GUIDANCE NOTE FOR GUIDELINES ON BANKING AND ISLAMIC BANKING CAPITAL ADEQUACY FRAMEWORK (OPERATIONAL 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 (Operational 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 of 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 Operational Risk

2.1 The reporting forms are as follows:

<table>
<tr><th rowspan="2">No.</th><th rowspan="2">Title</th><th colspan="2">Entity Worksheet</th><th rowspan="2">Consolidated Worksheet</th></tr>
<tr><th>Conventional</th><th>Islamic</th></tr>
<tr><td>1</td><td>Total Operational Risk-Weighted Assets</td><td>OR-01</td><td>ORi-01</td><td>OR-01</td></tr>
<tr><td>2</td><td>Business Indicator Components (IPC, SC, FC)</td><td>OR-02</td><td>ORi-02</td><td>OR-02</td></tr>
<tr><td>3</td><td>Operational Risk Management and Risk Management Processes</td><td>OR-03</td><td>ORi-03</td><td>OR-03</td></tr>
</table>

3.0 Specific Instructions

OR-01 AND ORi-01: TOTAL OPERATIONAL RISK-WEIGHTED ASSETS

3.1 This form provides a summary of the total minimum capital required and risk-weighted assets (RWA) equivalent for operational risk.

3.2 No inputs are required as the total is automatically derived upon completion of forms OR-02 and ORi-02.

3.3 The RWA amount is computed by multiplying the minimum capital required by a multiplier of 12.5 (reciprocal of 8%).

OR-02 AND ORi-02: BUSINESS INDICATOR COMPONENTS (IPC, SC, FC)

3.4 Labuan banks should input the relevant Business Indicator (BI) income statement and balance sheet items, categorised into 12 quarters (equivalent to 3 years).

3.5 The relevant BI components i.e. interest/profit component (IPC), services component (SC) and financial component (FC) are calculated automatically.

3.6 BI is then calculated by adding the IPC, SC and FC.

3.7 The final BIC is automatically derived under OR-01 and ORi-01.

3.8 All automatically calculated amounts in the forms are derived based on the formulae specified in the *Guidelines on Banking and Islamic Banking Capital Adequacy Framework (Operational Risk).*

4.0 Operational Risk Management

OR-3 AND ORi-03: OPERATIONAL RISK MANAGEMENT ENVIRONMENT AND RISK MANAGEMENT PROCESSES

4.1 This form is divided into two parts as follows:

- Risk management environment; and
- Risk management processes.

4.2 The form on risk management environment requires Labuan banks to describe its:

- Mission and strategic objectives;
- Role of the board of directors and senior management in the management of operational risk;
- Structure and organisation of the operational risk management function;
- Operational risk management framework including a firm-wide definition of operational risk and principles for the identification, assessment, monitoring and control/mitigation of risk; and
- Role and scope of internal audit and external auditors.

4.3 Whilst the form on risk management processes requires Labuan banks to describe its:

- Policies and procedures for identification and assessment of operational risk in existing and new products, activities, processes and systems;
- Process for monitoring operational risk profiles and material exposures to losses;
- The nature and scope of operational risk reporting;

- Strategies, processes and procedures for the control/mitigation of material operational risks; and

- Scope of business continuity plans and procedures for the review of business continuity plans.

4.4 Labuan banks are required to provide the above information annually or as and when there are material changes.