight table used for determination of capital shall be the risk weight table based on the underlying collateral secured to the financing that results in highest risk weight in paragraphs 23.12 to 23.15 of the *Guidelines on Banking and Islamic Banking Capital Adequacy Framework (Credit Risk)*.

Examples and illustrations of the reporting treatment are as follows:

Example 1

SME customer takes out a financing of USD500,000 to purchase a shop house valued at USD600,000 for its own commercial activities. The SME customer also pledges a fully paid-off residential real estate (valued at USD700,000) that the customer resides in.

Solution

1. Computation of FTV

Financing value = USD500,000

Collaterals value = commercial real estate (CRE) of USD600,000 + residential real estate (RRE) of USD700,000 = USD1,300,000

∴ FTV = USD500,000 ÷ USD1,300,000 = 0.38 (38%)

2. Determination of RWA

Given that FTV is 38%:

Collateral 1: CRE that is not materially dependent on cash flows generated	Based on paragraph 23.14 of the *Guidelines on Banking and Islamic Banking Capital Adequacy Framework (Credit Risk)*, a Labuan bank shall apply a risk weight of 60%.
Collateral 2: RRE that is not materially dependent on cash flows generated	Based on paragraph 23.12 of the *Guidelines on Banking and Islamic Banking Capital Adequacy Framework (Credit Risk)*, a Labuan bank shall apply a risk weight of 20%.

From the computation above, the Labuan bank should report the higher RWA i.e., “Collateral 1: CRE” of 60%.

Example 2

Individual A takes out a financing of USD500,000 to purchase a house currently under construction valued at USD700,000 for own use. The individual customer also pledges a fully paid off residential real estate as collateral valued at USD600,000. This residential real estate collateral provides rental income to individual A, where the repayment of the financing is materially dependent on this rental income.

Since ‘other real estate’ exposures (ORE) will always result in a worse off risk weight, the Labuan bank should apply the ORE risk weight i.e. 75%.

CR-24 (ENTITY WORKSHEET), CRi-27 (ENTITY WORKSHEET) AND CR-27 (CONSOLIDATED WORKSHEET): RECONCILIATION TO CONSOLIDATED BALANCE SHEET

CR-25 (ENTITY WORKSHEET), CRi-28 (ENTITY WORKSHEET) AND CR-28 (CONSOLIDATED WORKSHEET): RECONCILIATION TO CONSOLIDATED BALANCE SHEET FOR OTHERS (LESS)

CR-26 (ENTITY WORKSHEET), CRi-29 (ENTITY WORKSHEET) AND CR-29 (CONSOLIDATED WORKSHEET): RECONCILIATION TO CONSOLIDATED BALANCE SHEET FOR OTHERS (ADD)

5.53 To ensure the integrity of the capital adequacy ratios calculation, this form aims to reconcile the total assets in the balance sheet to total assets used by the Labuan bank to determine the RWA.

5.54 Under CR-24 (Entity Worksheet), CRi-27 (Entity Worksheet) and CR-27 (Consolidated Worksheet), 'Total Assets per Balance Sheet' for accounting purposes is reconciled to the Labuan bank's 'Total Assets used for Credit Risk Weighting' purposes. Adjustments are made to avoid double counting e.g. assets held for trading and subjected to market risk capital framework.

5.55 Labuan banks are required to report all the reconciliation items provided in this form. For other reconciliation items, Labuan banks are required to provide additional disclosures and their breakdown by adding new rows in the form, as allowed.