Perbadanan Insurans Deposit Malaysia

Protecting Your Insurance And Deposits In Malaysia

CONSULTATION PAPER ON REVISED DIFFERENTIAL PREMIUM SYSTEMS FRAMEWORK

ISSUE DATE : 13 JULY 2010

CLOSING DATE : 13 AUGUST 2010

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1.0 INTRODUCTION

1.1 Perbadanan Insurans Deposit Malaysia ("PIDM") implemented the Differential Premium Systems ("DPS") framework in 2008 with the objective of introducing greater fairness into the premium assessment process and providing incentives for the member institutions ("members") to enhance their risk management practices and minimise excessive risk taking. Prior to that, the premiums were calculated on a flat rate basis, which did not differentiate the members according to their risk profiles. The DPS framework is also in line with PIDM's mandate of promoting sound risk management and contributing to the soundness of the financial system.

1.2 PIDM is committed to enhance the effectiveness of the DPS framework. After 3 years of implementation, it is timely for the framework to be reviewed. The objectives of the review are:

(a) to ensure that the existing criteria and indicators used are still current and relevant;

(b) to address feedback received and issues encountered since the implementation of the DPS framework; and

(c) to assess the impact of changes and developments in the operating and regulatory environment to the effectiveness of the current DPS framework i.e. implementation of Basel II and adoption of Financial Reporting Standard ("FRS") 139.

2.0 OBJECTIVE OF THE CONSULTATION PAPER

2.1. The purpose of this Consultation Paper ("CP") is to seek views and comments on the proposed revision to the DPS framework. In line with PIDM's strategies and values, the consultative approach is adopted to ensure the revised DPS framework is appropriate and effective.

2.2. The CP is divided into three parts:

Part A: Background of the Proposed Revision to the DPS Framework
Part B: Details of the Proposed Revision to the DPS Framework – Quantitative Criteria
Part C: Details of the Proposed Revision to the DPS Framework – Reporting Manual and Forms

2.3. This CP will only focus on the proposed changes to the DPS Guidelines issued on 28 February 2008 ("DPS Guidelines 2008"). A revised DPS Guidelines will be issued after the finalisation of this CP. Unless specified, the requirement in the DPS Guidelines 2008 remains unchanged.

3.0 THE CONSULTATION PROCESS

3.1. PIDM welcomes written comments from interested parties on any aspect of the CP. Comments should be sent, no later than **13 August 2010**, to:

General Manager
Insurance, Risk Assessment and Monitoring Division
Perbadanan Insurans Deposit Malaysia
Level 19, 1 Sentral
Jalan Travers
Kuala Lumpur Sentral
50470 Kuala Lumpur
Malaysia

(Please mark "CP Revised DPS" on the top left hand corner of the envelope for written comments posted to PIDM)

Enquiries: 03-2173 7436
Fax: 03-2173 7494
Email: DPS@pidm.gov.my

3.2. All comments will be treated in strictest confidence. PIDM will collate comments on this CP and publish its response on PIDM's website, by September 2010. Thereafter PIDM will undertake the relevant legislative process to amend the DPS Regulations. A revised DPS Guidelines will be issued by end-December 2010 to supersede the current DPS Guidelines 2008.

3.3. The proposed revision to the DPS Guidelines is planned to be effective beginning premium assessment year 2011.

PART A: BACKGROUND OF THE PROPOSED REVISION TO THE DPS FRAMEWORK

4.0 METHODOLOGY

4.1 In reviewing the DPS framework, PIDM carried out the following:

(a) **Sought feedback from the members**
In October 2009, PIDM invited members to provide feedback and recommendations on the existing DPS framework. These feedback gave PIDM valuable inputs in reviewing the DPS framework amidst changing economic environment and the dynamic developments in the regulatory requirements.

(b) **Conducted positional and trend analysis**
PIDM performed extensive data testing and validation exercises to identify and calibrate the most reflective thresholds for the quantitative criteria. Current operating environment and regulatory policies are considered in reviewing the thresholds and scores.

(c) **Held discussion and consultation with Bank Negara Malaysia**
PIDM also held discussion and consultation with Bank Negara Malaysia ("BNM") to get feedback and comments on the proposed revisions.

5.0 GUIDING PRINCIPLES

5.1 In the review of the DPS framework, PIDM has been guided by the followings:

(a) The framework should apply equitably to all members irrespective of size or complexity;

(b) The framework must be transparent in order for members to understand and manage their profile. This will also ensure that there is no discretion on the part of PIDM to adjust any scores arbitrarily;

(c) The framework must provide incentives for members to move towards the best DPS classification (lowest premium) by improving their risk profiles; and

(d) The framework should depend on accurate, reliable and timely information.

6.0 SALIENT FEATURES OF THE PROPOSED REVISION

6.1 PIDM has carried out a comprehensive review of the existing quantitative and qualitative DPS criteria and indicators, and concludes that almost all of the criteria and indicators are still relevant. Nonetheless, PIDM is proposing several revisions and amendments to the existing formulae and/or the applicable thresholds of the criteria.

6.2 Summary of the salient features of the proposed DPS framework:

(a) The current approach of using both quantitative and qualitative criteria will be maintained. In this regard, the current weightage of 60% to quantitative criteria and 40% to the qualitative criteria remain unchanged.

(b) The DPS premium category threshold will also remains unchanged.

(c) There are six revisions on the quantitative criteria proposed in this CP. The details are available in **Part B** of this CP. The proposed revisions are as per the followings:

(i) Proposal to remove Efficiency criterion;

(ii) Proposal to introduce a revised indicator for Asset Concentration criterion;

(iii) Proposal to revise the indicators for Asset Quality criterion and to increase the score from 10 to 15 points;

(iv) Proposal to revise the score threshold for Capital criterion – Risk-Weighted Capital Ratio (“RWCR”) and Core Capital Ratio (“CCR”);

(v) Proposal to revise the score threshold for Profitability criterion – Return on Risk-weighted Assets (“RoRWA”); and

(vi) Proposal to revise the formula of Risk-weighted Assets (“RWA”) in calculation of Asset Growth criterion.

6.3 There will be no change to the qualitative criteria and scores. PIDM firmly believes that the Supervisory Rating by BNM (which carries 35 points) is an important criterion in the current DPS framework as it provides a comprehensive assessment of the members to include the qualitative aspects such as corporate governance, board and senior management capabilities and oversight and risk management cultures and capabilities. Meanwhile, there will also be no change to the 'Other Information' criterion.

6.4 With regard to reporting requirement, PIDM is proposing to revise the DPS source of quantitative information from BNM's Financial Institutions Statistical System ("FISS") to members' financial statements, wherever possible. This will ensure greater consistencies in the computation of various indicators used as data is extracted from a single source. Details of this proposal can be found in **Part C** of this CP.

7.0 OTHER NOTES

New Criterion

7.1 As part of the review, PIDM has considered introducing new criterion such as 'Liquidity', which is at the forefront of discussions on regulatory frameworks given the current environment. Beside liquidity, there is also active discussion on the capital framework at the international arena. Towards this end, PIDM has taken the stance to wait for firmer regulatory plans and changes on these regulatory areas. We are mindful neither to introduce indicators that may become less relevant in the near future nor to pre-empt any regulatory changes.

Reference Date

7.2 Despite some requests from members on the possibility of revising the reference date of the DPS framework to follow their respective financial year end instead of the calendar year, PIDM has decided to maintain a status quo on the requirement. PIDM views that same period assessment for all members (i.e. using the same calendar period) is a fair approach.

8.0 SUMMARY OF THE CURRENT AND PROPOSED REVISION TO THE DPS FRAMEWORK

Table 1: Current and Proposed Criteria, Indicators and Scores

CRITERIA	CURRENT WEIGHT / SCORE	PROPOSAL WEIGHT / SCORE	REMARKS
Quantitative Criteria	***60***	***60***	
Capital	**20**	**20**	
1. Risk-weighted Capital Ratio	10	10	**To revise score thresholds**
2. Core Capital Ratio	10	10	
Profitability	**15**	**15**	
3. Return on Risk-weighted Assets	8	8	**To revise score thresholds**
4. Mean Adjusted Return Volatility	7	7	**Unchanged**
Efficiency	**5**		
5. Efficiency Ratio	5		**To remove**
Asset Quality	**10**	**15**	**To revise score weight**
6. Net Non Performing Loans (NPLs) To Capital Base Ratio	5		**To remove and replace with indicators number 8 and 9**
7. Gross NPLs and Loans In Arrears To Gross Loans Ratio	5		
8. Net Impaired Loans To Capital Base Ratio		8	**New indicators and score**
9. Total Impaired Loans Ratio		7	
Asset Concentration	**5**	**5**	
10. Aggregate Sector Asset Concentration Ratio; and Residential Property Asset Concentration Ratio	5		**To remove and replace with indicator number 11**
11. Household Sector Concentration Ratio; and Aggregate Sector Loans Concentration Ratio		5	**New indicator**
Asset Growth	**5**	**5**	
12. Risk-weighted Assets To Total Assets Ratio; and Total Assets Growth Ratio	5	5	**To adjust formula for Risk-weighted Assets**
Qualitative Criteria	***40***	***40***	
13. Supervisory Rating	35	35	**Unchanged**
14. Other Information	5	5	**Unchanged**
TOTAL	**100**	**100**	

PART B: DETAILS OF THE PROPOSED REVISION TO THE DPS FRAMEWORK – QUANTITATIVE CRITERIA

9.0 PROPOSAL TO REMOVE EFFICIENCY CRITERION

9.1 In the existing DPS framework, the efficiency criterion was included as a measurement of the members' capability to optimize resources in generating the net income. PIDM intends to recognize members that were conscious of managing the overheads while expanding their business revenues and an improvement in the efficiency ratio would usually translate into better profitability. The efficiency ratio also provides a gauge of members that are better managed relative to others.

9.2 While the efficiency ratio remained relevant to assess the management's competencies, an analysis of recent trends have revealed that members' overhead expenses were continually increasing. This was due to the high operating expenses incurred in response to changes in the operating environment and regulatory requirements. Some of these initiatives are continuous and may take several years to be fully completed.

9.3 PIDM proposes to remove this criterion from the existing DPS framework. As the members continue to develop the necessary infrastructure and systems required to become more efficient and well-managed institutions as envisaged by the stakeholders including the regulators, PIDM is of the view that the efficiency criterion is not a primary measure to assess a member's risk profile at this juncture. In addition, PIDM is guided by the principle of ensuring that the framework applies equitably to all members irrespective of size or complexity.

Question:

(1) PIDM seeks your comment on the proposal to remove efficiency criterion from the existing DPS framework.

10.0 PROPOSAL TO CHANGE INDICATOR FOR ASSET CONCENTRATION CRITERION

10.1 A member's concentration profile is an important assessment criterion, as a high concentration in a particular sector will render the members more susceptible to adverse circumstances in that particular sector. PIDM's view from the inception of the DPS framework is very clear i.e. the members should manage their business without undue concentration in any particular sector.

10.2 PIDM proposes to alter the asset concentration indicator to remove capital as the benchmark of concentration. The approach of linking concentration to capital does not fully reflect the concentration risk of the members, but is more dependent on the level of capital that members hold. This has become more apparent in recent years as most members have undertaken capital raising exercises to boost their capital buffer.

10.3 PIDM therefore proposes to measure members' loan concentration to various sectors through outstanding loan composition analysis. Under the revised approach, exposure to any particular sector exceeding 20% of loans outstanding will be deemed as 'concentrated'. The sectors that exceed the 20% predetermined threshold will be aggregated to arrive at 'Aggregate Sector Loans Concentration ("ASLC").

10.4 In determining the threshold and score ranges, PIDM acknowledges the need to differentiate members that have concentration mainly in the household sector, which is considered more stable and diversified. Hence, PIDM proposes to apply a different threshold to members whose exposure to the household sector exceeds a predetermined level. We propose the predetermined level to be at 60%.

10.5 The threshold and score range proposed are as follows:

Table 2: Threshold and Score Range for Asset Concentration Criterion

Household Sector Concentration Ratio	Aggregate Sector Loans Concentration (ASLC) - *exposures of loans by sectors exceeding 20% of loan outstanding*	Score
Household Sector > 60% of Total Loans Outstanding	ASLC < 50%	5
	ASLC > 50%	3
Household Sector < 60% of Total Loans Outstanding	ASLC < 35%	5
	ASLC < 50%	3
	ASLC < 75%	1
	ASAC > 75%	0

Question:

(2) PIDM seeks your comment on the proposed indicator, threshold and score for the asset concentration.

11.0 PROPOSAL TO REVISE THE INDICATORS FOR ASSET QUALITY AND TO INCREASE THE SCORE FOR ASSET QUALITY CRITERION FROM 10 TO 15 POINTS

11.1 In Malaysia, the FRS 139 – *Financial Instruments: Recognition and Measurement* issued by the Malaysian Accounting Standards Board became effective from financial years beginning on or after 1 January 2010. In this regard, BNM has also issued the *Guidelines on Classification and Impairment Provisions for Loans/Financing* in January 2010. With the adoption of FRS 139, PIDM is proposing to revise the asset quality criterion for the DPS framework, to reflect the change in the impairment and provisioning requirements.

11.2 In this regard, the 'Net NPLs To Capital Base' indicator is proposed to be changed to 'Net Impaired Loans To Capital Base' ratio. Meanwhile, the 'Gross NPLs and Loan In Arrears To Gross Loans' ratio is proposed to be revised to 'Total Impaired Loans' ratio. The formula for the revised indicators are as follows:

Table 3: Formula for Asset Quality Indicators

Ratio	Formula
Net Impaired Loans To Capital Base Ratio	**Net Impaired Loans *divided by* Capital Base** *where,* Net Impaired Loans equals to: Total Impaired Loans *minus* Total Individual Impairment Provisions^
Total Impaired Loans Ratio	**Total Impaired Loans *divided by* Gross Loans Outstanding**

^ This can also be referred to as Total Individual Assessment Allowance.

11.3 In addition to the revision in the indicators, PIDM is also proposing to increase the score weight for asset quality criterion from 10 to 15 points. The proposed higher score weightage to asset quality is to further underscore PIDM's views that asset quality is one of the most important components in the framework. With the increase in score, PIDM intends to clearly signal to the members that better asset quality management is crucial in maintaining and improving its overall risk profile.

11.4 In essence, as the basis of assessment of criteria is similar to the existing indicators, PIDM is proposing to maintain the current threshold. The proposed new higher score is then applied to the existing threshold to reflect the increased score for asset quality. Given that the adoption of the FRS 139 is at its early stage of implementation, PIDM will review the threshold once there are enough data on FRS 139 implementation.

Table 4: Score Range for Net Impaired Loans To Capital Base Ratio

Threshold	Proposed Score	Current Score
Net Impaired Loans To Capital Base Ratio ≤ 20%	8	5
Net Impaired Loans To Capital Base Ratio > 20% but ≤ 40%	5	3
Net Impaired Loans To Capital Base Ratio > 40% but ≤ 60%	2	1
Net Impaired Loans To Capital Base Ratio > 60%	0	0

Table 5: Score Range for Total Impaired Loans Ratio

Threshold	Proposed Score	Current Score
Total Impaired Loans Ratio ≤ 6%	7	5
Total Impaired Loans Ratio > 6% but ≤ 12%	4	3
Total Impaired Loans Ratio > 12%	1	1

Questions:

(3) PIDM seeks your comments on the proposed revised indicators for the asset quality to reflect the adoption of FRS 139.

(4) What are your comments on the proposed weight, threshold and score for asset quality indicators?

12.0 PROPOSAL TO REVISE THE SCORE THRESHOLD FOR CAPITAL CRITERION

12.1 The current capital indicators, i.e. RWCR and CCR, remain relevant and commonly used. However, one of the feedback received is that PIDM should consider differentiating members that are adopting different approaches for Basel II capital computation. With regard to the Basel II capital requirement, PIDM notes that some members have been given approval to adopt the Internal Rating Based ("IRB") approach in their regulatory capital computation. At this juncture, we are of the view that it is too early to differentiate the members adopting Standardised or IRB approach. The number of members that has been allowed to adopt the IRB approach is still very small in relation to the total membership and further data is needed to assess the impact.

12.2 In addition, as highlighted earlier, there may also be further changes to the members' capital requirements in the intermediate term due to current active discussions and consultations on new proposals at the international arena. PIDM has taken the stance to wait for further development of the regulatory direction and plans.

12.3 The proposal to revise the score threshold is with the purpose of refining the scoring bands to further differentiate the members. In addition, we are also proposing to introduce a new upper band threshold of 13% to get the full score of 10 points compared to 12% previously. This is to give more incentives to members that consistently having an ample buffer above the regulatory requirement. The upper band for CCR is proposed at 10% compared to 8% previously.

12.4 The proposed threshold and score range for RWCR and CCR are as per Tables 6 and 7:

Table 6: Threshold and Score Range for RWCR

<table>
<tr><th>Proposed Threshold</th><th>Proposed Score</th><th>Current Score</th><th>Current Threshold</th></tr>
<tr><td>RWCR ≥ 13%</td><td>10</td><td rowspan="2">10</td><td rowspan="2">RWCR ≥ 12%</td></tr>
<tr><td>RWCR ≥ 12% but < 13%</td><td>9</td></tr>
<tr><td>RWCR ≥ 11% but < 12%</td><td>7</td><td rowspan="2">6</td><td rowspan="2">RWCR ≥ 10% but < 12%</td></tr>
<tr><td>RWCR ≥ 10% but < 11%</td><td>5</td></tr>
<tr><td>RWCR ≥ 8% but < 10%</td><td>2</td><td>3</td><td>RWCR ≥ 8% but < 10%</td></tr>
<tr><td>RWCR < 8%</td><td>0</td><td>0</td><td>RWCR < 8%</td></tr>
</table>

Table 7: Threshold and Score Range for CCR

<table>
<tr><th>Proposed Threshold</th><th>Proposed Score</th><th>Current Score</th><th>Current Threshold</th></tr>
<tr><td>CCR ≥ 10%</td><td>10</td><td rowspan="3">10</td><td rowspan="3">CCR ≥ 8%</td></tr>
<tr><td>CCR ≥ 9% but < 10%</td><td>9</td></tr>
<tr><td>CCR ≥ 8% but < 9%</td><td>8</td></tr>
<tr><td>CCR ≥ 6% but < 8%</td><td>5</td><td>6</td><td>CCR ≥ 6% but < 8%</td></tr>
<tr><td>CCR ≥ 4% but < 6%</td><td>2</td><td>3</td><td>CCR ≥ 4% but < 6%</td></tr>
<tr><td>CCR < 4%</td><td>0</td><td>0</td><td>CCR < 4%</td></tr>
</table>

Question:

(5) What are your comments on the proposed refinement to RWCR and CCR thresholds and scores?

13.0 PROPOSAL TO REVISE THE SCORE THRESHOLD FOR PROFITABILITY CRITERION

13.1 The current profitability indicator of Return on Risk-weighted Assets (“RoRWA”) measures the return (profit before tax) against the risk-assets employed. For this indicator, PIDM is proposing to revise the threshold to take into account the changes in the regulatory requirement on RWA under Basel II, which includes the ‘operational risk’ component, which may result in a bigger denominator base.

13.2 The enlarged base of RWA was not taken into consideration when this indicator was introduced in the current DPS framework. Although the impact is not considered to be substantially significant, we are reviewing the threshold to fairly reflect the current regulation. PIDM proposes to change the threshold at the higher end of the score.

Table 8: Score Range for RoRWA

Proposed Threshold	Current Threshold	Current Score
RoRWA ≥ 2.75%	RoRWA ≥ 3.25%	8
RoRWA ≥ 2.25% but < 2.75%	RoRWA ≥ 2.50% but < 3.25%	6
RoRWA ≥ 1.75% but < 2.25%	RoRWA ≥ 1.75% but < 2.50%	4
RoRWA ≥ 1.00% but < 1.75%	RoRWA ≥ 1.00% but < 1.75%	2
RoRWA < 1.00%	RoRWA < 1.00%	0

Question:

(6) What are your comments on the proposed revision to the RoRWA threshold and scores?

14.0 PROPOSAL TO REVISE THE FORMULA FOR ASSET GROWTH CRITERION

14.1 The existing asset growth criteria will remain unchanged, as excessive growth is deemed to be less prudent. However, PIDM is proposing to revise the formula to take into account the changes in the regulatory requirement on RWA under Basel II.

14.2 PIDM is proposing to exclude the component of operational risk in the RWA calculation. The rationale is to make the RWA more comparable to Total Assets ("TA") in measuring assets growth for the purpose of this DPS indicator. In this instance, the total RWA for the purpose of calculating this indicator will only include RWA for Market Risk and RWA for Credit Risk. The revised formula for the risk-weighted assets is detailed in Appendix I.

14.3 The threshold and score range for Adjusted RWA to TA and Total Asset Growth Ratio remain unchanged.

Question:

(7) What are your comments on the proposal to exclude RWA for Operational Risk in the computation of the asset growth criterion?

PART C: DETAILS OF THE PROPOSED REVISION TO THE DPS FRAMEWORK - REPORTING MANUAL AND FORMS

15.0 GENERAL REQUIREMENTS

15.1 The main proposal in terms of reporting, manual and forms relates to the proposal to change the reference source of information for the DPS framework calculation from BNM's FISS to the members' relevant financial statements as at 31 December of each year, wherever applicable. For the purpose of this requirement, the financial statements refers to:

(a) For members with 31 December financial year end: **annual financial statements**;

(b) For members with non-31 December financial year end: **interim financial statements**;

(c) For members with non-31 December financial year end and the interim reporting period is not December: **management accounts validated by the external auditor**.

15.2 The revision is proposed in consideration of the need to eliminate the different basis of reporting between 'global' and 'domestic' figures in the current various FISS reporting. This will ensure greater consistencies in the computation of various indicators used as data is extracted from a single source. The assessment of a 'global' basis would also better reflect members' risk profile and also provides a more comprehensive assessment.

15.3 In this instance, the information or items in the reporting guidance refers to the members' financial information as reported in the financial statements prepared in accordance with the *"Guidelines on Financial Reporting for Banking Institutions"* issued by BNM in February 2010. Nevertheless, where the required information for the purpose of DPS calculation is not part of the disclosure requirements specified by BNM under the *Guidelines on Financial Reporting for Banking Institutions*, members are required to make available those information to PIDM, and validated by the external auditors. However, information on sectoral exposure shall still be sourced from BNM's FISS.

15.4 Details of the changes in the reference source of information can be found in Appendix II of this CP.

Question:

(8) What are your comments on the calculating DPS information based on financial statements rather than BNM's FISS?

Perbadanan Insurans Deposit Malaysia
13 July 2010

APPENDIX I: DETAILS OF CHANGES IN FORMULA OF THE AFFECTED INDICATORS

1. ASSET CONCENTRATION

1.1. HOUSEHOLD SECTOR CONCENTRATION RATIO; AND AGGREGATE SECTOR LOANS CONCENTRATION RATIO (%)

Formula:

Household Sector Concentration Ratio:

$$\left\{ \frac{\text{Loans to Household Sector}}{\text{Total Loans Outstanding}} \right\} \quad \text{X} \quad 100$$

Source of information:

Loans to Household Sector – refers to BNM's FISS as set out in FISS item code 34000-00-00-9700-Y

Total Loans Outstanding – refers to BNM's FISS as set out in FISS item code 34000-00-00-0000-Y

Aggregate Sector Loans Concentration Ratio - sectors exceeding 20% of Total Loans Outstanding:

$$\left\{ \frac{\text{Loans by Sectors}}{\text{Total Loans Outstanding}} \right\} \quad \text{X} \quad 100$$

Calculate the percentage of loan for respective sectors as defined below. Then, aggregate all loans by sectors that exceed 20% of Total Loans Outstanding to get to Aggregate Sector Loans Concentration ratio

Loans by Sectors are defined below (this requirement is similar to the requirement in the existing DPS framework:

Source of information:

(1) Primary Agriculture as set out in FISS item code 34000-00-00-1000-Y

(2) Mining and Quarrying as set out in FISS item code 34000-00-00-2000-Y

(3) Manufacturing (including Agro-Based) as set out in FISS item code 34000-00-00-3000-Y

(4) Electricity, Gas and Water Supply as set out in FISS item code 34000-00-00-4000-Y

(5) Construction and Real Estate Activities as set out in FISS item code 34000-00-00-5000-Y plus 34000-00-00-8310-Y

(6) Wholesale and Retail Trade and Restaurants, and Hotels as set out in FISS item code 34000-00-00-6000-Y

(7) Transport, Storage and Communication as set out in FISS item code 34000-00-00-7000-Y

(8) Finance, Insurance, Real Estate and Business Activities as set out in FISS item code 34000-00-00-8000-Y less 34000-00-00-8310-Y

(9) Education, Health and Others as set out in FISS item code 34000-00-00-9000-Y

(10) Adjusted Household is derived from loans to Household sector less loans for purchase of residential property and transportation vehicles within the Household sector. This item is derived from FISS item code 34000-00-00-9700-Y less loans for purchase residential property (item (11) below) and loans for transportation vehicle (item (12) below).

(11) Purchase of Residential Property (not a FISS reportable item)[1]

(12) Purchase of Transport Vehicles (not a FISS reportable item)[1]

Where:

[1] loans for purchase of residential property and purchase of transport vehicles within loans to household sector.

2. ASSET QUALITY CRITERIA

2.1. NET IMPAIRED LOANS TO CAPITAL BASE RATIO

Formula:

$$\left\{ \frac{\text{Total Impaired Loans} - \text{Total Individual Impairment Provisions}^{\wedge}}{\text{Capital Base}} \right\} \times 100$$

Source of information:
Annual financial statements for financial year end information as at 31 December or interim financial statements

^ This can also be referred to as Total Individual Assessment Allowance

2.2. TOTAL IMPAIRED LOANS RATIO

Formula:

$$\left\{ \frac{\text{Total Impaired Loans}}{\text{Gross Loans}} \right\} \times 100$$

Source of information:
Annual financial statements for financial year end information as at 31 December or interim financial statements

3. ASSET GROWTH CRITERIA

3.1. ADJUSTED RISK-WEIGHTED ASSETS TO TOTAL ASSETS RATIO (%)

Formula:

$$\left\{ \frac{\text{Risk-weighted Assets for Market Risk} + \text{Risk-weighted Assets for Credit Risk}}{\text{Total Assets + Credit Equivalent of Off-Balance Sheet Items}} \right\} \times 100$$

Source of information:
Annual financial statements for financial year end information as at 31 December or interim financial statements

APPENDIX II: DETAILS OF CHANGES IN THE REFERENCE SOURCE OF INFORMATION

Criterion / Indicator	Data Requirement	Source			Remarks
		Existing	Proposed		
			MIs with Dec FYE	MIs with Non-Dec FYE	
Capital					
1. Risk Weighted Capital Ratio	Risk Weighted Capital Ratio	FISS	Annual Financial Statements	Interim Financial Statements	Refers to Risk Weighted Capital Ratio 'after payment of dividend' – refer to paragraph 8.5 (h) (ii) of the *Guidelines on Financial Reporting for Banking Institutions* issued in February 2010.
2. Core Capital Ratio	Core Capital Ratio	FISS	Annual Financial Statements	Interim Financial Statements	Refers to Risk Weighted Capital Ratio 'after payment of dividend' – refer to paragraph 8.5 (h) (ii) of the *Guidelines on Financial Reporting for Banking Institutions* issued in February 2010.

Criterion / Indicator	Data Requirement	Source			Remarks
		Existing	Proposed		
			MIs with Dec FYE	MIs with Non-Dec FYE	
Profitability					
3. Return on Risk Weighted Assets Ratio *(for conventional business)*	Profit Before Tax (calendar period)	FISS or external auditor's validated financial information for the calendar year	Annual Financial Statements	External auditor's validated financial information for the calendar period	
	Risk-weighted Assets	FISS	Annual Financial Statements	Interim Financial Statements	
Return on Risk Weighted Assets Ratio *(for Islamic Business)*	Profit Before Tax (calendar period)	FISS or external auditor's validated financial information for the calendar year	Annual Financial Statements	External auditor's validated financial information for the calendar period	
	Profit equalisation reserve ("PER")	FISS	Annual Financial Statements	Interim Financial Statements	This is a reporting requirement under BNM/GP8-*i*
	PER written back	FISS	Annual Financial Statements	Interim Financial Statements	This is a reporting requirement under BNM/GP8-*i*

Criterion / Indicator	Data Requirement	Source			Remarks
		Existing	Proposed		
			MIs with Dec FYE	MIs with Non-Dec FYE	
	Capital	FISS	Annual Financial Statements	Interim Financial Statements	Refers to 'Share Capital'
	RM Special Investment Deposit Accepted	FISS	Annual Financial Statements	Interim Financial Statements	No segregation between RM and FX deposits required
	FX Special Investment Deposit Accepted	FISS	Annual Financial Statements	Interim Financial Statements	No segregation between RM and FX deposits required
	RM General Investment Deposit Accepted	FISS	Annual Financial Statements	Interim Financial Statements	No segregation between RM and FX deposits required
	FX General Investment Deposit Accepted	FISS	Annual Financial Statements	Interim Financial Statements	No segregation between RM and FX deposits required
	Risk Weighted Assets	FISS	Annual Financial Statements	Interim Financial Statements	
4. Mean Adjusted Return Volatility *(Conventional and Islamic Business)*	Profit Before Tax (calendar period)	FISS or external auditor's validated financial information for the calendar year	Annual Financial Statements	External auditor's validated financial information for the calendar period	

Criterion / Indicator	Data Requirement	Source			Remarks
		Existing	Proposed		
			MIs with Dec FYE	MIs with Non-Dec FYE	
Asset Quality					
5. Net Impaired Loans To Capital Base Ratio	Impaired Loans	N.A.	Annual Financial Statements	Interim Financial Statements	
6. Total Impaired Loans Ratio	Individual Impairment Provisions	N.A.	Annual Financial Statements	Interim Financial Statements	
	Capital Base	N.A.	Annual Financial Statements	Interim Financial Statements	Capital item shall be reported net of the dividend
	Gross Loans	N.A.	Annual Financial Statements	Interim Financial Statements	
Asset Concentration					
7. Household Sector Concentration Ratio; and Aggregate Sector Loans Concentration Ratio	As explained in Appendix I				

Criterion / Indicator	Data Requirement	Source			Remarks
		Existing	Proposed		
			MIs with Dec FYE	MIs with Non-Dec FYE	
Asset Growth					
8. Adjusted Risk-weighted Assets To Total Assets Ratio and Total Asset Growth Ratio	Risk-weighted Assets for Market Risk	N.A.	Annual Financial Statements	Interim Financial Statements	
	Risk-weighted Assets for Credit Risk	N.A.	Annual Financial Statements	Interim Financial Statements	
	Total Assets	FISS	Annual Financial Statements	Interim Financial Statements	
	Credit Equivalent of Off-Balance Sheet Items	FISS	Annual Financial Statements	Interim Financial Statements	Refers to credit equivalent amount of commitments and contingencies