Perbadanan Insurans Deposit Malaysia

Protecting Your Insurance And Deposits In Malaysia

CONSULTATION PAPER ON THE REVISED DIFFERENTIAL PREMIUM SYSTEMS FRAMEWORK

ISSUE DATE : 23 SEPTEMBER 2013
CLOSING DATE : 31 OCTOBER 2013

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PART 1: INTRODUCTION

1.0 BACKGROUND

1.1 Perbadanan Insurans Deposit Malaysia ("PIDM") implemented the Differential Premium Systems ("DPS") framework in 2008 to replace the flat-rate premium system. The DPS framework's primary objectives are to introduce greater fairness into the premium assessment process and provide incentives for the deposit-taking members ("members") to enhance their risk management practices and minimise excessive risk-taking.

1.2 This consultation paper details the proposals for the enhancement to the DPS Framework. The current proposed enhancement to the DPS framework is part of PIDM's continuous review conducted every three years to ensure that the DPS framework's criteria and indicators continue to be relevant given the changes and developments in the operating and regulatory environment. The last revision to the DPS framework was made in 2011.

2.0 CONSULTATION PROCESS

2.1 PIDM welcomes written comments and feedback on any aspect of the consultation paper, including suggestions for particular issues or areas to be clarified or elaborated further and any alternative proposals that PIDM should consider. To facilitate PIDM's assessment, please support each comment with clear rationales, accompanying evidence and/or illustrations, where appropriate.

2.2 Responses shall be submitted by 31 October 2013 to:

General Manager
Insurance, Risk Assessment and Monitoring Division
Perbadanan Insurans Deposit Malaysia
Level 12, Quill 7
No. 9, Jalan Stesen Sentral 5
Kuala Lumpur Sentral
50470 Kuala Lumpur

Or Email to: DPS@pidm.gov.my

(Please mark "**CP Revised DPS**" on the top left hand corner of the envelope)

For any queries or clarification on the consultation paper, please contact any of the following officers:

Puan Fariza Ahmad (fariza@pidm.gov.my) / 03-21737414 or
Encik Hadzri Hashim (hadzri@pidm.gov.my) / 03-21737411 or
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Encik Noor Rizalhardi Kasmuri (rizalhardi@pidm.gov.my) / 03-21737559.

2.3 All comments will be treated in strictest confidence. PIDM will collate the comments on this consultation paper and publish its response on PIDM's website. Thereafter, PIDM will undertake the relevant legislative process to amend the DPS Regulations.

2.4 PIDM plans to finalise the revised DPS Framework in assessment year 2014, for implementation in assessment year 2015.

PART 2: PROPOSED ENHANCEMENT

3.0 OVERVIEW

3.1 PIDM's review process started with a survey to gather feedback from members, external auditors and rating agencies, as well as discussions with Bank Negara Malaysia ("BNM"), on the areas that PIDM should focus on to enhance the DPS framework.

3.2 The feedback received is centred on two main areas. First, on the need to monitor the changes in the regulatory environment and prudential requirements. The second, on the need to draw lessons arising from the recent global financial crisis. The aspiration is for the DPS framework to be more effective in its objective of providing incentives for better overall risk management.

3.3 This consultation paper sets forth several new proposals for industry feedback. The key revision being proposed is a structural change to the assessment of the quantitative criteria. While the weightage is unchanged at 60%, the quantitative criteria will now be assessed based on a 'matrix approach', in place of the existing linear method.

3.4 Apart from the 'matrix approach', other proposed revisions to the assessment of quantitative criteria include an introduction of a new criterion, namely 'Funding Profile', revisions to some of the existing indicators and the introduction of several new indicators.

3.5 No changes are proposed in respect of the qualitative assessment, which remains fundamental to the DPS framework at 40% weightage. Further, the DPS score range, premium categories, reporting reference date and source of information will also remain unchanged.

4.0 THE MATRIX APPROACH FOR THE QUANTITATIVE CRITERIA

4.1 As a recap, the existing assessment of the quantitative criteria is based on the linear approach as follows:

Table 1: Summary of Existing Quantitative Criteria, Measures and Scores

Criteria	Maximum Score
Capital	
1. Risk-weighted Capital Ratio	10
2. Core Capital Ratio	10
Profitability	
3. Return on Risk-weighted Assets Ratio	8
4. Mean-adjusted Return Volatility	7
Asset Quality	
5. Net Impaired Loans To Capital Base Ratio	8
6. Total Impaired Loans Ratio	7
Asset Concentration	
7. Household Sector Concentration Ratio and Aggregate Sector Loans Concentration Ratio	5
Asset Growth	
8. Risk-weighted Assets To Total Assets Ratio and Total Asset Growth Ratio	5
Total Score for Quantitative Criteria	**60**

4.2 The introduction of the 'matrix approach' will enable the risk profile of the members to be better differentiated based on two dimensions. The assessment of the level of capital buffer will be considered as one dimension of the matrix. The overall financial performance and condition will be the other dimension of assessment under the 'matrix approach'. The mapping of these two key areas will place the members in one of the seven possible matrix positions as depicted in **Diagram 1.**

4.3 The 'matrix approach' is designed to reflect the inter-linkages between strong capital buffer and sustainable financial performance. The objective is to incentivise members to have strong capital buffer levels as well as strong financial performance and condition in order to achieve the maximum score of 60 for the quantitative criteria.

4.4 The positioning of the seven matrix categories and the corresponding scores has been designed to reflect the different incentives and emphasis depending on position of the members in the matrix. For members that are assessed to have strong capital buffers (columns 1 and 2 in **Diagram 1)**, emphasis is placed on improvements in financial performance and condition in order to move to a better matrix category.

4.5 On the other hand, having strong financial performance and condition will not make a big impact if the capital buffer is at the low end of the spectrum (columns 3 and 4 in **Diagram 1)**. An improvement in the financial performance without much improvement of the capital buffer will not result in a significant progressive improvement in the matrix category.

Diagram 1: Quantitative Criteria Matrix

		4	3	2	1
FINANCIAL PERFORMANCE AND CONDITION	1	M6	M4	M2	M1
	2	M6	M5	M3	M2
	3	M7	M6	M4	M3
	4	M7	M7	M5	M4
		CAPITAL BUFFER			

Emphasis on Capital Buffer	Emphasis on Financial Performance and Condition

4.6 The seven matrix categories correspond to specific scores as set out in **Table 2**. The scores represent the member's total quantitative score. This quantitative score will then be added to the qualitative score to arrive at the member's overall DPS score.

Table 2: Matrix Category and Quantitative Scores

Matrix Category	Quantitative Score
M1	60
M2	55
M3	45
M4	40
M5	30
M6	25
M7	15

4.7 Further details of the definition and calculation of the two key areas of assessment, i.e. the capital buffer dimension as well as the financial performance and condition dimension, are provided in the following section.

Issue 1: DPS Framework Methodology
PIDM seeks feedback on the proposed 'matrix approach' for the assessment of the quantitative criteria.

PART 3: DETAILS OF MEASURES UNDER QUANTITATIVE CRITERIA

5.0 CAPITAL BUFFER DIMENSION

5.1 The global financial crisis has demonstrated the importance of having strong capital to cushion members against unexpected losses. Recent developments on the regulatory front also reinforce the need for strong capital position. A strong capital level is critical in ensuring that members remain solvent as it represents the last line of defence against any unexpected losses.

5.2 The capital buffer in this framework is defined as the excess of a member's Total Capital Ratio ("TCR") over the minimum TCR. Under the current capital adequacy framework issued by BNM, the minimum TCR is 8.0%. Therefore, if a member's TCR stood at 14.0% as at the reporting reference date, the capital buffer will be 6.0%. However, BNM may specify a higher minimum TCR on a member, in consideration of the specific risk profile of the member. In such circumstance, the capital buffer will be assessed against the higher minimum TCR imposed on the member.

5.3 The capital buffer maintained by members will be differentiated by four levels of threshold at the horizontal axis of the matrix, as detailed in **Table 3**.

Table 3: Threshold for Capital Buffer

	Capital Buffer			
Position Under the Matrix	**4**	**3**	**2**	**1**
Threshold	< 2.0%	≥ 2.0% to < 4.0%	≥ 4.0% to < 5.0%	≥ 5.0%

Issue 2: Capital Buffer Dimension
PIDM seeks feedback on the proposed capital buffer assessment and the corresponding proposed threshold.

6.0 FINANCIAL PERFORMANCE AND CONDITION DIMENSION

6.1 In selecting the criteria and indicators to represent the assessment on financial performance and condition, PIDM has conducted extensive analysis to ensure the appropriateness and suitability of the indicators.

6.2 The thresholds determined for each of the indicators were identified and tested based on the current and expected developments in the operating environment. Further reviews and tests were performed on the distribution of the results of the selected indicators to ensure applicability over the business operating environment. PIDM also considers the alignment with the current regulatory and supervisory policies, fairness to all members, the average industry performance, as well as peer positioning of the members.

6.3 Members' overall financial performance and condition will be assessed based on three major criteria which are profitability, asset profile and funding profile. The proposed indicators for each of the criteria are as follow:

Table 4: Indicators under Financial Performance and Condition

Criteria	Indicators	Score	Remarks
Profitability	1. Return on Risk-weighted Assets Ratio	10	Existing Indicator
	2. Mean-adjusted Return Volatility	10	Existing Indicator
Asset Profile	1. Total Impaired Loan/Financing Ratio	15	Existing Indicator
	2. Loan/Financing Loss Reserves Ratio	10	New
	3. Loan/Financing Concentration Profile	10	Revised
	4. Loan/Financing Growth	15	New
Funding Profile	1. Loans/Financing to Deposits Ratio	20	New
	2. Composition of Individual Depositors	10	New
	Total	**100**	

6.4 The scores for the financial performance and condition dimension will be differentiated by four levels of threshold at the vertical axis of the matrix, as detailed below.

Table 5: Threshold for Financial Performance and Condition

Position under the Matrix	Threshold
1	≥ 85%
2	≥ 65% to < 85%
3	≥ 50% to < 65%
4	< 50%

7.0 PROPOSED CRITERIA AND INDICATORS

PROFITABILITY CRITERIA

7.1 In view of the importance of the level of profitability as the first defence against possible deterioration in capital in the event of losses, PIDM retains the profitability criteria as part of the assessment under the financial performance and condition. As the emphasis remains on the sufficiency and sustainability of earnings, the measures used under the profitability criteria are also unchanged, i.e. the Return on Risk-weighted Assets (“RORWA”) Ratio and Mean-adjusted Return Volatility (“MARV”).

Return on Risk-weighted Assets Ratio (Existing Indicator)

7.2 The RORWA ratio is calculated as a member’s profit or loss before tax and zakat divided by its average risk-weighted assets.

7.3 PIDM retains this measure under the profitability criteria as it remains relevant as an indication of the relative returns among members in relation to their risk profiles.

7.4 PIDM has reviewed the threshold and determined that the existing threshold remain applicable and relevant. PIDM proposes, however, to revise the scores allocated for each threshold in line with the ‘matrix approach’. The proposed scores for this indicator are provided in **Table 6**.

Table 6: Threshold and Score Range for RORWA Ratio

Threshold	Score
RORWA Ratio ≥ 2.75%	10
2.00% ≤ RORWA Ratio < 2.75%	6
1.00% ≤ RORWA Ratio < 2.00%	3
RORWA Ratio < 1.00%	0

Mean-adjusted Return Volatility (Existing Indicator)

7.5 The MARV is calculated as the semi-standard deviation of a member's profit or loss before tax and zakat over a three-year period divided by its mean profit or loss before tax and zakat over the same period.

7.6 PIDM retains this measure under the profitability criteria as the sustainability of earnings is an important determinant of a member's resilience. A volatile earnings trend will render the member's capital position more vulnerable in the event of losses as the capital may be eroded if the earnings were inadequate to absorb such losses.

7.7 PIDM has reviewed the threshold and determined that the existing threshold remain applicable and relevant. PIDM proposes to revise the scores allocated for each threshold, however, in line with the 'matrix approach'. The proposed scores for this indicator are as follows:

Table 7: Threshold and Score Range for MARV

Threshold	Score
$0 \leq \text{MARV} \leq 0.3$	10
$0.3 < \text{MARV} \leq 0.7$	5
$\text{MARV} > 0.7$	0
MARV is negative or the mean profit/(loss) before tax and zakat is zero	0

Issue 4: Profitability Criteria

PIDM seeks feedback on the indicators under the Profitability criteria, including the threshold and the proposed scores.

ASSET PROFILE CRITERIA

7.8 PIDM considers asset profile to be an important criterion in differentiating the risk profile of the members. The assessment under asset profile will emphasise on loans/financing, given that the loans/financing portfolio remains the major component of the assets for majority of the members.

7.9 The assessment under asset profile will cover the quality of the loans/financing portfolio, the adequacy of reserves, the loan/financing concentration profile and loan/financing growth.

Total Impaired Loan/Financing Ratio (Existing Indicator)

7.10 Total impaired loan/financing ratio is calculated as the total impaired loans/financing expressed as a percentage of gross loans/financing outstanding.

7.11 PIDM retains the total impaired loan/financing ratio as a measurement of the quality of the loans/financing in members.

7.12 PIDM has reviewed the threshold and proposed that the existing threshold be revised to be more reflective of the position and trends in the industry. The score range is also revised in line with the 'matrix approach'. The proposed threshold and corresponding scores for this indicator are as follows:

Table 8: Threshold and Score Range for Total Impaired Loan/Financing Ratio

Threshold	Score
Total Impaired Loan/Financing Ratio ≤ 2.0%	15
2.0% < Total Impaired Loan/Financing Ratio ≤ 3.5%	10
3.5% < Total Impaired Loan/Financing Ratio ≤ 5.0%	5
Total Impaired Loan/Financing Ratio > 5.0%	0

Issue 5: Total Impaired Loan/Financing Ratio
PIDM seeks feedback on the proposed revision to the threshold and scores for Total Impaired Loan/Financing Ratio.

Loan/Financing Loss Reserves Ratio (New)

7.13 Loan/financing loss reserves ratio is a new indicator being introduced. The loan/financing loss reserves ratio measures the amount of reserves available to support the level of impaired loans/financing. A high level of loan/financing loss reserves will generally indicate prudent management practices of the member and will better protect the members' capital against adverse deterioration in the asset quality.

7.14 The introduction of this indicator is to provide incentives to members to maintain robust provisioning methodologies as part of their risk management practices. In this respect, members would be recognised based on the level of their loan/financing loss reserves.

7.15 The loan/financing loss reserves ratio is calculated as the sum of individual impairment provisions and collective impairment provisions against the gross impaired loans/financing.

7.16 The proposed threshold and the corresponding scores are as follows:

Table 9: Threshold and Score Range for Loan/Financing Loss Reserves Ratio

Threshold	Score
Loan/Financing Loss Reserves Ratio ≥ 100%	10
75% ≤ Loan/Financing Loss Reserves Ratio < 100%	5
Loan/Financing Loss Reserves Ratio < 75%	0

Issue 6: Loan/Financing Loss Reserves Ratio
PIDM seeks feedback on the proposed Loan/Financing Loss Reserves Ratio including the threshold and scores.

Loan/Financing Concentration Profile (Revision to Existing Indicator)

7.17 Loan/financing concentration profile is determined by aggregating all the loans/ financing exposure to specific sectors which exceeded 20% of its total loans/ financing outstanding. The list of sectors and the method of computation is provided in **Appendix 1**.

7.18 PIDM maintains the view that an assessment of concentration risk is necessary to ensure that members properly manage any undue loans/financing concentration to a particular sector and reduce the vulnerability to any adverse trends or developments in any of the sectors.

7.19 This ratio is an existing indicator assessed together with the household sector. PIDM is proposing to assess this ratio independently to provide better clarity of the objective of this indicator.

7.20 The proposed threshold and the corresponding scores are as follows:

Table 10: Threshold and Score Range for Loan/Financing Concentration Profile

Threshold	Score
Loan/Financing Concentration Profile ≤ 20%	10
20% < Loan/Financing Concentration Profile ≤ 50%	5
Loan/Financing Concentration Profile > 50%	0

Issue 7: Loan/Financing Concentration Profile
PIDM seeks feedback on the proposed Loan/Financing Concentration Profile indicator, threshold and scores.

Loan/Financing Growth (New)

7.21 Loan/financing growth indicator measures the annual growth rate of a member's loan/financing base.

7.22 Loans/financing represents a large proportion of the average member's assets base and therefore, attracts a higher capital charge, depending on the nature of exposure.

7.23 PIDM maintains excessive loan/financing growth to be an imprudent way of expanding business as it implies greater risk-taking on the part of members. Similarly, members that are too passive or slow in growing its loan/financing base are at risk of dampening future income flow or endangering long-term business viability. Ideally, loan/financing growth should be conducive enough to attract a sustainable income stream, while upholding the quality of new assets. Hence, this indicator is intended to assess the fine balancing of loan/financing growth, while at the same time taking precaution against risk arising from overzealous lending/financing.

7.24 Members' loan/financing growth will be scored based on the threshold and score range in **Table 11**. The maximum score will be accorded to members with optimal loan/financing growth of between 8% and 12%. Members with excessive loan/financing growth exceeding 20% will not obtain any score. Similarly, no scores will be given to members that depicted a contraction in loan/financing growth.

Table 11: Threshold and Score Range for Loan/Financing Growth

Threshold	Score
Loan/Financing Growth >20%	0
15% < Loan/Financing Growth ≤ 20%	3
12% < Loan/Financing Growth ≤ 15%	8
8% < Loan/Financing Growth ≤ 12%	15
5% < Loan/Financing Growth ≤ 8%	8
0% < Loan/Financing Growth ≤ 5%	3
Loan/Financing Growth ≤ 0%	0

> **Issue 8: Loan/Financing Growth**
> PIDM seeks feedback on the proposed Loan/Financing Growth indicator including the threshold and scores.

FUNDING PROFILE CRITERIA

7.25 The global financial crisis has demonstrated the importance of funding and liquidity management and the implications for financial institutions when funding and liquidity were not properly managed. Hence PIDM is of the view that it is timely for a funding profile criterion to be introduced.

7.26 As a start, PIDM proposes to select indicators that will reflect an assessment on the funding profile of the members, given the impending regulations related to liquidity. PIDM is proposing to introduce indicators that assess the ability of members to fund the business from stable funding sources and the stability of members' customer deposits.

Loans/Financing to Deposits Ratio (New)

7.27 This ratio is calculated as the amount of loans/financing outstanding over customer deposits.

7.28 The loans/financing to deposits ratio reflects the balance sheet management of members. Generally, as financial intermediaries, members' lending activities should be predominantly funded by customer deposits. A high loans/financing to deposits ratio would broadly indicate that members may need to rely on more sensitive funding sources to fund future loans/financing growth. As such, the introduction of this ratio is intended to provide incentives for members to manage their balance sheet prudently with appropriate matching of customer deposits to its lending activities.

7.29 Members' loans/financing to deposits ratio shall be scored based on the following threshold and score range:

Table 12: Threshold and Score Range for Loans/Financing to Deposits Ratio

Threshold	Score
Loans/Financing to Deposits Ratio ≤ 80%	20
80% < Loans/Financing to Deposits Ratio ≤ 85%	15
85% < Loans/Financing to Deposits Ratio ≤ 90%	10
90% < Loans/Financing to Deposits Ratio ≤ 100%	5
Loans/Financing to Deposits Ratio > 100%	0

Issue 9: Loans/Financing to Deposits Ratio
PIDM seeks feedback on the proposed Loans/Financing to Deposits Ratio including the threshold and scores.

Composition of Individual Depositors (New)

7.30 The composition of individual depositors is calculated as the amount of deposits accepted from individuals as a percentage of total customer deposits.

7.31 Deposits from individual depositors are generally regarded as a stable source of deposits. Additionally, the size of deposits placed by individuals will be much smaller compared to deposits from corporates; hence the impact from unexpected withdrawals will be more manageable.

7.32 Members' composition of individual depositors will be scored based on the following threshold and score range:

Table 13: Threshold and Score Range for Composition of Individual Depositors

Threshold	Score
Composition of Individual Depositors ≥ 30%	10
15% ≤ Composition of Individual Depositors < 30%	5
Composition of Individual Depositors < 15%	0

Issue 10: Composition of Individual Depositors
PIDM seeks feedback on the proposed Composition of Individual Depositors indicator including the threshold and scores.

7.33 Details of the formula and source of information for all the proposed indicators are provided in **Appendix 1**.

7.34 Please refer to **Appendix 2** for an illustration of the calculation for the DPS quantitative criteria under the 'matrix approach'.

PART 4: QUALITATIVE CRITERIA AND OTHER MATTERS

8.0 QUALITATIVE CRITERIA

8.1 With regard to the qualitative assessment aspect of the DPS framework, PIDM is not recommending any change. The use of 'Supervisory Rating' as part of the qualitative assessment remains as an incentive for members to improve their overall risk management. PIDM is also maintaining the 'Other Information' criterion.

Supervisory Rating

8.2 PIDM will maintain the 35% allocation to the 'Supervisory Rating' and the score range under the existing DPS framework as it remains relevant to reflect the risk profile of the members. The score ranges for the 'Supervisory Rating' are as follows:

Table 14: Score Range for Supervisory Rating Criteria

Supervisory Rating	Existing Score
Low (1)	35
Moderate (2)	28
Above Average (3)	14
High (4)	0

Other Information

8.3 PIDM will retain the assessment criteria and score range for 'Other Information' criterion with a maximum score of 5.

8.4 The assessment criteria are as follows:

Table 15: Score Range for Other Information Criteria

Other Information	
Assessment Criteria	**Score**
As at 30 April of the assessment year, no information has come to PIDM's attention about circumstances that represent a threat to or materially affect the safety, soundness, financial condition or viability of a member.	5

Other Information	
Assessment Criteria	**Score**
As at 30 April of the assessment year, information has come to PIDM's attention about circumstances that represent a threat to or may materially affect the safety, soundness, financial condition or viability of a member.	3
As at 30 April of the assessment year, information has come to PIDM's attention about circumstances that materially affect the safety, soundness, financial condition or viability of a member.	0

Issue 11: Qualitative Criteria

PIDM seeks feedback on the assessment criteria and score range for the Qualitative Criteria.

9.0 OTHER MATTERS

DPS Score Range and Premium Categories

9.1 PIDM proposed to maintain the existing DPS score range and the four levels of premium categories as they still provide the required differentiation between the risk profile of the members and the current number of the deposit-taking members does not warrant a more granular risk differentiation.

9.2 The DPS score range and the corresponding premium category under the existing DPS Framework is provided below:

Table 16: DPS Score Range and Premium Categories

Score	Premium Category
≥ 85	1
≥ 65 but < 85	2
≥ 50 but < 65	3
< 50	4

Reporting Reference Date

9.3 PIDM has decided to maintain a status quo on the requirement for the quantitative information reporting reference date to be based on the calendar year. PIDM views that same period assessment for all members (i.e. using the calendar period) is a fair approach.

Source of Information

9.4 The source of the DPS quantitative information will be the members’ financial statements and regulatory reporting to BNM.

Issue 12: Other Matters

PIDM seeks feedback on other matters related to the DPS Framework.

Perbadanan Insurans Deposit Malaysia
23 September 2013

Appendix 1

DETAILS OF FORMULAE FOR PROPOSED INDICATORS

1. ASSET PROFILE CRITERIA

1.1 LOAN/FINANCING LOSS RESERVES RATIO (in %)

Formula:

$$\frac{\text{Loan/Financing Loss Reserves}}{\text{Total Impaired Loans/Financing}} \quad \text{X} \quad 100$$

Source of information:

Annual financial statements for financial year end information as at 31 December or interim financial statements/approved management accounts.

1.2 LOAN/FINANCING CONCENTRATION PROFILE (in %)

Step 1:

Determine the percentage of each loan by sector out of total loans/financing outstanding.

Formula:

$$\frac{\text{Loans/Financing by Sector}}{\text{Total Loans/Financing Outstanding}} \quad \text{X} \quad 100$$

Step 2:

Aggregate all loans/financing by sector that exceeds 20%, and then divide with total Loans/Financing outstanding.

Formula:

$$\frac{\sum \text{Loans/Financing by Sector} \geq 20\%}{\text{Total Loans/Financing Outstanding}} \quad \text{X} \quad 100$$

Source of information:

Annual financial statements for financial year end information as at 31 December or interim financial statements/approved management accounts, or regulatory reports to BNM.

Loans/Financing by Sectors are:

No.	Sector	No.	Sector
1.	Agriculture	7.	Finance, Insurance, Real Estate and Business
2.	Mining and Quarrying	8.	Transport, Storage and Communication
3.	Manufacturing	9.	Education, Health and Others
4.	Construction and Real Estate (derived from construction plus real estate)	10.	Adjusted Household (derived from Loans/Financing to Household less Loans/Financing to residential mortgages/properties and Loans/Financing to hire purchases/transport vehicles)
5.	Electricity, Gas and Water Supply	11.	Residential Mortgages/Properties[1]
6.	Wholesale, Retail trade, Restaurants and Hotel	12.	Hire Purchases/Transport Vehicles[1]

Where:
[1] Loans/Financing for purchase of residential property and purchase of transport vehicles within Loans/Financing to household sector.

1.3 LOAN/FINANCING GROWTH (in %)

Formula:

$$\frac{\text{Total Loans/Financing Year 2} - \text{Total Loans/Financing Year 1}}{\text{Total Loans/Financing Year 1}} \times 100$$

Loans/Financing Year 1: Refers to total loans/financing as of 31 December of the second year preceding the assessment year.

Assets Year 2: Refers to total loans/financing as of 31 December of the first year preceding the assessment year.

Source of information:
Annual financial statements for financial year end information as at 31 December or interim financial statements/approved management accounts.

2. FUNDING PROFILE CRITERIA

2.1. LOANS/FINANCING TO DEPOSITS RATIO (in %)

Formula:

$$\frac{\text{Total Loans/Financing}}{\text{Total Customer Deposits}} \times 100$$

Source of information:
Annual financial statements for financial year end information as a 31 December or interim financial statements/approved management accounts.

2.2 COMPOSITION OF INDIVIDUAL DEPOSITORS (in %)

Formula:

$$\frac{\text{Deposits from Individuals}}{\text{Total Customer Deposits}} \quad X \quad 100$$

Source of information:

Annual financial statements for financial year end information as a 31 December or interim financial statements/approved management accounts or other regulatory reporting to BNM as at 31 December.

Appendix 2

CALCULATION OF QUANTITATIVE SCORES UNDER THE MATRIX APPROACH

Diagram 2: Detailed Quantitative Criteria Matrix

			4	3	2	1
			< 2%	≥ 2% to < 4%	≥ 4% to < 5%	≥ 5%
FINANCIAL PERFORMANCE AND CONDITION	1	≥ 85%	M6	M4	M2	M1
	2	≥ 65% to < 85%	M6	M5	M3	M2
	3	≥ 50% to < 65%	M7	M6	M4	M3
	4	< 50%	M7	M7	M5	M4
			CAPITAL BUFFER			

Illustration 1: Calculation of Member A's Total Quantitative Score

Criteria	Ratio	Score
Capital Buffer Assessment:		
Total Capital Ratio	13.0%	
Minimum Total Capital Ratio set by BNM	8.0%	
Capital Buffer	5.0%	
Position under the Capital Buffer Dimension *(Refer to Diagram 2 : Detailed Quantitative Criteria Matrix)*		**1**
Financial Performance and Condition Assessment:		
i. Return on Risk-weighted Assets Ratio	2.50%	6
ii. Mean-adjusted Return Volatility	0.4	5
iii. Total Impaired Loan/Financing Ratio	2.20%	10
iv. Loan/Financing Loss Reserves Ratio	102.0%	10
v. Loan/Financing Concentration Profile	35.0%	5
vi. Loan/Financing Growth	13.0%	8
vii. Loans/Financing to Deposits Ratio	88.0%	10
viii. Composition of Individual Depositors	32.0%	10
Aggregate Score for Financial Performance and Condition		64
Position under the Financial Performance and Condition Dimension *(Refer to Diagram 2 : Detailed Quantitative Criteria Matrix)*		**3**
Matrix Position *(Refer to Diagram 2: Detailed Quantitative Criteria Matrix)*		**M3**
Total Quantitative Score *(Refer to Table 2: Quantitative Score on page 5)*		**45**

Illustration 2: Calculation of Overall DPS Score for Member A

Criteria		Maximum Score	Member A's Score
Total Quantitative Score		***60***	***45***
Qualitative Criteria:			
1.	Supervisory Rating	35	28
2.	Other Information	5	5
Total Qualitative Score		***40***	***33***
Overall DPS Score		**100**	**78**
Premium Category *(Refer to Table 16: DPS Score Range and Premium Categories on page 18)*			**2**

Appendix 3

CALCULATION OF OVERALL DPS SCORE FOR A MEMBER WITH INSUFFICIENT QUANTITATIVE INFORMATION

Illustration 3: Calculation of Member B's Total Quantitative Score

Criteria	Ratio	Score
Capital Buffer Assessment:		
Total Capital Ratio	13.0%	
Minimum Total Capital Ratio set by BNM	8.0%	
Capital Buffer	5.0%	
Position under the Capital Buffer Dimension *(Refer to Diagram 2 : Detailed Quantitative Criteria Matrix)*		**1**
Financial Performance and Condition Assessment:		
i. Return on Risk-weighted Assets Ratio	2.50%	6
ii. Mean-adjusted Return Volatility	-	NI
iii. Total Impaired Loan/Financing Ratio	2.2%	10
iv. Loan/Financing Loss Reserves ratio	102.0%	10
v. Loan/Financing Concentration Profile	35.0%	5
vi. Loan/Financing Growth	13.0%	8
vii. Loans/Financing to Deposits Ratio	88.0%	10
viii. Composition of Individual Depositors	32.0%	10
Total Score for* Indicators *with sufficient information		***59***
Total Score for* Indicators *with insufficient information (proportionate)		***7^***
***Aggregate Score for* Financial Performance and Condition**		***66***
Position under the Financial Performance and Condition Dimension *(Refer to Diagram 2 : Detailed Quantitative Criteria Matrix)*		**2**
Matrix Position *(Refer to Diagram 2 : Detailed Quantitative Criteria Matrix)*		**M2**
Total Quantitative Score *(Refer to Table 2: Quantitative Score on page 5)*		**55**

Note:
NI denotes no information

^Referring to paragraph 4.5 (Insufficient Quantitative Information) of the Guidelines on the Differential Premium Systems dated 4 March 2011, the formula to determine the quantitative score for criteria with insufficient information (items ii and v) is as follows:

[59 / (100 – 10)] X 10 = 7

Illustration 4: Calculation of Overall DPS Score for Member B

Criteria		Maximum Score	Member B's Score
Total Quantitative Score		***60***	***55***
Qualitative Criteria:			
1.	Supervisory Rating	35	28
2.	Other Information	5	5
Total Qualitative Score		***40***	***33***
Overall DPS Score		**100**	**88**
Premium Category *(Refer to Table 16: DPS Score Range and Premium Categories on page 18)*			**1**