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Taklimat
Laporan Tahunan 2014 dan Laporan Kestabilan Kewangan dan Sistem Pembayaran 2014

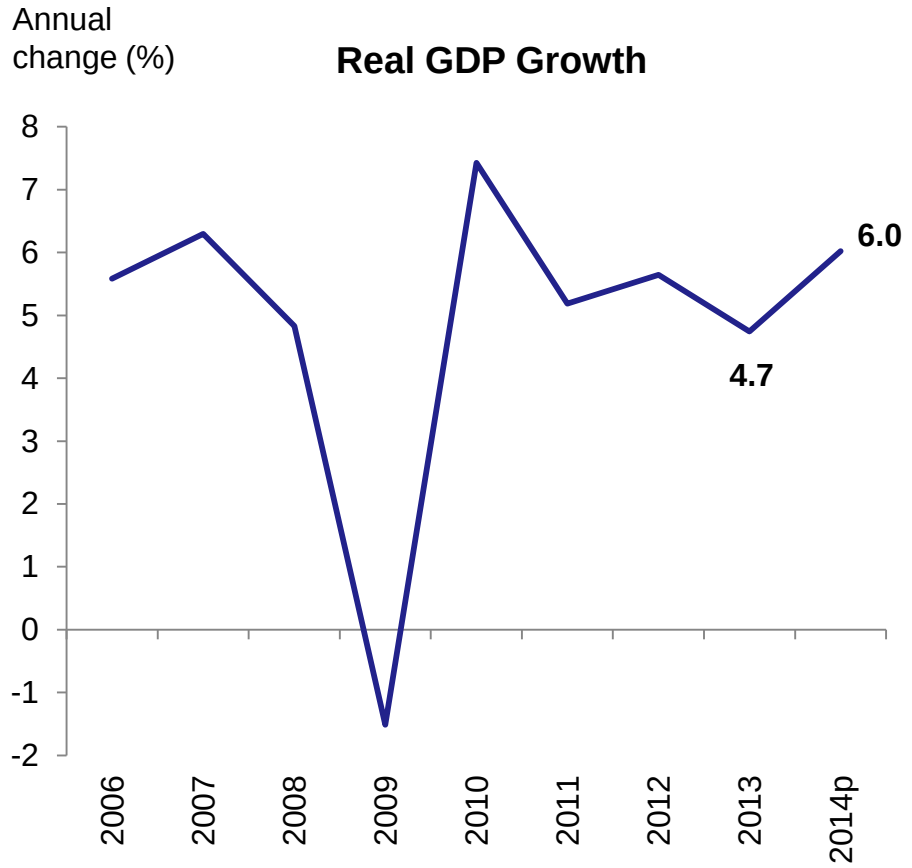
Gabenor

Bank Negara Malaysia

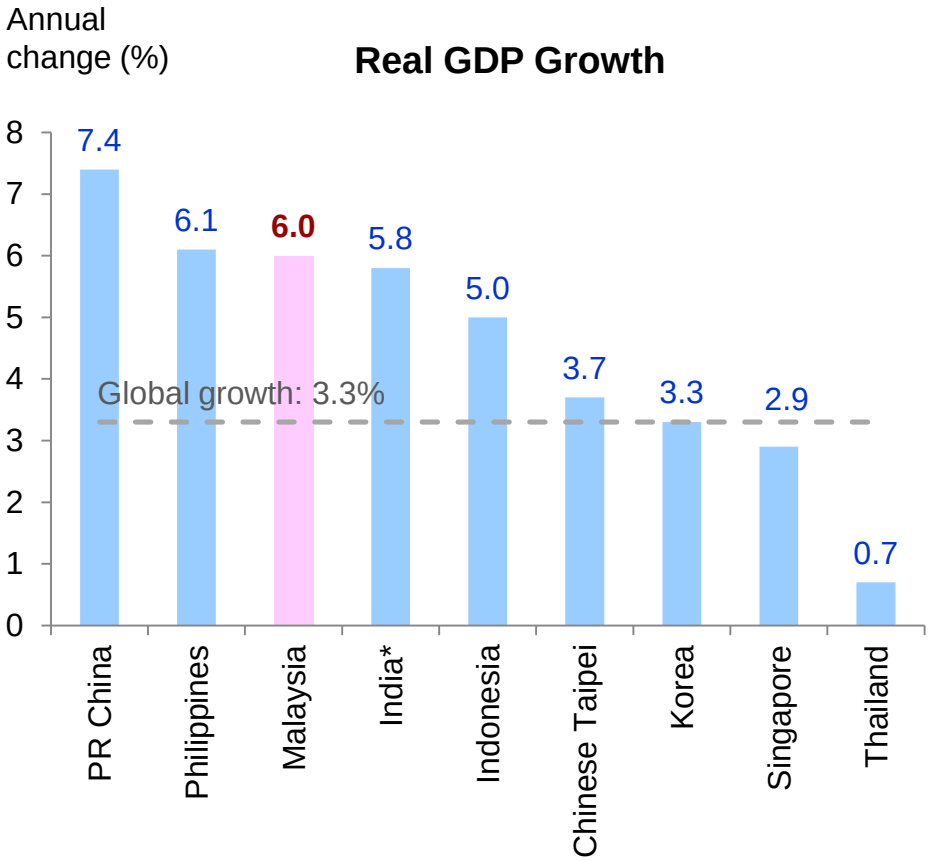
11 Mac 2015

Malaysia was among the fastest-growing economies in Asia

Malaysian economy recorded a stronger growth of 6.0% in 2014



Within the region, Malaysia was among the fastest-growing economies



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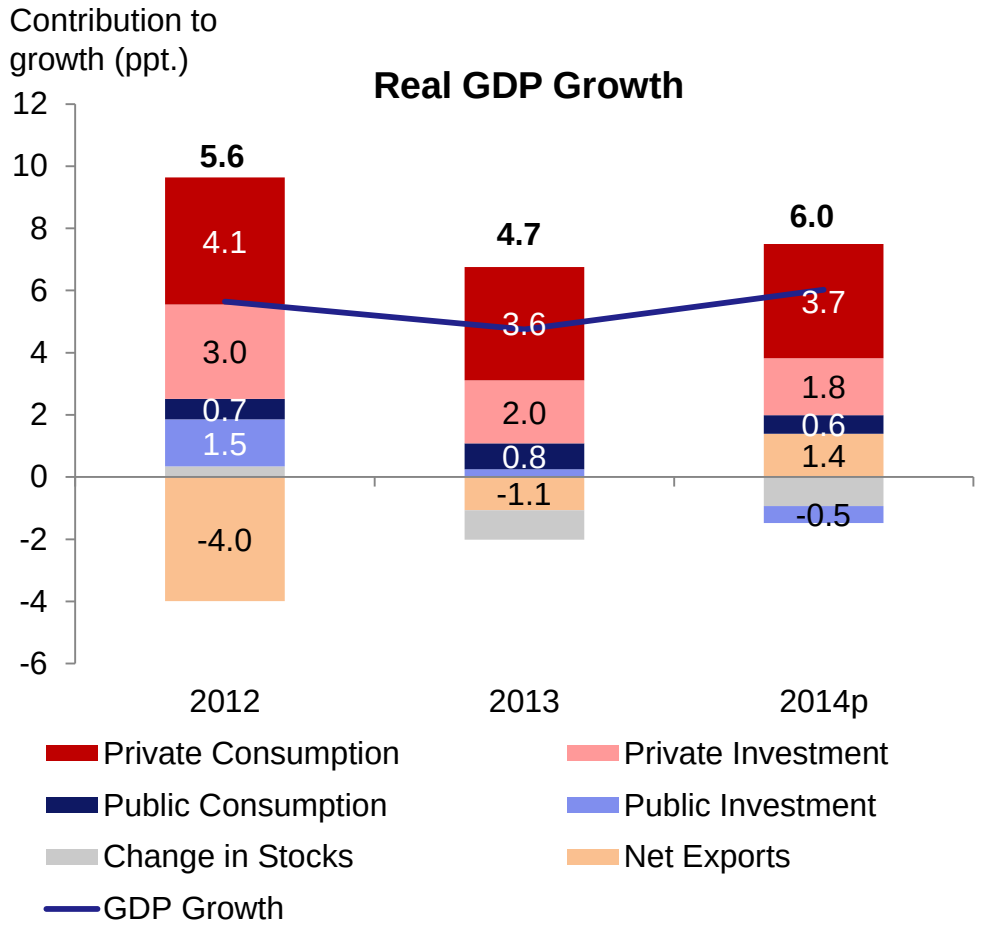
* Figure refers to fiscal year prior to the rebase of GDP calculations

Source: IMF, Bank Negara Malaysia, Department of Statistics, Malaysia

Growth in 2014 driven by private domestic demand and external trade



- **Private consumption:** Supported by favourable income growth and stable labour market conditions
- **Private investment:** Driven by the manufacturing and services sectors
- Positive contribution from **net exports**

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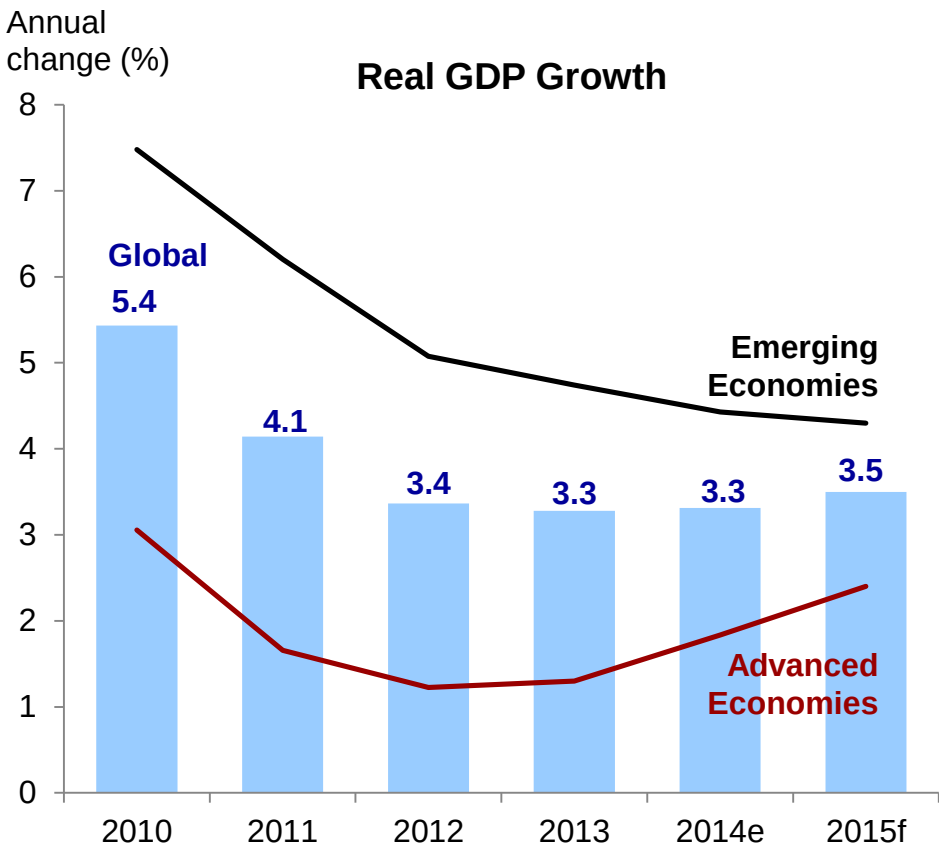
Source: Department of Statistics, Malaysia

Global growth to remain moderate in 2015



- **Global economy to remain on a moderate growth path in 2015, supported by:**
  - Improving fundamentals, particularly in the US
  - Lower commodity prices
  - Accommodative monetary policies

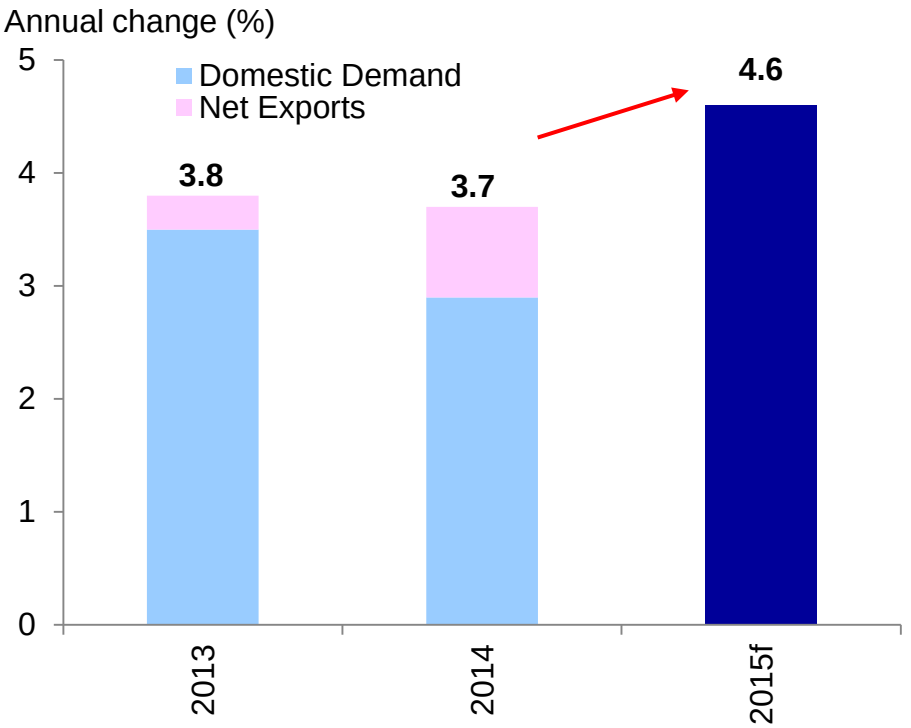
- **Growth performance in the major economies to become more divergent**
  - **US**: Strengthening private sector activity
  - **Euro area & Japan**: Subdued growth amid persistent structural weaknesses
  - **PR China**: Growth to moderate, in line with policymakers' objective to rebalance the economy

Source: IMF and Bank Negara Malaysia estimates

In Asia, growth will be underpinned by domestic demand and supported by external demand

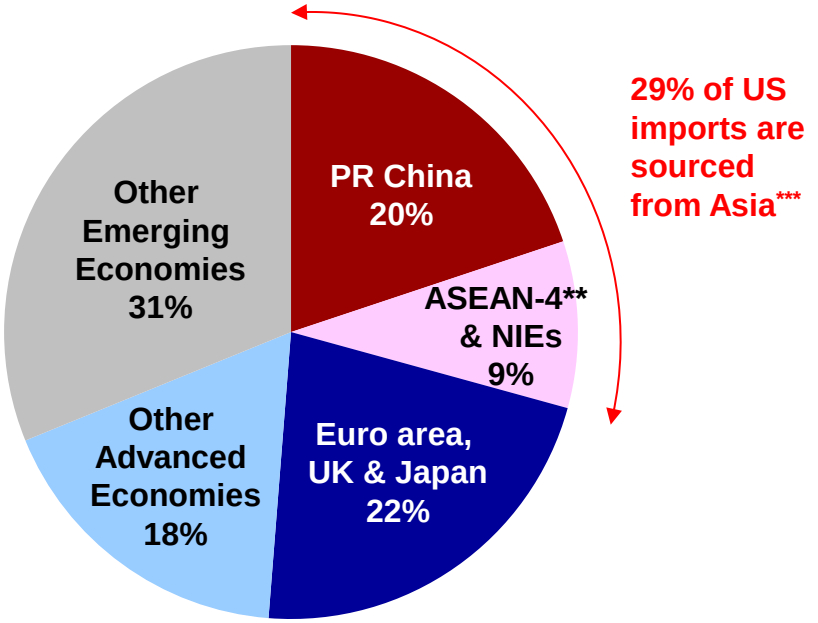
Growth in Asia to improve, supported by higher domestic demand and exports

Real GDP Growth of EA-7*



In particular, Asia's exports will continue to benefit from higher demand from the US

US Imports by Origin
(2014: % Share of Total Imports)

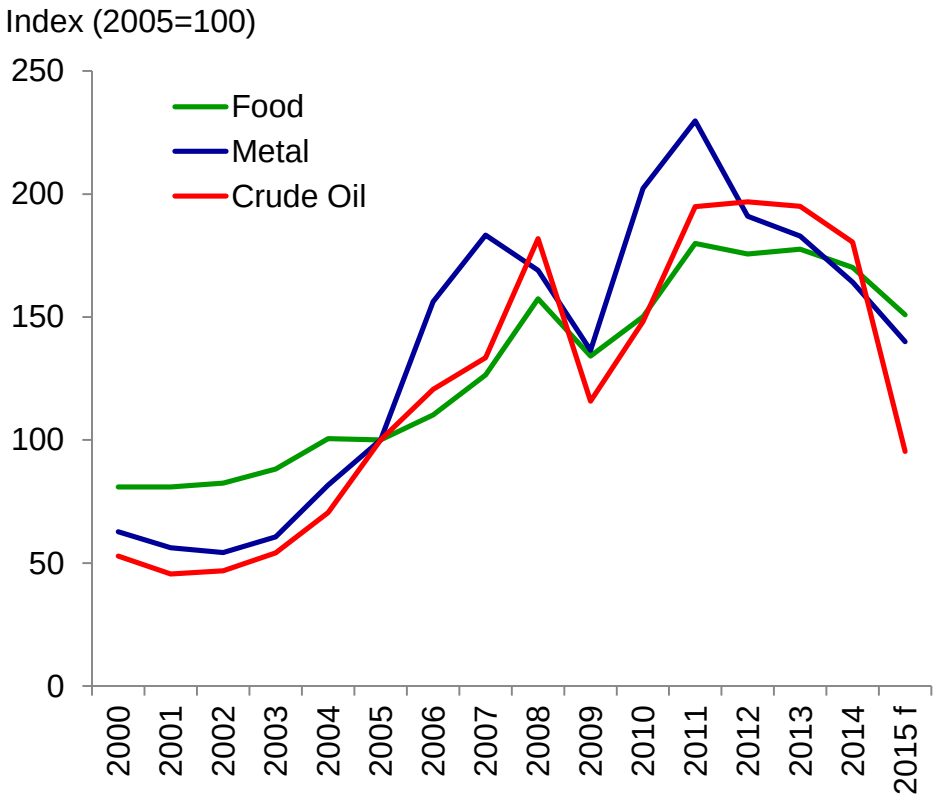


* EA-7 refers to Chinese Taipei, Hong Kong SAR, Indonesia, Korea, the Philippines, Singapore and Thailand
** ASEAN-4 refers to Indonesia, Malaysia, the Philippines and Thailand, while NIEs refers to Chinese Taipei, Hong Kong SAR, Korea and Singapore
*** PR China, NIEs and ASEAN-4 account for the majority of US imports from Asia

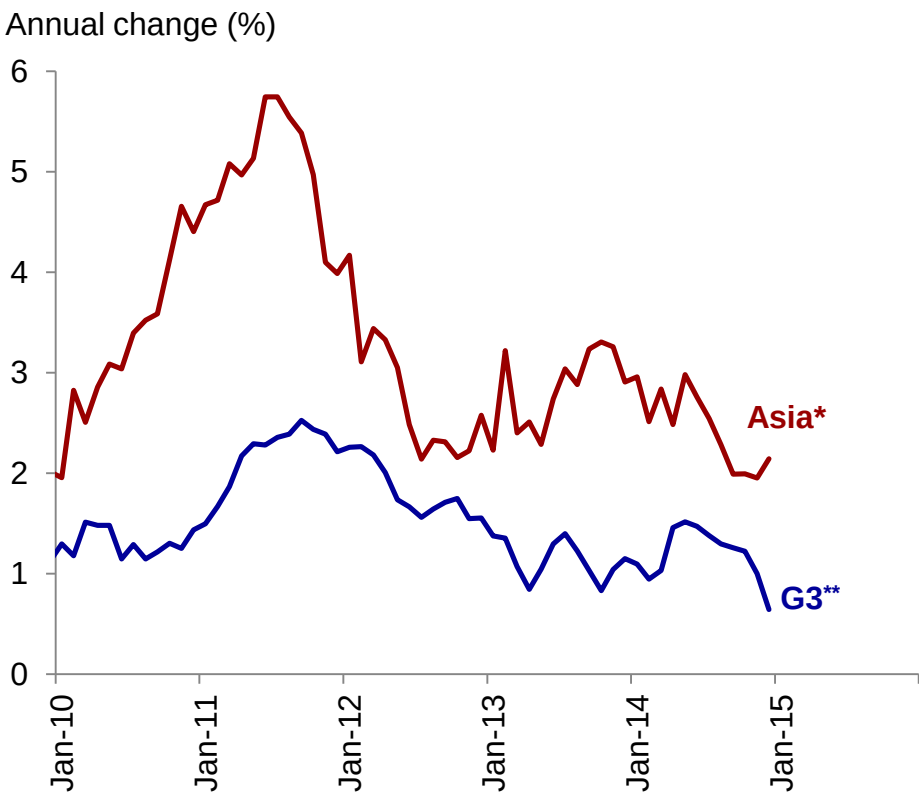
Source: Asian Development Bank, Haver, and National authorities

Global inflationary pressures to remain modest amid lower commodity prices

Global commodity prices are expected to remain low in 2015 amid excess supply



Lower commodity prices to contain inflationary pressures across economies



* Asia refers to Chinese Taipei, Hong Kong SAR, Indonesia, Korea, Malaysia, the Philippines, PR China, Singapore and Thailand
** G3 refers to the US, euro area and Japan

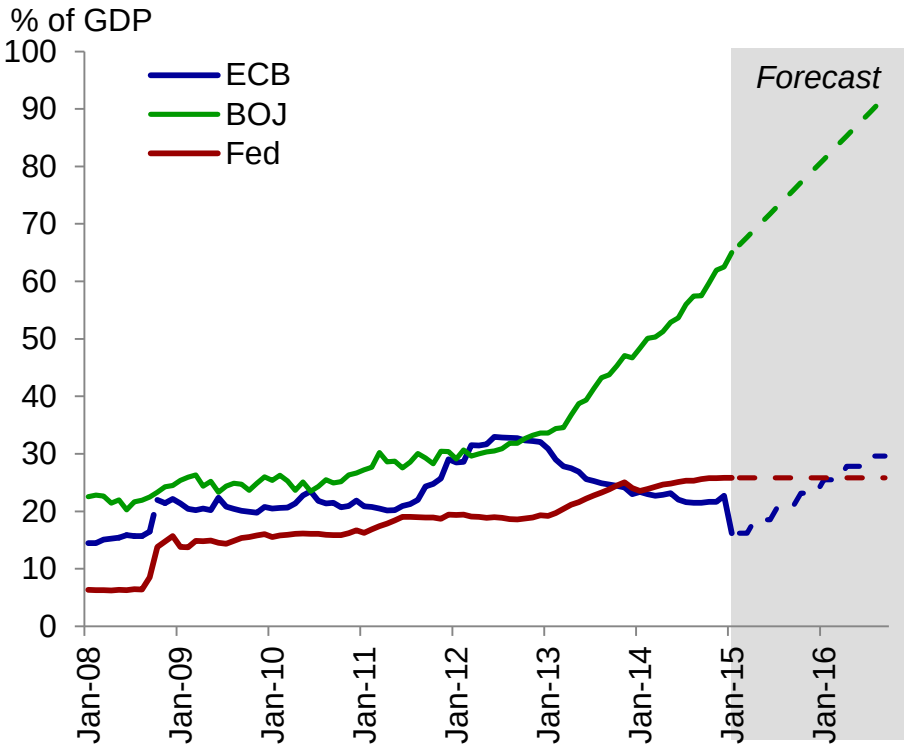
Source: Haver, IMF and Bank Negara Malaysia estimates

Divergence in monetary policy amongst the major advanced economies

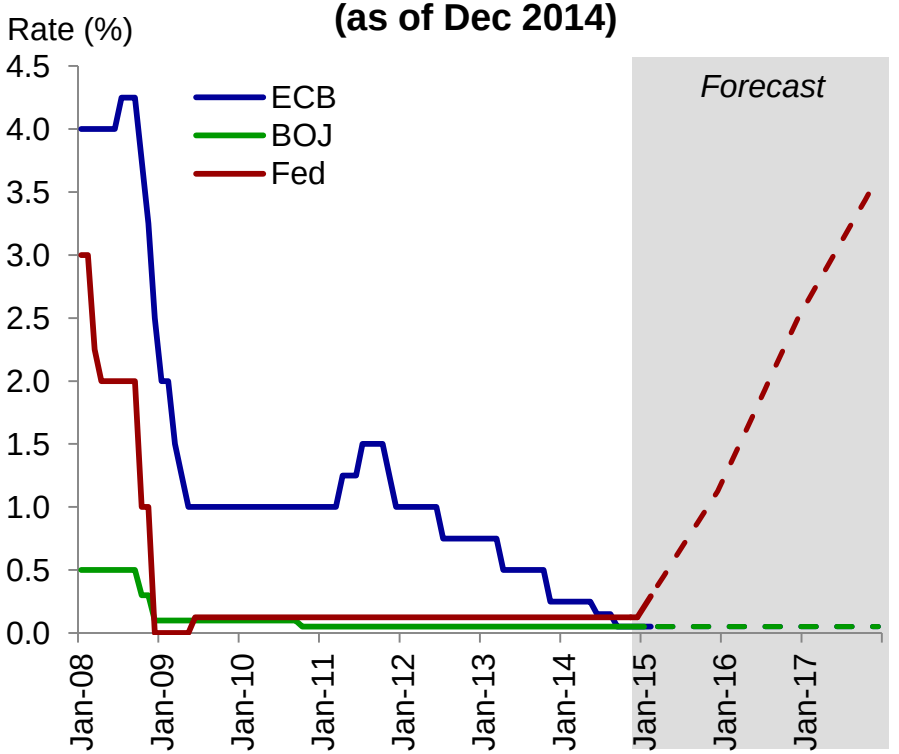
ECB and BOJ will continue to increase monetary accommodation through higher asset purchases …

…whereas Federal Reserve could begin interest rate normalisation in 2015 amid stronger growth

Central Bank Balance Sheet Size



Fed's Median Interest Rate Projection (as of Dec 2014)



Source: National authorities, Haver, Bank Negara Malaysia estimates

Downside risks to global growth remain

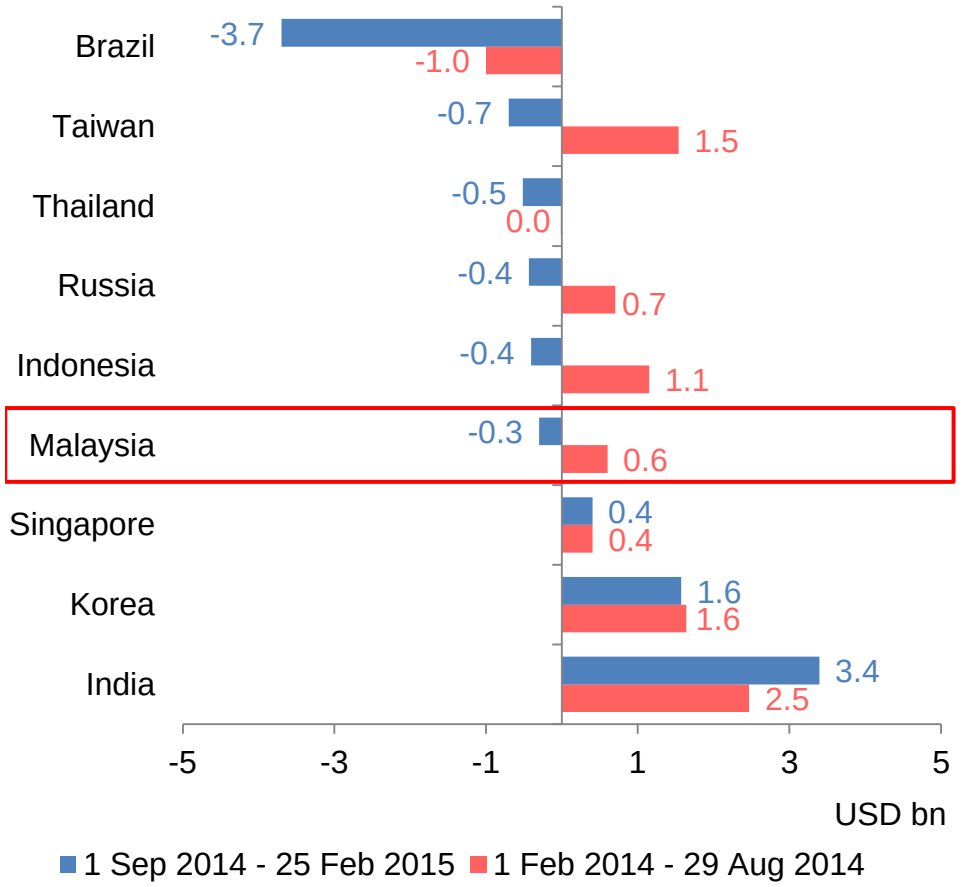
1. **Prolonged weakness in domestic demand and persistence of disinflation or deflation in several major economies**

2. **Uncertainties over monetary policy adjustments in major advanced economies**

3. **Uncertainty over commodity price movements affecting growth prospects of other emerging economies**

Emerging economies will continue to be confronted with large and volatile capital flows

Portfolio Flows of Selected Emerging Economies



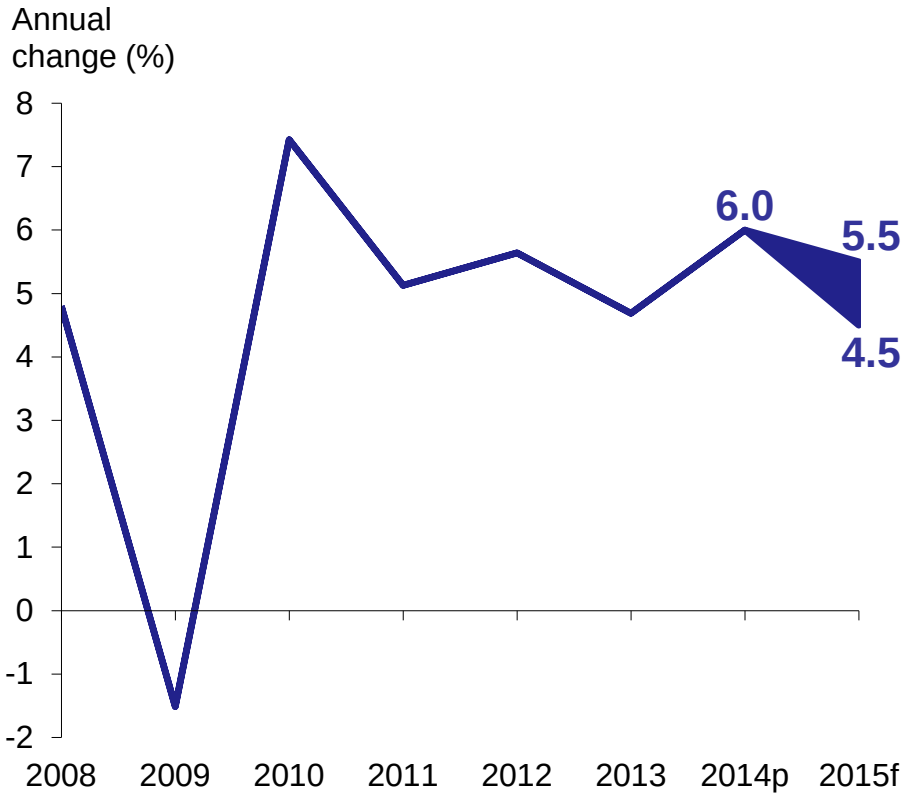
- **Recent capital outflows from many EMEs caused by uncertainties in the global economic, financial and policy environment**

- **Despite the depreciation of exchange rates, the domestic financial systems of the regional economies have proved to be resilient in the face of such outflows**

Source: EPFR Global

The Malaysian economy to remain on a steady growth path of 4.5 – 5.5% in 2015

Despite external shocks, growth to remain on steady trajectory amid strong underlying fundamentals



- **Domestic demand will continue to drive growth, led by private sector spending**
- **All economic sectors to experience continued expansion**
- **External sector to remain resilient**

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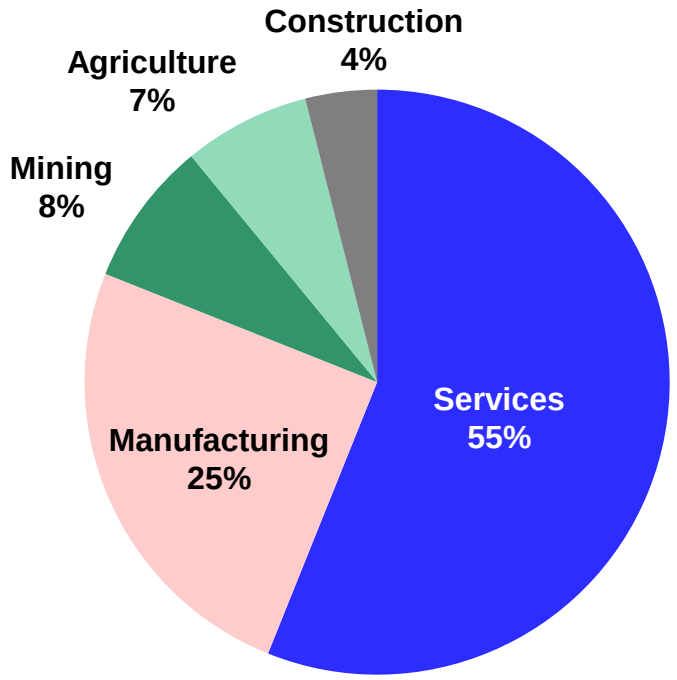
Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Economic restructuring accords Malaysia the resilience to weather the challenging external environment

Shifts in economic activity have resulted in a more diversified economic structure

Malaysia: Economy by Sector (2014)



Reaping the benefits of Malaysia's economic restructuring and reforms

1. **Higher private participation in the economy (70% of GDP)**
2. **Diverse export structure across products and markets**
3. **Resilient and well-developed financial system, supporting growth**

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Domestic demand will continue to drive growth in 2015

Real GDP Annual change (%)	% share of GDP (2014)	2014p	2015f
Domestic demand (excluding stocks)	**93.1**	**6.0**	**6.0**
Private expenditure	**70.0**	**8.0**	**6.7**
Private consumption	*52.5*	*7.1*	*6.0*
Private investment	*17.5*	*11.0*	*9.0*
Public expenditure	**23.0**	**0.2**	**3.7**
Public consumption	*13.2*	*4.4*	*2.7*
Public investment	*9.8*	*-4.9*	*5.1*
Gross Fixed Capital Formation	*27.3*	*4.7*	*7.6*
Net exports of Goods & Services	**8.0**	**19.7**	**-7.8**
Exports of Goods & Services	*88.8*	*5.1*	*3.0*
Imports of Goods & Services	*80.8*	*3.9*	*4.0*
Real GDP	**100.0**	**6.0**	**4.5 – 5.5**

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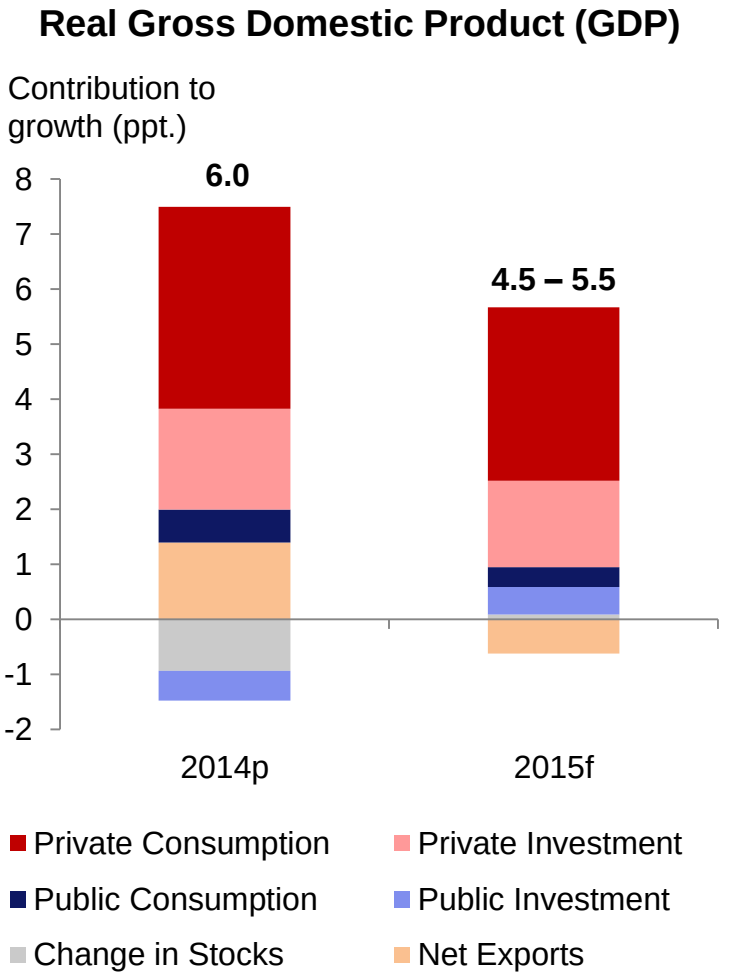

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Continued expansion across all economic sectors

Services and manufacturing sectors to underpin growth

Real GDP Annual change (%)	% share of GDP (2014)	2014p	2015f
Services	55.3	6.3	5.6
Manufacturing	24.6	6.2	4.9
Mining	7.9	3.1	3.0
Agriculture	6.9	2.6	0.3
Construction	3.9	11.6	10.3
Real GDP	**100.0[1]**	**6.0**	**4.5 – 5.5**

- **Services**
  - Supported by consumption- and trade-related sub-sectors
- **Manufacturing**
  - Continued growth in electronics and electrical (E&E) sector
- **Mining**
  - Rising oil production
- **Agriculture**
  - Lower production of palm oil and rubber amid lower prices
- **Construction**
  - Driven by activity in residential and non-residential sub-sectors

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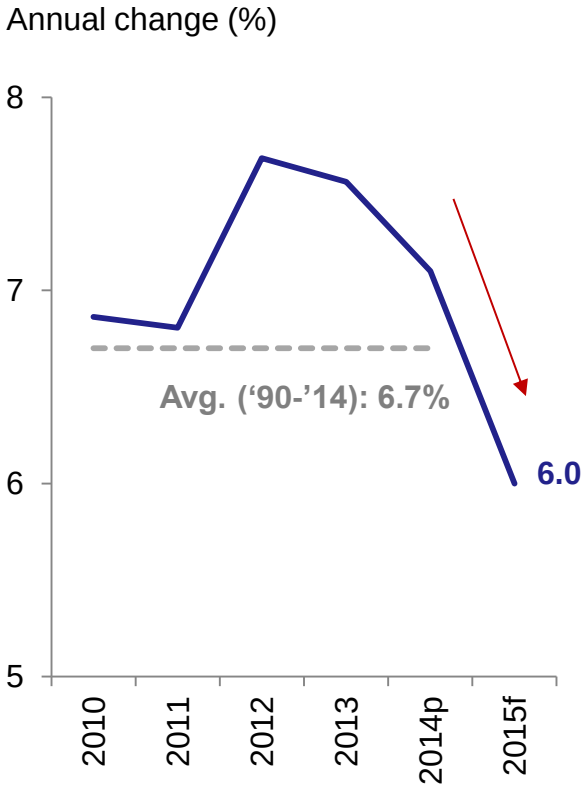
1 Numbers do not add up due to rounding and exclusion of import duties

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Private consumption is projected to grow by 6.0% in 2015

While growth is affected by GST and lower earnings in commodity sectors…

Real private consumption



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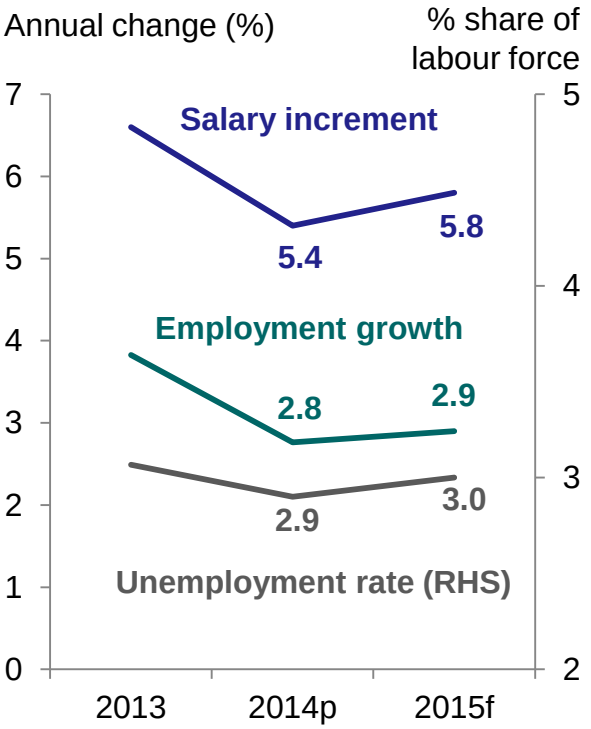
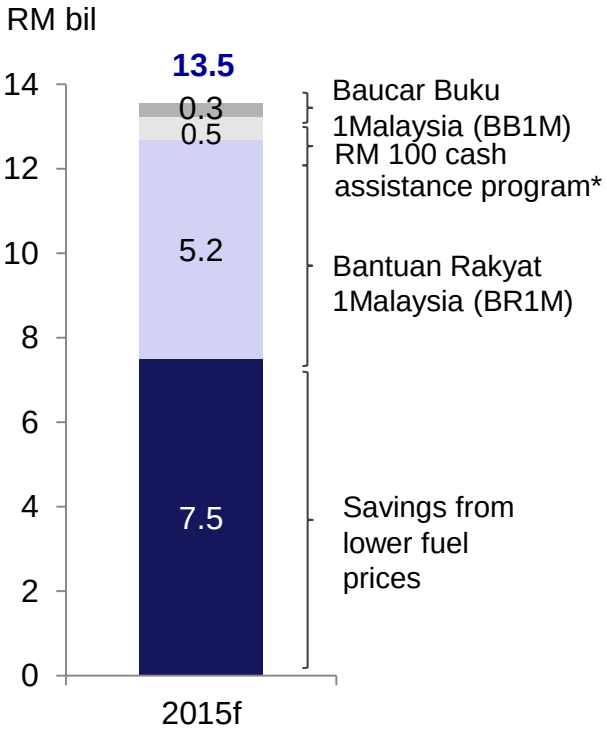
…it remains supported by stable labour market conditions and continued growth in salary…

Unemployment and salary



…and additional income from Gov't measures and savings from lower fuel prices

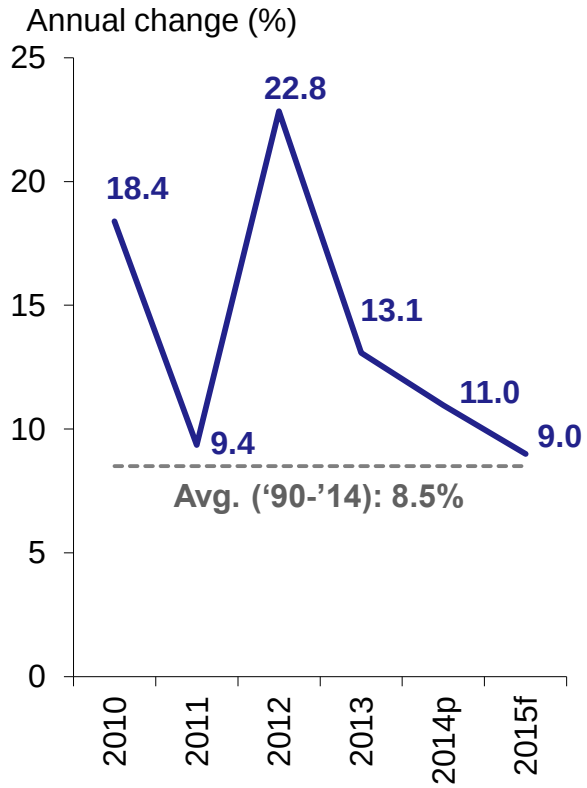
Government measures and savings



Note: * Disbursed to primary and secondary school students; Source: Department of Statistics, Malaysia, MEF Salary Survey, Bank Negara Malaysia

Private investment to be supported by a steady flow of projects

Private investment to expand by 9.0%...



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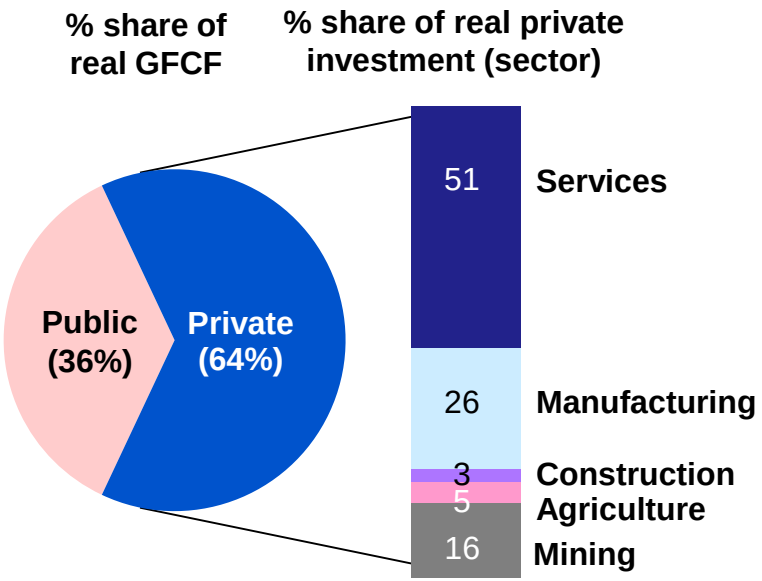
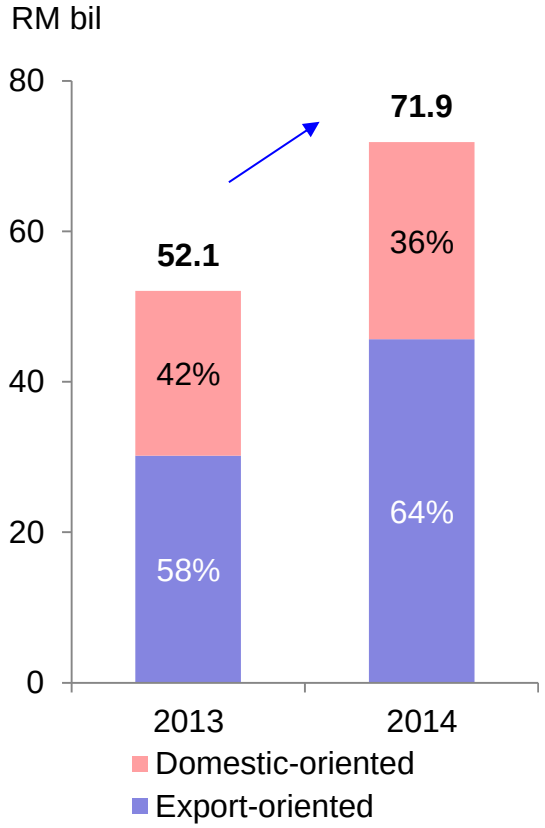
…driven mainly by investment in the manufacturing and services sectors

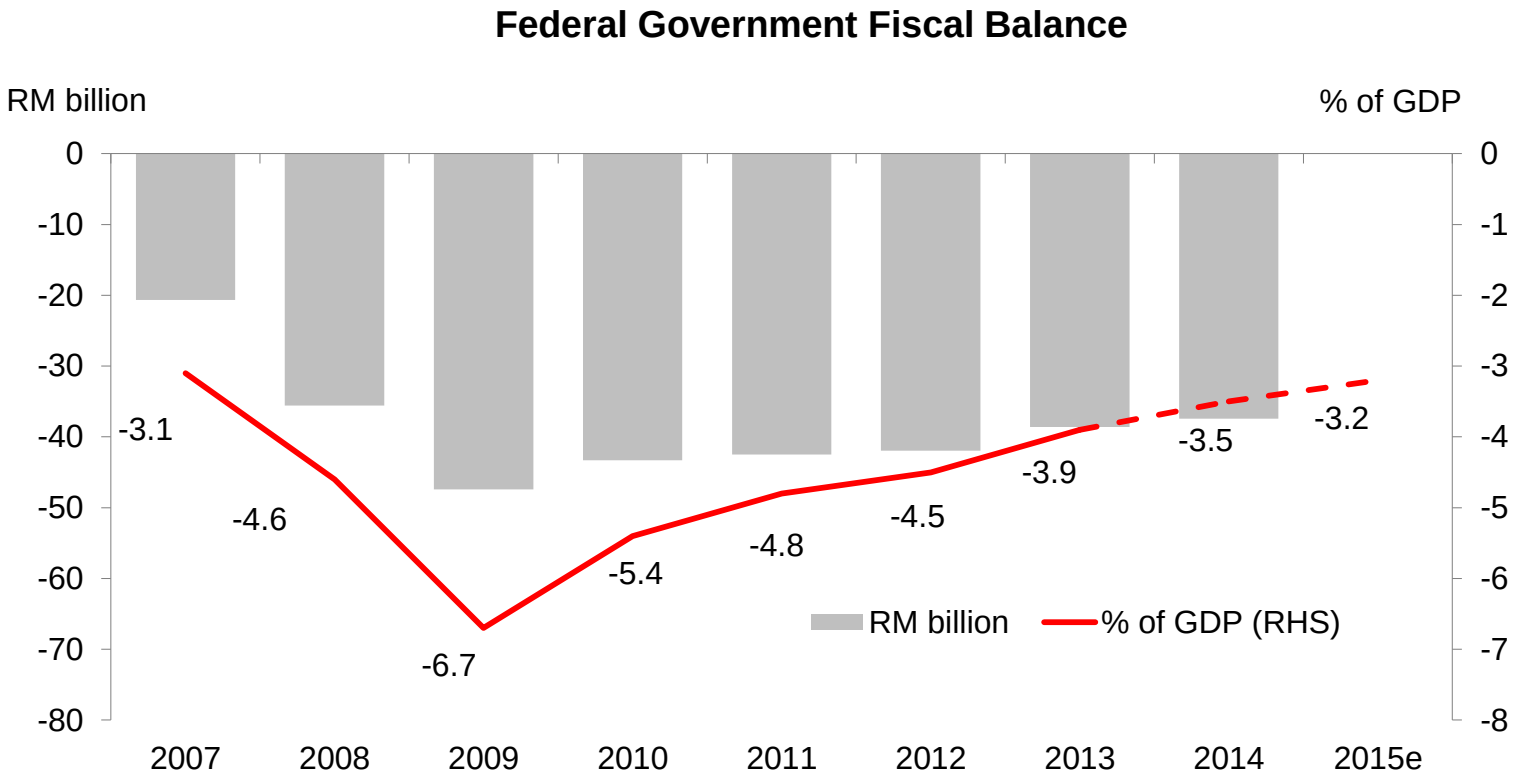


Record-high manufacturing investment approvals point to sustained investment



Source: Department of Statistics, Malaysia, Malaysian Investment Development Authority (MIDA) and Bank Negara Malaysia

Fiscal consolidation will remain on course despite low oil prices



e latest estimate reflecting Prime Minister's speech on 20 Jan 2015

Source: Ministry of Finance, Malaysia

Earlier fiscal reform measures have yielded positive results

1. Dependency on oil revenue has declined

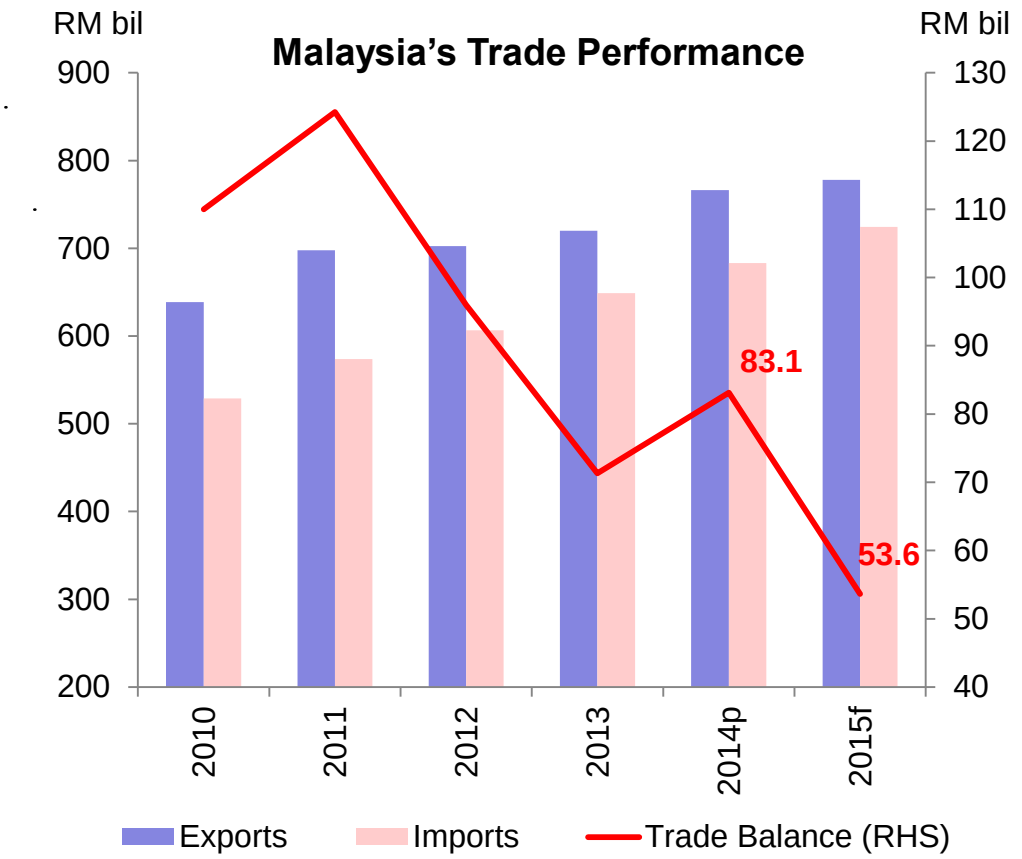
2. Expenditure reforms is underpinned by the removal of the fuel subsidy, which will reduce the operating expenditure

3. GST implementation will broaden the revenue base

Trade balance to remain in substantial surplus amid more moderate export growth

Manufactured exports to benefit from improvement in major advanced economies

Trade Annual change (%)	% share (2014)	2014p	2015f
Gross exports	**100.0**	**6.4**	**1.5**
Manufactured	**76.9**	**7.3**	**8.4**
E&E	37.3	8.4	14.1
Non-E&E	39.6	6.3	3.0
Commodities	**22.7**	**4.5**	**-22.6**
Agriculture	9.0	0.6	-10.8
Minerals	13.7	7.3	-30.4
Gross imports	**100.0**	**5.3**	**6.0**
Capital goods	14.1	-2.1	10.0
Intermediate goods	59.8	7.6	6.8
Consumption goods	7.4	5.7	6.8



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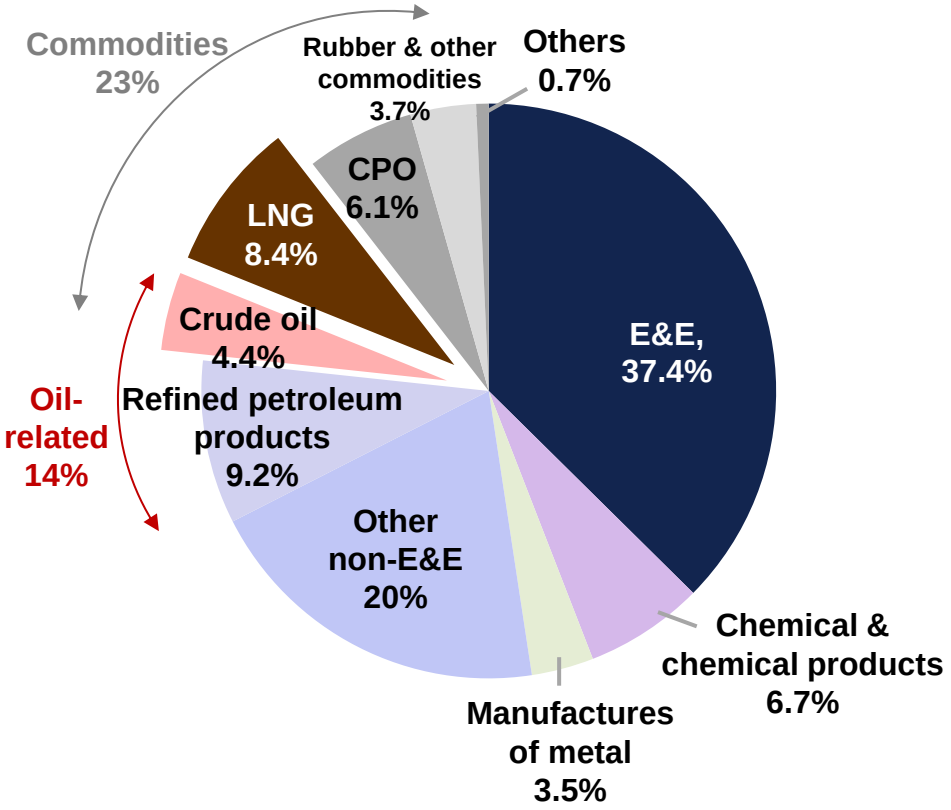
Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Diversified trade structure in terms of products and markets mitigates the impact of external developments

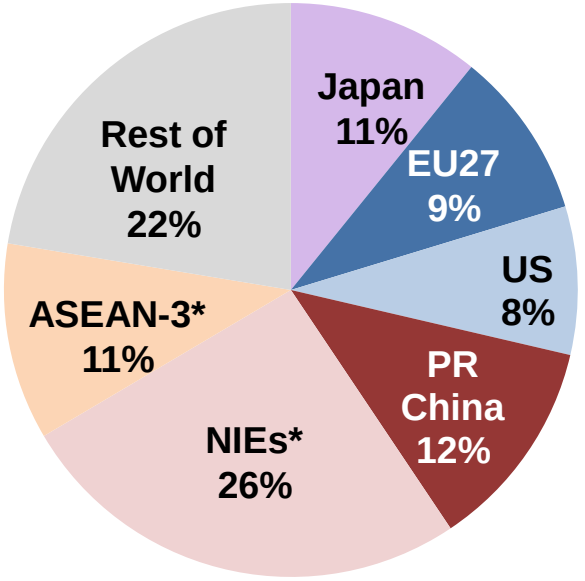
Manufactured exports constitute the largest share of total exports

Malaysia's Exports by Products



Higher share of exports to regional countries amid strengthened trade linkages

Malaysia's Exports by Markets



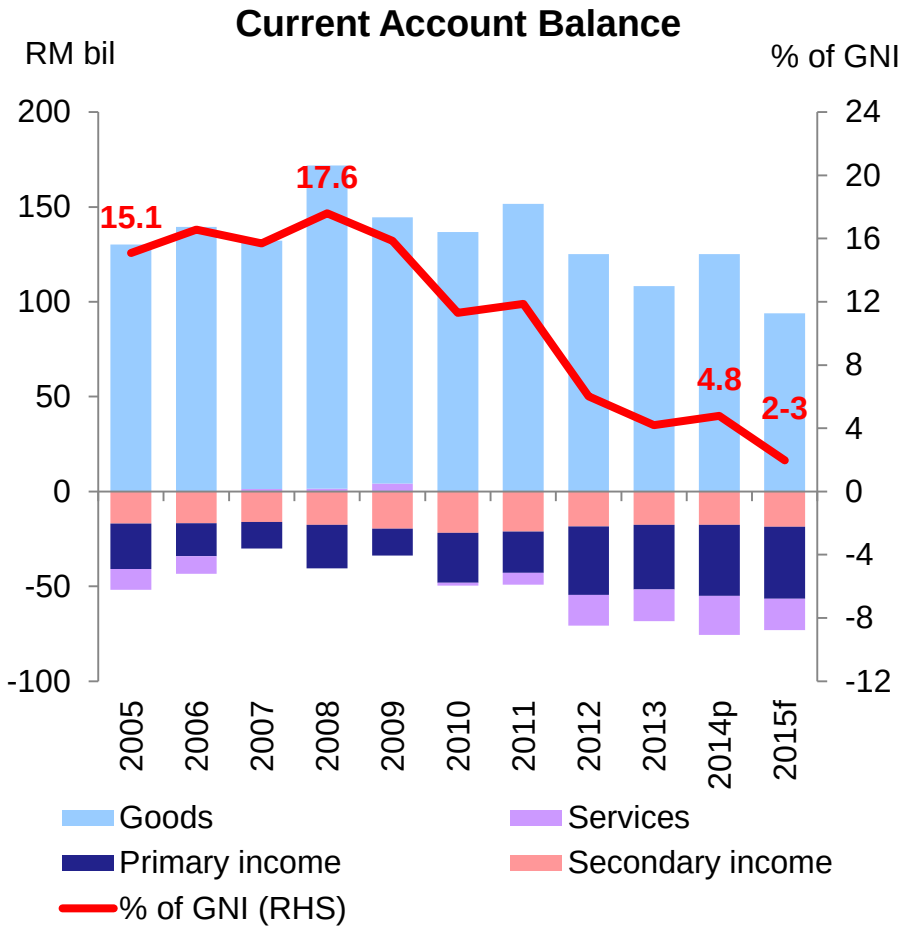
Note: NIEs include Hong Kong, Singapore, Korea and Chinese Taipei, while ASEAN-3 include Thailand, Indonesia and Philippines

Sources: Department of Statistics, Malaysia and Bank Negara Malaysia

Current account surplus to remain in 2015

The narrowing of the current account surplus to 2 – 3% of GNI is consistent with global rebalancing and structural transformation in the domestic economy

Current account component (net)	2014p	2015f
	RM billion	
Goods	125.1	94.2
Services	-20.5	-16.4
Primary income	-37.4	-38.0
Secondary income	-17.6	-18.5
Current account balance	**49.5**	**21.4**
% of GNI	**4.8**	**2 – 3**



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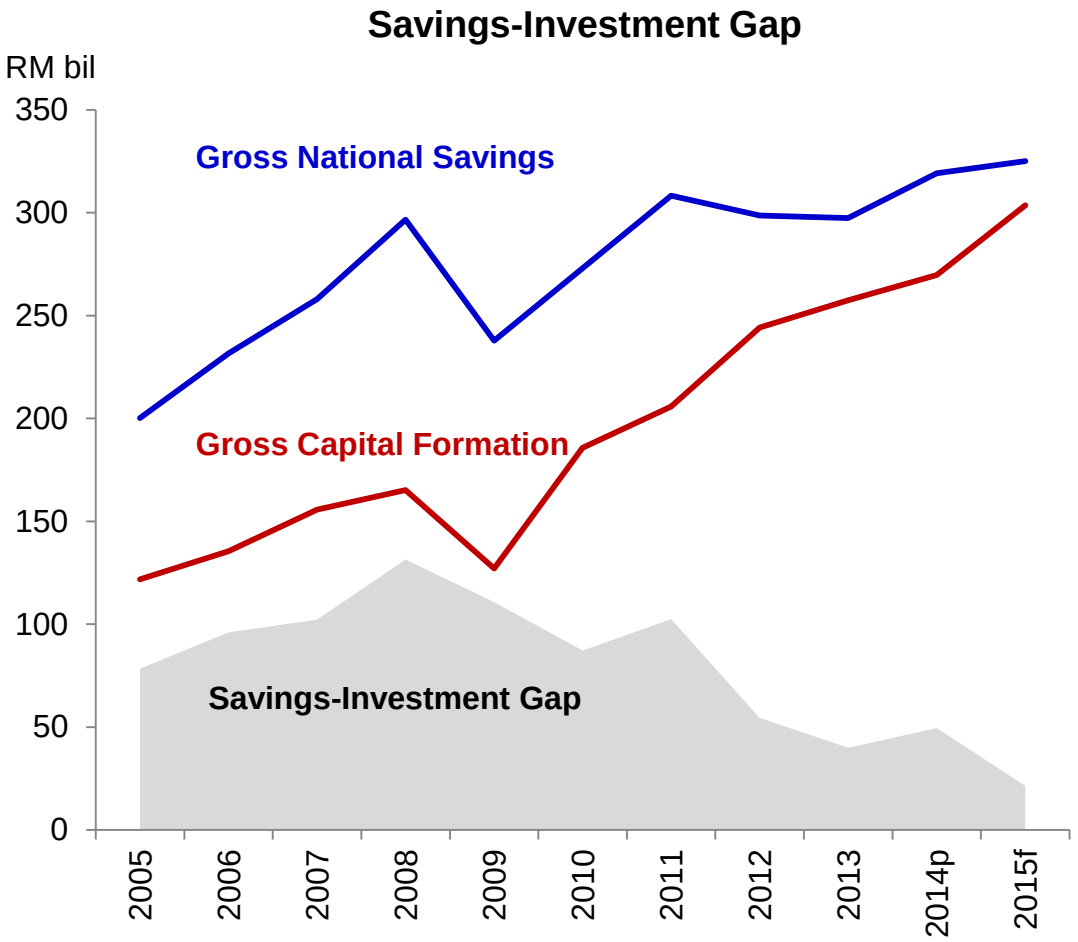
Source: Department of Statistics, Malaysia

Narrowing savings-investment gap driven by strength in investment activity



- **Strong growth in investment activity has been a key feature of the structural transformation in the economy**
- **Investments undertaken in new growth areas, high value-added industries and infrastructure will further lift productive and exports capacity of the economy**

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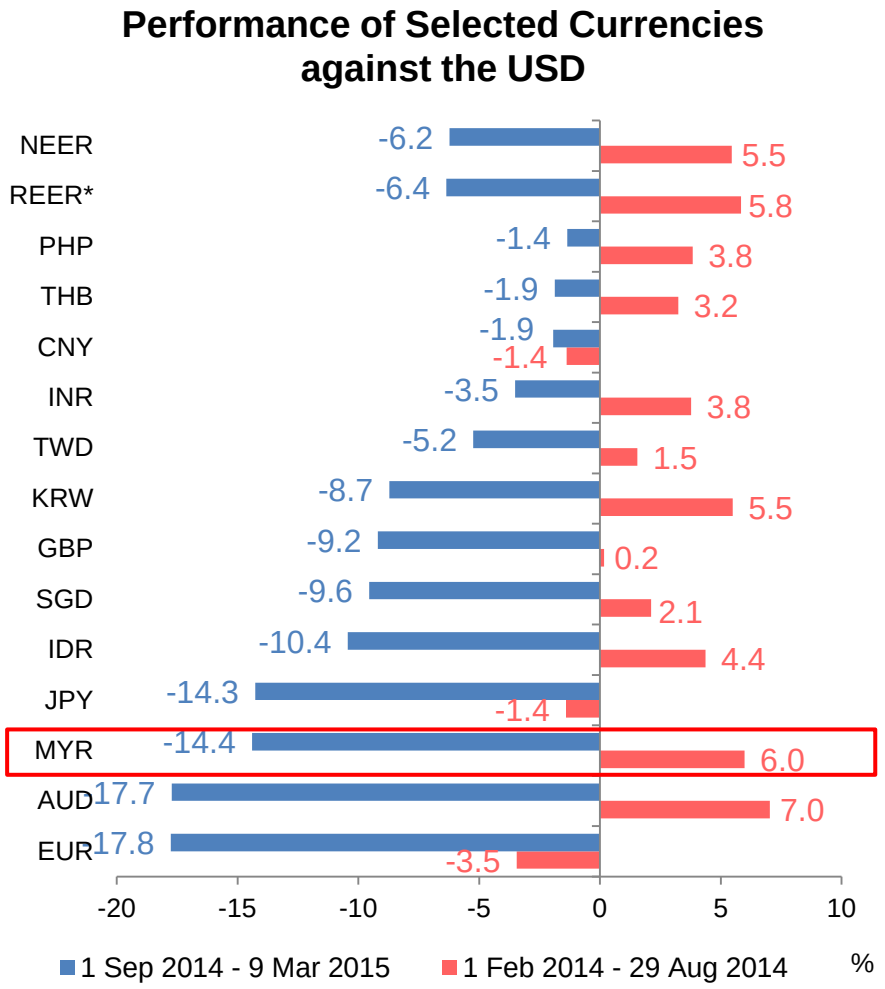
Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Ringgit movements driven by external factors



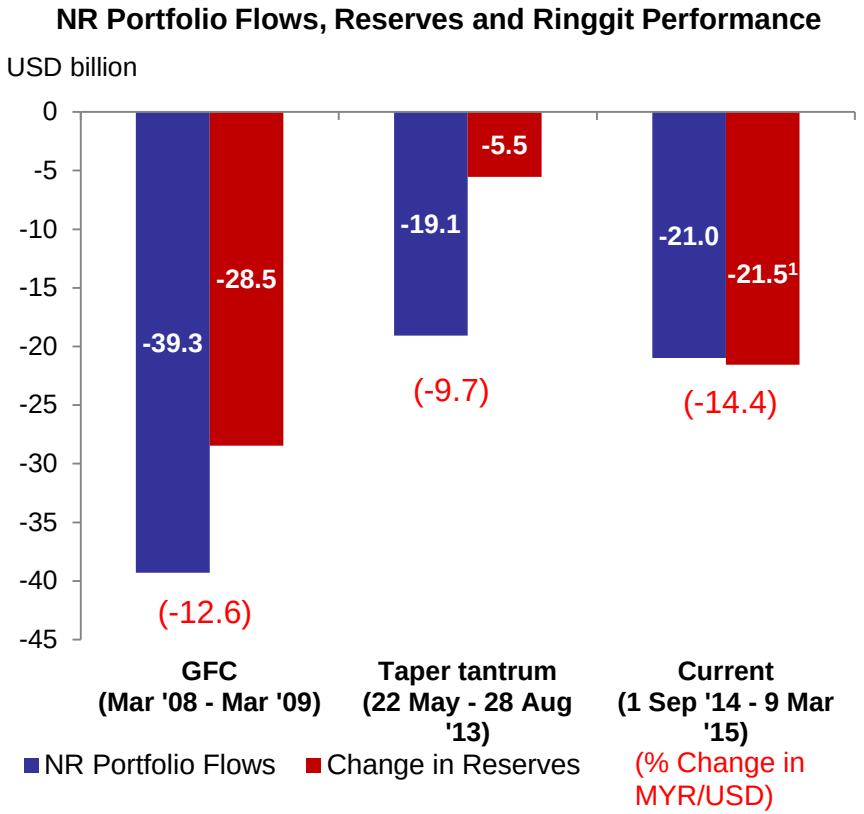
- **Depreciation of the ringgit and regional currencies reflects the US dollar strength**
- **A larger adjustment in the ringgit is due to concerns on the impact of lower oil prices on the Malaysian economy**
- **The exchange rate is neither a demand management tool nor a policy instrument to affect export competitiveness**

Note: REER uses latest daily NEER and latest available (monthly) inflation data

Source: Bank Negara Malaysia

Malaysia is better positioned to intermediate volatile capital flows

Such sizeable reversals of capital flows have been experienced before



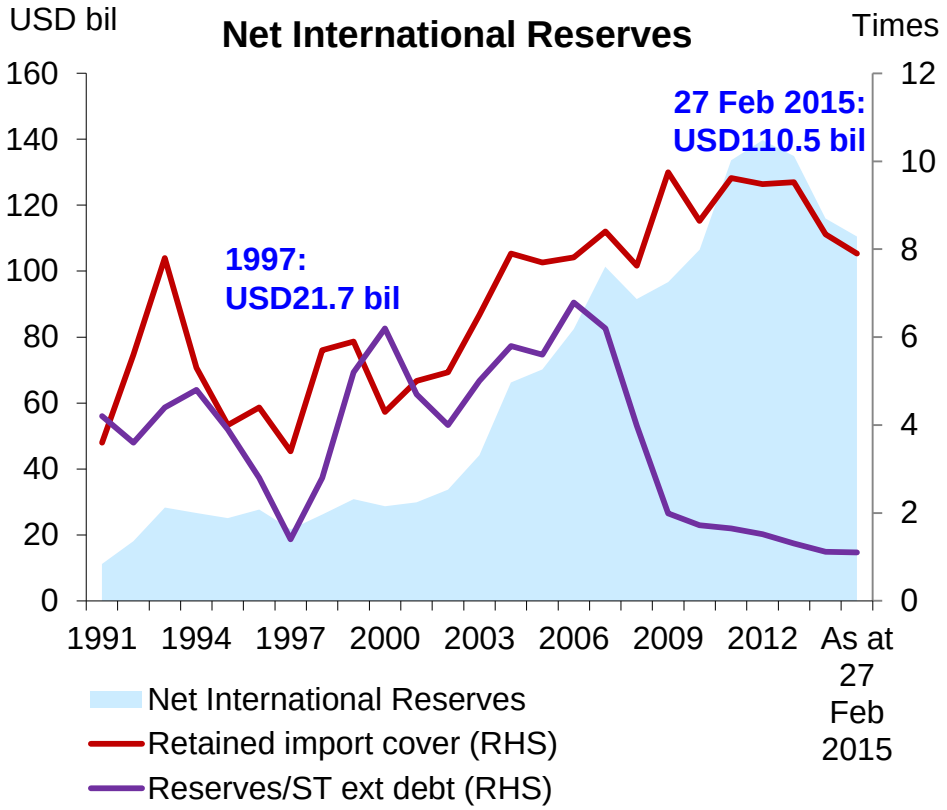
- **Ability to absorb the volatility of these flows and contain its spillover effects on the real economy**
  - Well-developed financial markets and resilient banking system
  - A wider range of tools and increased policy flexibility
  - Bigger buffers built over the years
- **Despite the recent outflows, conditions in the domestic financial market and foreign exchange market has remained orderly**

Note: [1]Reserves data up to 27 Feb 2015

Source: BNM

Ample international reserves provide important buffer

Reserves have increased about five-fold since the Asian Financial Crisis



Reserves to short-term external debt coverage at 1.1 times is adequate for a country that has higher degree of economic and financial openness

1. **Malaysia is the most financially open economy in East Asia after Hong Kong and Singapore**

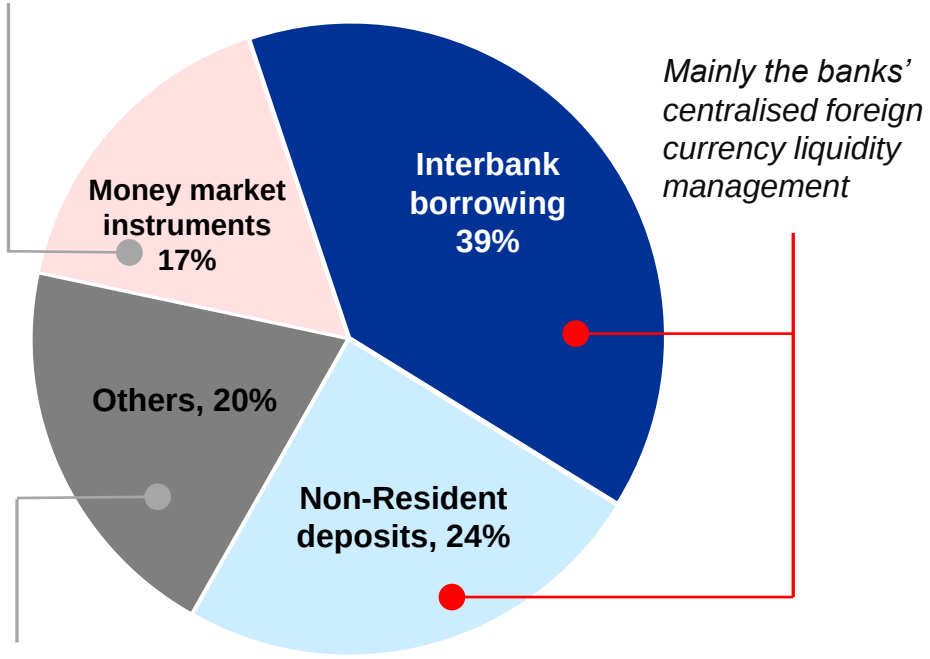
2. **High degree of financial openness reflected by:**
   - High presence of non-resident participation in the domestic financial market
   - Increased regionalisation of domestic banks
   - Progressive liberalisation of the capital account

Source: Bank Negara Malaysia

Short-term external debt position reflects greater financial integration and more developed financial markets

Risks are well contained as the bulk of short-term external debt reflects increasing regionalisation of our banks

Non-resident (NR) holdings, mainly in BNM Monetary Notes



Mainly the banks' centralised foreign currency liquidity management

Mainly trade credits and intercompany loans

Malaysia compares favourably in terms of financial integration and financial market depth

	SG	HK	MY	ID	TH	KR
Banks' external asset position (% share of GDP) [1]	116.9	20.2	**21.4**	4.2	n.a.	15.6
Bond market capitalization (% share of GDP) [2]	81.9	68.3	**103.8**	15.2	76.3	123.2
NR holdings (% share of govt. bonds) [3]	n.a.	7.4	**28.3**	37.3	17.3	10.6

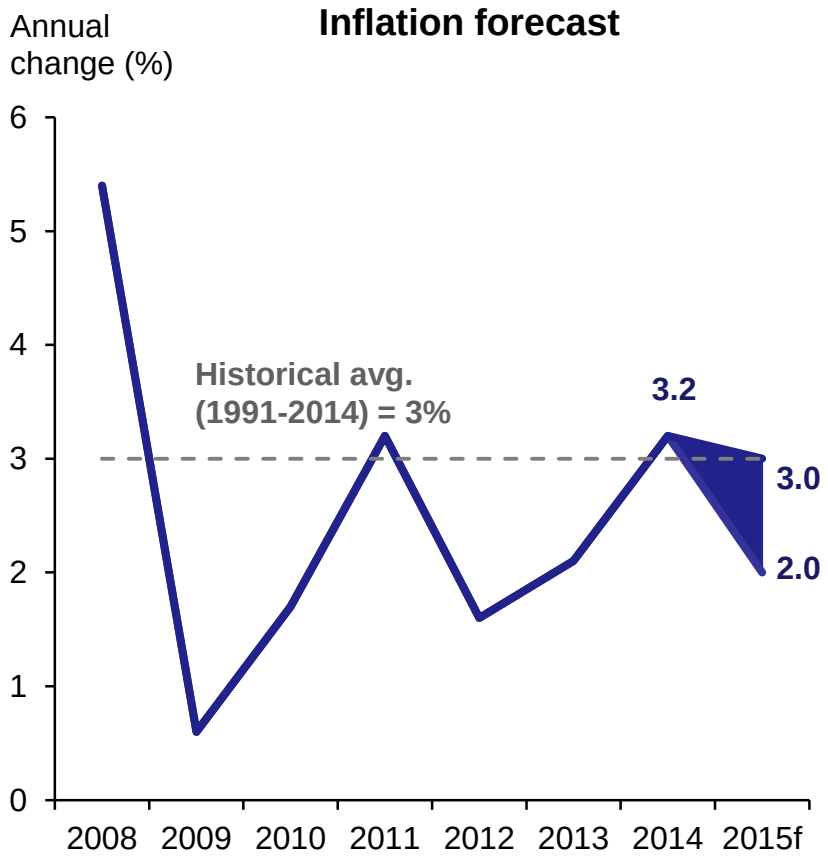
[1] end-Sep 2014 (except Malaysia end-Dec 2014)

[2] end-Dec 2014 (except Hong Kong and Korea end-Sept 2014)

[3] Mar '14 (HK), Sep '14 (KR), Feb '15 (MY, ID, TH)

Source: Bank Negara Malaysia, Bank of International Settlements, Asian Development Bank, Haver Analytics

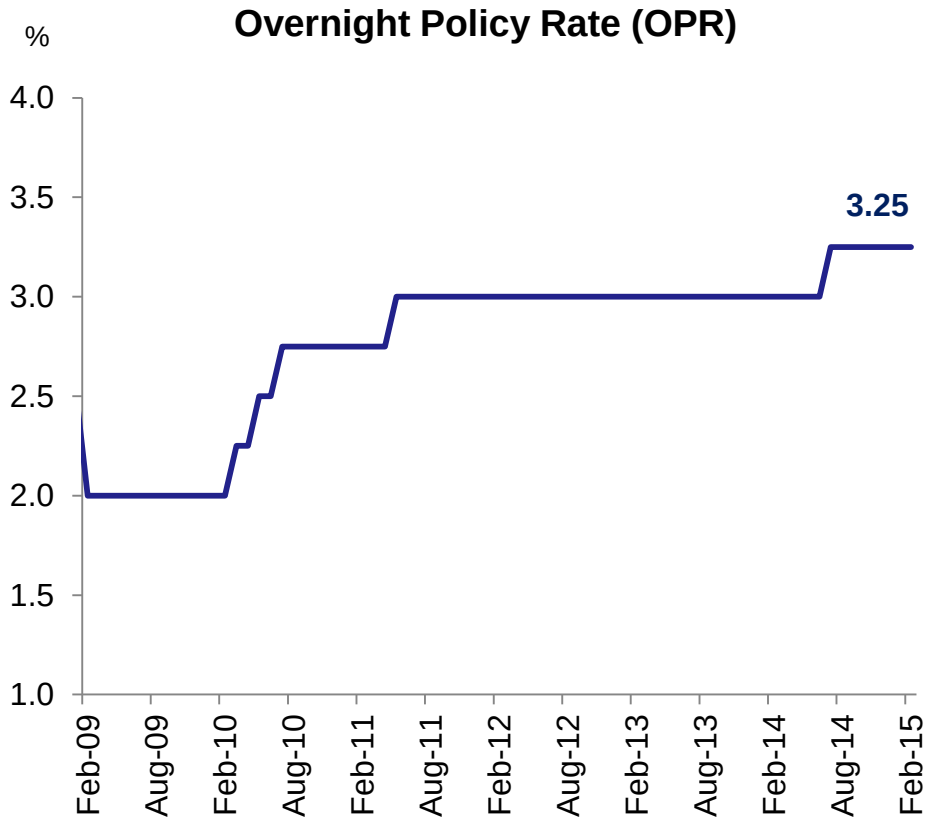
Headline inflation to range between 2 – 3% in 2015



- **Lower inflation reflects the decline in global energy and commodity prices**
- **Lower domestic fuel prices and moderate demand conditions would partly offset the impact from GST**
- **Households will benefit through higher disposable income from lower fuel prices**

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Monetary policy will focus on ensuring steady growth amid contained inflation outlook

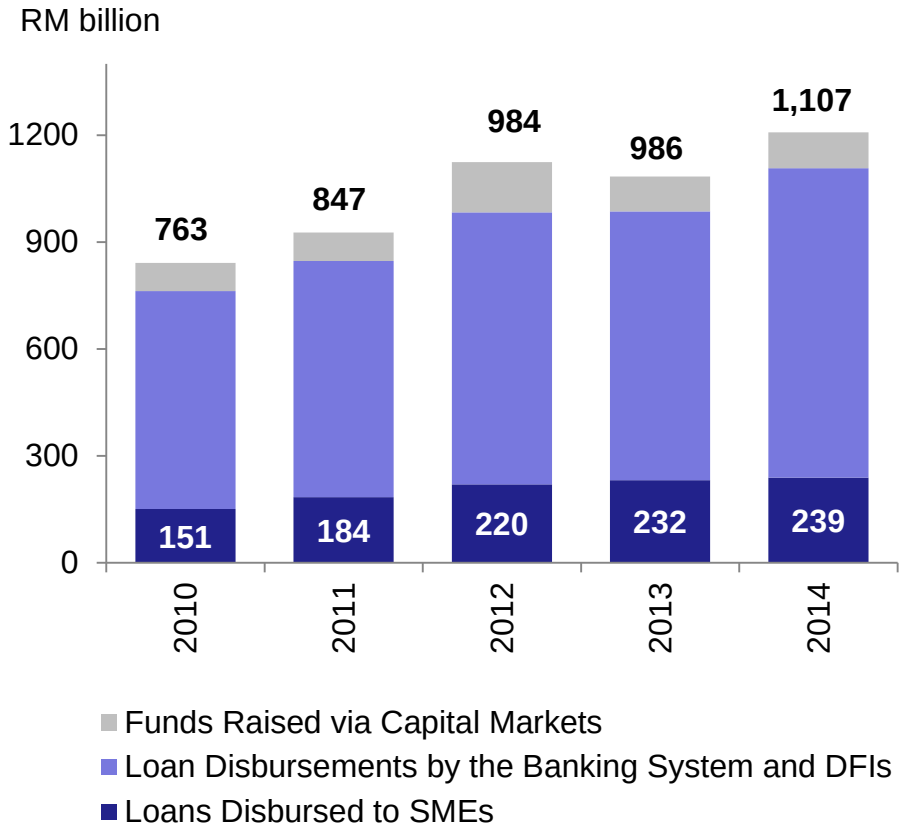


- **Monetary policy in 2015 will focus on supporting the steady growth of the economy, amid a contained inflation outlook**
- **The risks of destabilising financial imbalances will continue to be monitored**

Source: Bank Negara Malaysia

Financing continues to be supportive of economic activity

Gross Financing through Loans and the Capital Markets*

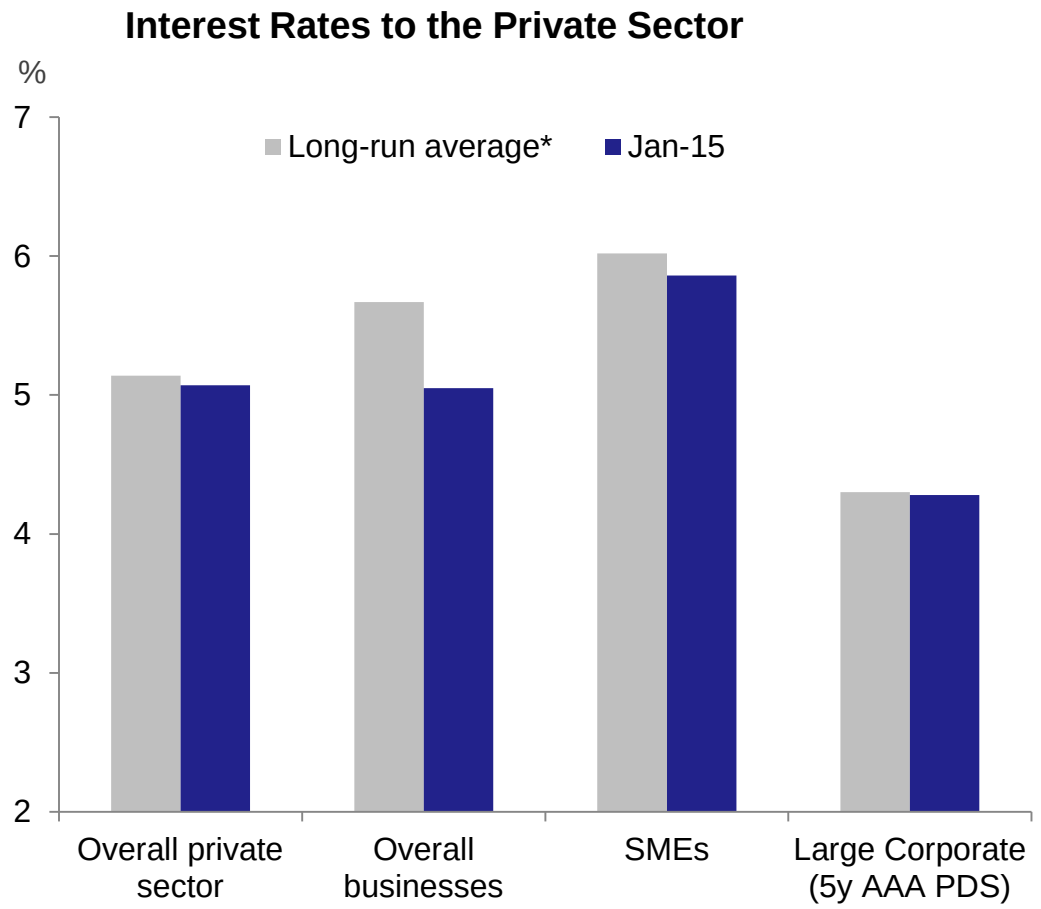


- **Going forward, financing activity is expected to remain robust**
  - Continued availability of financing for businesses, especially for SMEs from the banking system and the DFIs
  - Funds raised from the capital market to remain high given committed investment projects in the pipeline

- **Supported by ample liquidity conditions**
  - Outstanding surplus liquidity with BNM remains high at RM269.9 billion in 2014

*Comprises gross loans from the banking system and DFIs, and gross funds raised from the capital markets
Source: Bank Negara Malaysia

Low borrowing costs to the private sector



- **Private sector will continue to benefit from low financing costs**

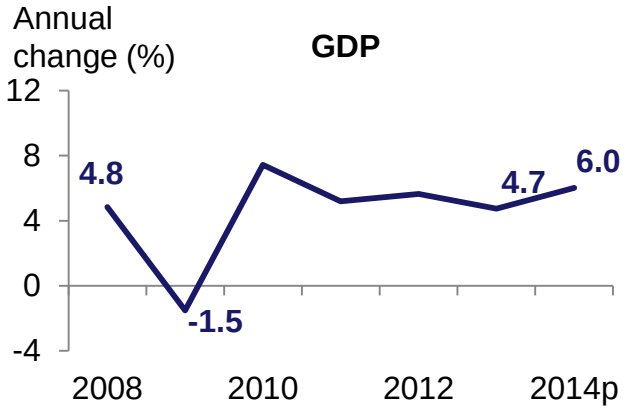
- **Despite financial market volatilities, cost of financing from capital markets remain supportive of fund raising activities**
  - Strong domestic investor base allows Malaysia to meet domestic financing needs without relying on external sources of funds

Note: * Average (Jan 2002 – Dec 2014)

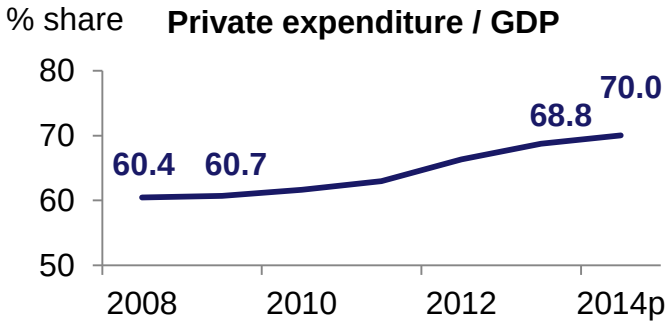
Source: Bank Negara Malaysia

Malaysia's macroeconomic fundamentals remain supportive of growth

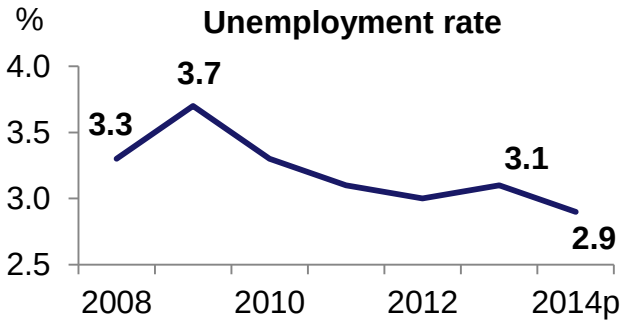
Steady growth path



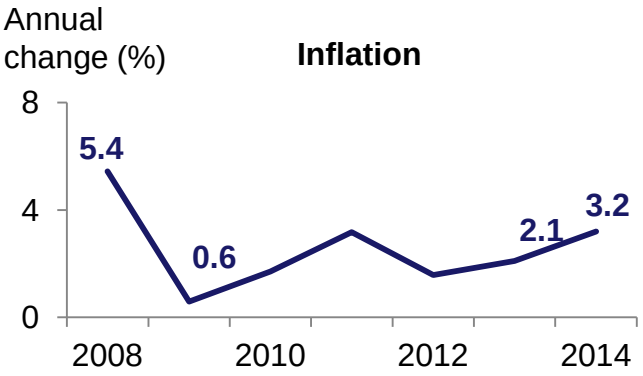
High private sector participation in the economy



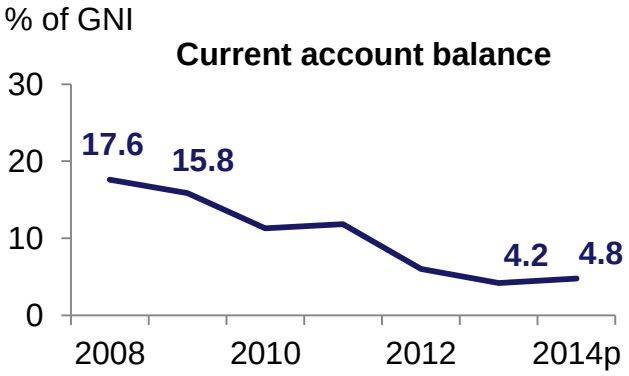
Stable labour market conditions



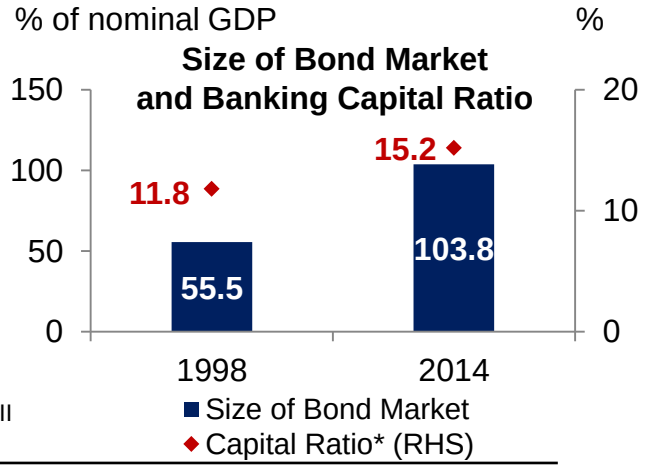
Low and stable inflation environment



Current account balance reflects strong investment



Deeper markets and strong financial buffers



* Capital ratio in '98 refers to the risk-weighted capital ratio; Ratio in 2014 refers to total capital ratio, reported based on Basel III Capital Adequacy Framework adopted since January 2013.

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Malaysia remains resilient in an uncertain external environment

- **The Malaysian economy to remain on a steady growth path of 4.5 – 5.5%, driven by domestic demand**
  - Economic diversification and structural reforms to mitigate adverse external developments
  - Accommodative monetary policy that is supportive of economic activity
  - Pro-growth and targeted policy measures such as assistance to SMEs and low-income households

- **Current account to remain in surplus**
  - Diversified export markets and products

- **Lower inflation of 2 – 3%**

- **Malaysia has the capacity to deal with capital flows**
  - Well-developed and resilient financial system and deep capital market
  - Ample reserves with a wide range of monetary policy instruments
  - Flexible exchange rate

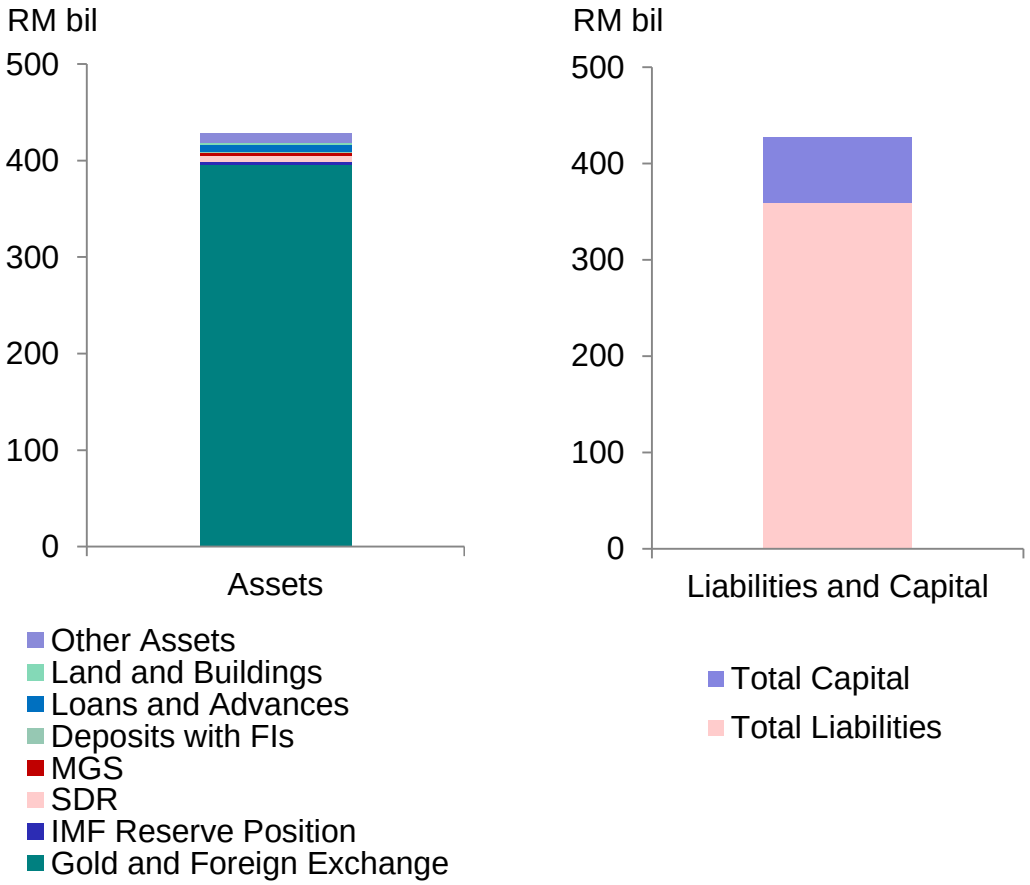
Bank Negara Malaysia: Annual Financial Statements 2014

Financial position remained stable in 2014:

- Total assets of BNM amounted to RM427.6 billion with International Reserves of RM405.4 billion (USD 115.9 billion)
- Net profit of RM6.38 billion
- Dividend of RM3.0 billion to the Government

Bank Negara Malaysia: Annual Financial Statements 2014

Statement of Financial Position (as at 31 December 2014)



Income Statement (Year ended 31 December 2014)

	RM bil
Total Income	**8.48**
Less:	
Recurring Expenditure	1.15
Development Expenditure	0.95
Total Expenditure	**2.10**
Net Profit	**6.38**

Financial Stability And Payment Systems Report 2014

Financial stability outlook for 2015 remains positive

Banking Sector (%)	2013	Jan 2015
Capitalisation		
Common equity tier 1 ratio	**12.6**	**12.4**
Total capital ratio	**14.9**	**15.1**
Excess capital buffer (RM bil)	**85.5**	**97.1**
Profitability		
Return on assets	**1.5**	**1.5***
Return on equity	**15.9**	**15.2***
Asset Quality		
Net impaired loans ratio	**1.3**	**1.2**
Loans in arrears (1-<3 mths)	**2.9**	**2.4**
Liquidity Position		
Liquidity buffer (<1 mth, % of deposits)	**14.7**	**15.6**
Insurance/Takaful Sector (%)	**2013**	**2014**
Capitalisation		
Capital adequacy ratio – Insurance	**246.1**	**253.0**
Capital adequacy ratio – Takaful	**n/a**	**192.8**
Capital buffer (RM bil)	**23.5**	**30.2**
Profitability		
Profit (RM bil)	**16.4**	**16.9**

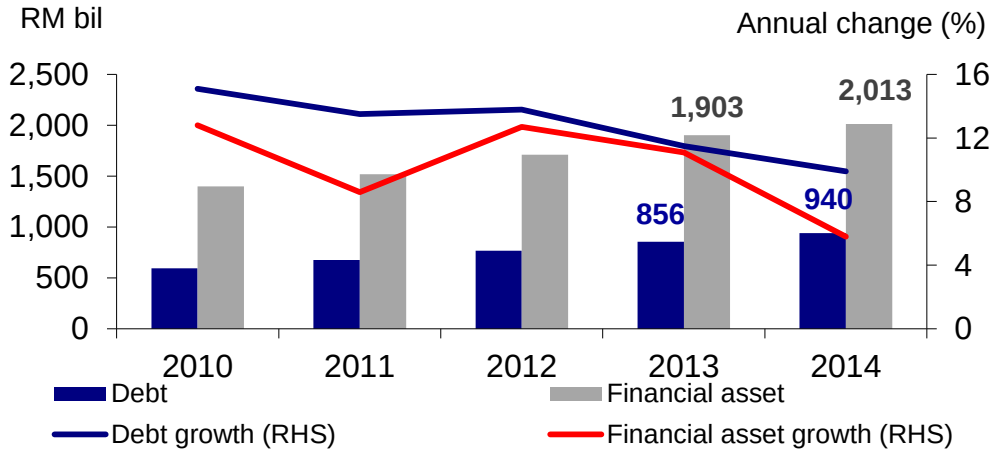
* Refers to December 2014 position

- **Financial intermediation will remain supportive of economic activities**
- **Market conditions are expected to remain orderly despite higher volatility**
- **Financial institutions continue to maintain strong capital and liquidity buffers**

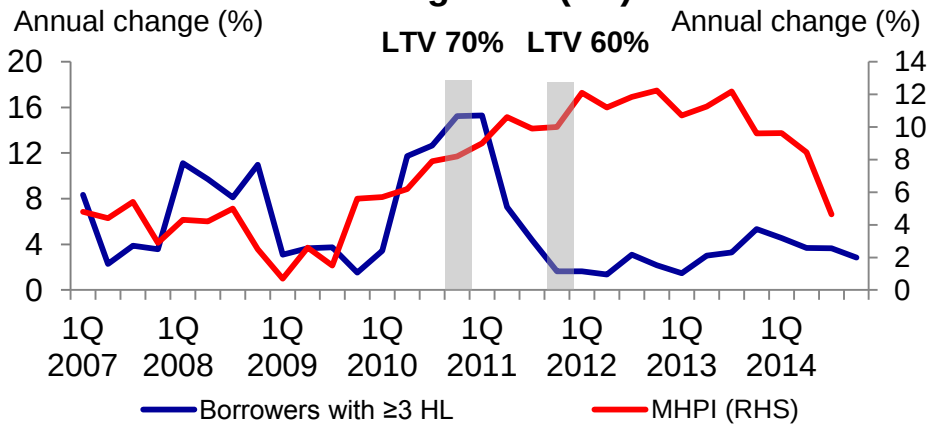
Source: Bank Negara Malaysia

Sustained moderation in the growth of household debt and property prices

Household Debt and Financial Assets



Malaysian House Price Index (MHPI) and Number of Housing Loan (HL) Borrowers

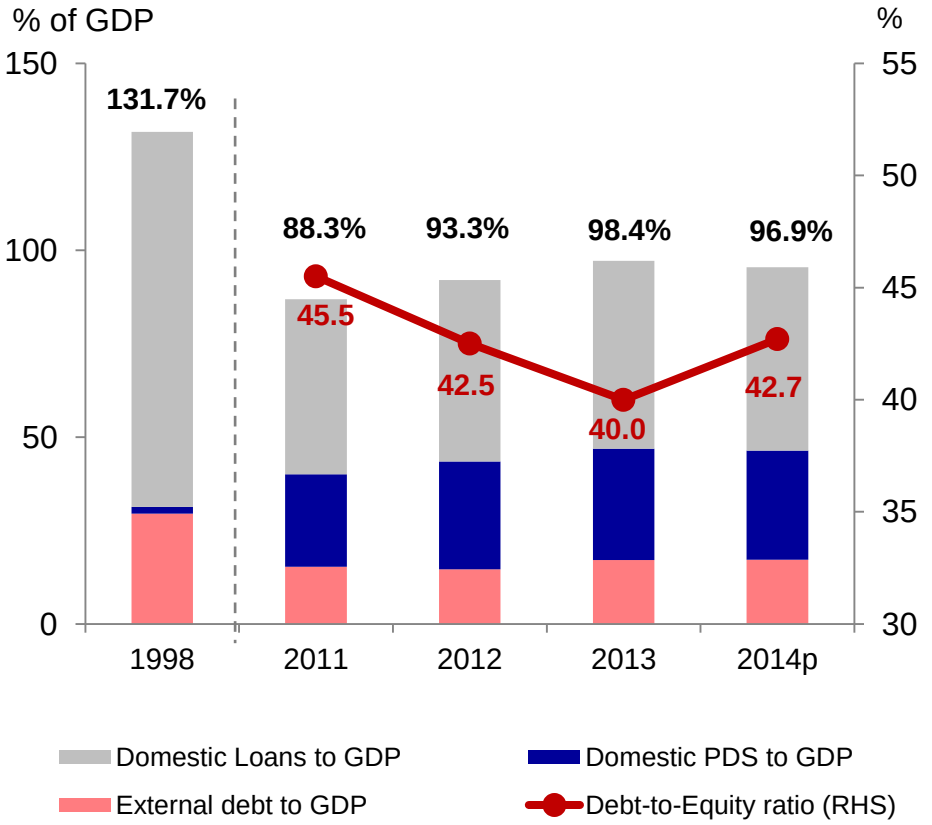


- **Growth in household debts moderated to the slowest pace of 9.9% since 2010**
  - Continued deceleration in personal financing
  - Higher quality of new borrowings amid strengthened affordability assessments
  - Lower share of debt attributed to more vulnerable households

- **Receding risks from the property market**
  - Slower growth in average house prices since 4Q 2013
  - Speculative purchases with borrowings remain in check

Corporate leverage remains within prudent levels

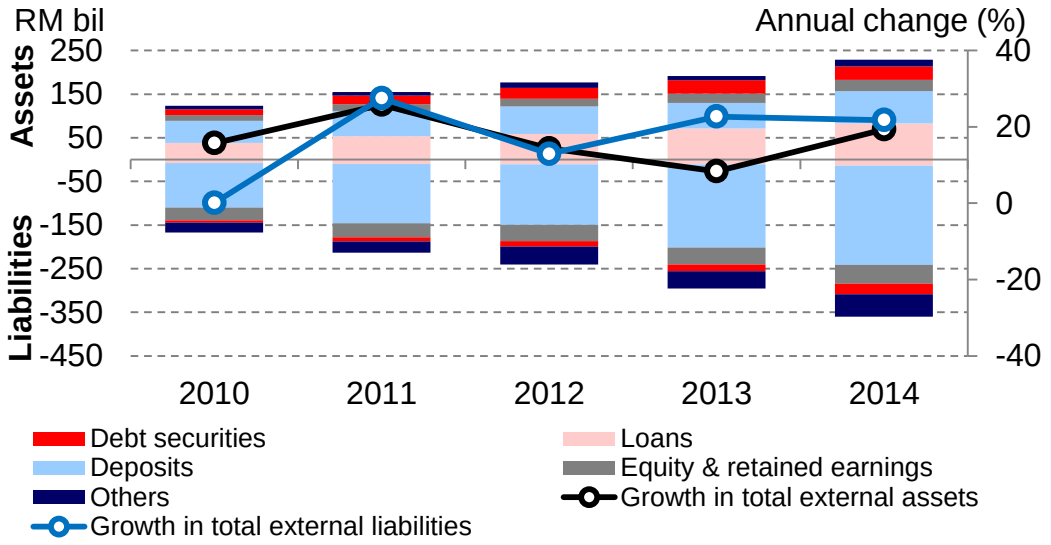
Business Sector:
Leverage and Composition of Debt



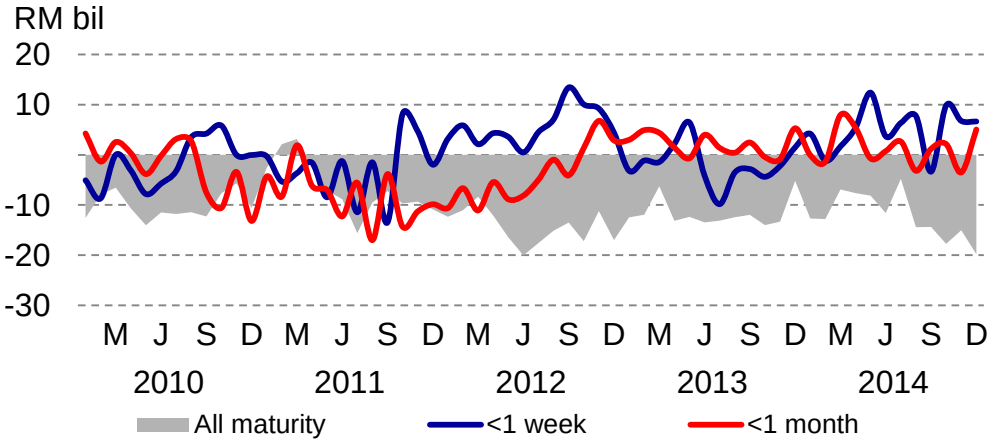
- **Corporate leverage remained low at 42.7%**
  - Further supported by a healthy median interest coverage ratio of 6.4 times
- **Negligible growth in external borrowings**
  - Mainly intragroup funding for Malaysian and overseas operations by multinational and larger domestic corporations
- **Quality of business loans remained sound, with broad-based improvements in delinquency and impairment trends**

Limited risk of contagion from external exposures

Banks' External Assets and Liabilities by Instruments



Banking System: US Dollar Liquidity Mismatch



- **Centralised liquidity management practices of banks contributed to higher external exposures of financial institutions, mainly in Asia**
- **Overseas operations of domestic banking groups continued to maintain healthy growth and profits, and a stable risk profile**
- **Banks continue to proactively manage foreign currency mismatch positions**

Strengthening the banking and insurance sectors

- **Further strengthening of prudential framework, driven by the global reform agenda and domestic reforms**
- **Insurance and takaful reforms to promote efficiency, enhance protection and ensure long-term sustainability**

New motor cover framework

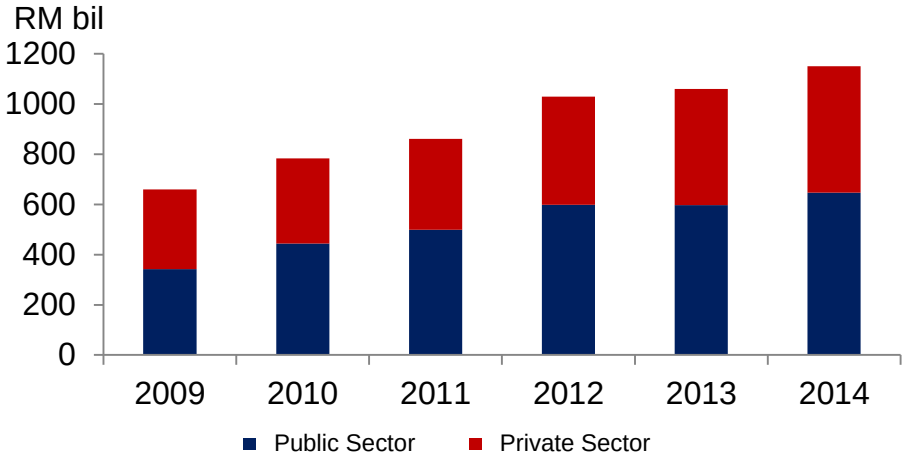
- **Market-based pricing to be phased in beginning 2016**

Life Insurance and Family Takaful Framework (LIFE Framework)

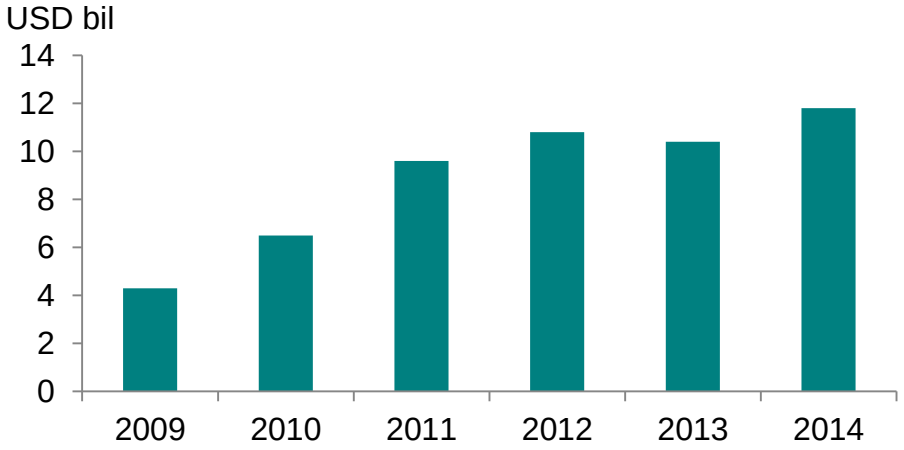
1. **Wider access through direct channels and product aggregators for consumers to compare and purchase insurance/takaful**
2. **Improved incentive structures to drive professional conduct and service quality**
3. **Larger pool of qualified financial advisers**

Further development of financial markets

Outstanding debt securities and sukuk



Average daily turnover of foreign exchange market



- **Continued growth of the debt securities, sukuk and foreign exchange (FX) markets**
  - Total outstanding debt securities and sukuk grew by 8.2%, with more diverse currency and investor base
- **Wider use of renminbi supported by liquidity management and clearing facilities**
  - Operationalisation of the Renminbi Deposit and Investment Facility
  - Appointment of a designated Renminbi clearing bank in Malaysia
- **Enactment of the Netting of Financial Agreements Act 2014**

Strengthened arrangements to better protect consumers

Financial Consumer Protection Initiatives

1. **Strengthened redress mechanisms through the transformation of the Financial Mediation Bureau into an approved Financial Ombudsman Scheme**

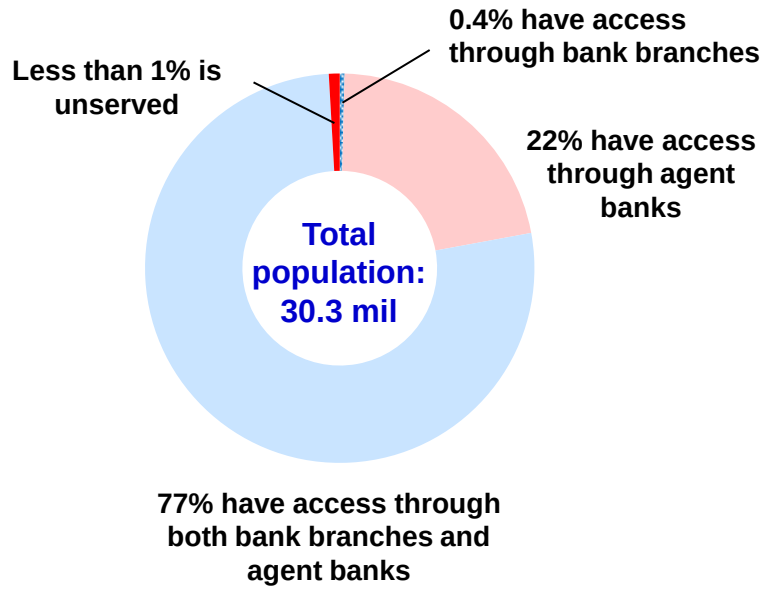
2. **More balanced pre-contractual disclosure obligations and proportionate remedies for insurance / takaful contracts**

3. **Ongoing financial education initiatives**

Financial inclusion remains a priority

1. Improved access to financing
2. Implementation of a systematic financial inclusion monitoring framework
3. Pilot microinsurance and microtakaful projects
4. Amendments to the Development Financial Institutions Act

99% of population have access to banking services, through the following channels:



Significant progress achieved towards deeper regional financial integration

- **Conclusion of Sixth Package of Financial Sector Commitments under the ASEAN Framework Agreement on Services (AFAS) in Q1 2015**

- **Finalisation of ASEAN Banking Integration Framework (ABIF)**
  - Completed the multilateral framework for the implementation of the banking integration process
  - Supported by a network of bilateral agreements between countries
  - Signing of Heads of Agreement between Bank Negara Malaysia, Bank Indonesia and Otoritas Jasa Keuangan in December 2014

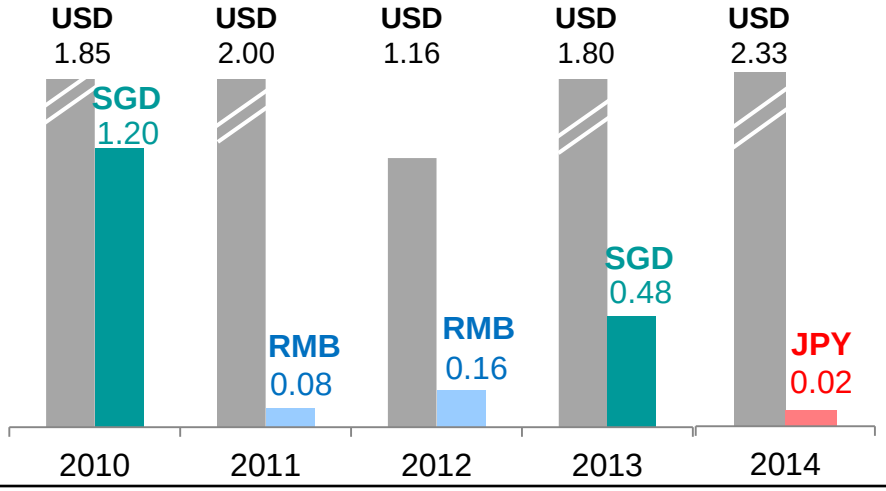
- **Enhancing integration of regional payment systems**
  - Adoption of the Principles of Product Transparency on Cross-border Trade Settlement to enhance the efficiency of trade settlement between ASEAN economies

Malaysia continues to advance as an international marketplace for Islamic finance

Components of GIFDI[1]	Malaysia's rank
Quantitative Development	1st
Knowledge	1st
Governance	2nd
Corporate Social Responsibility	8th
Awareness	2nd

[1] Global Islamic Finance Development Indicator by ICD Thomson Reuters

Vibrancy of Multicurrency Sukuk Issuances (USD bil)



- **Global leader in Islamic finance development**
- **Inclusion of Malaysian Government Investment Issues (GII) in the Barclays Global Aggregate, Asian Pacific Aggregate and Emerging Markets Local Currency Government indices effective 31 March 2015**
- **Increased vibrancy in the multi-currency sukuk marketplace**
  - Five more 'Emas' foreign currency-denominated sukuk.
  - World's first yen-denominated sukuk issued in Malaysia

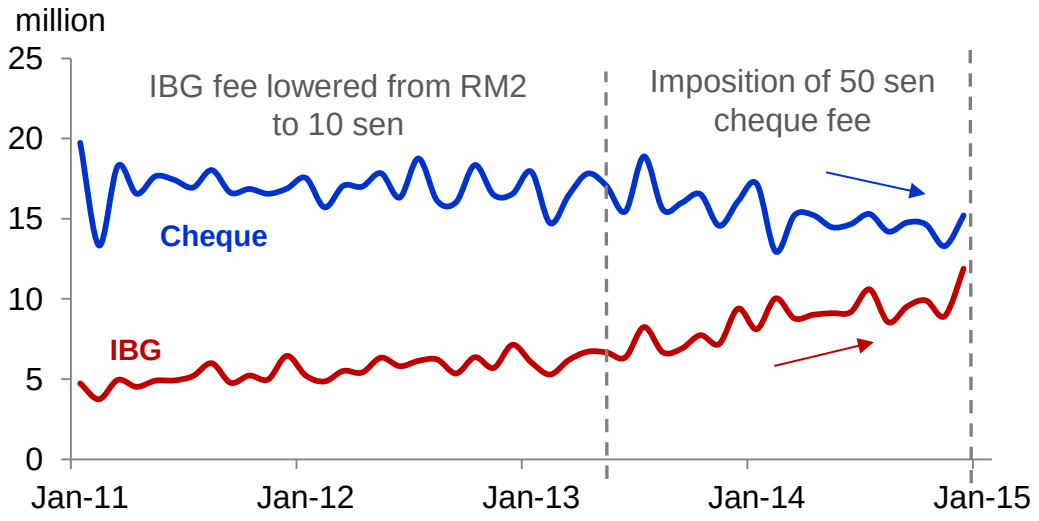
Source: ICD Thomson Reuters, Islamic Finance Development Report 2014; Bloomberg, KFH Research

Increased adoption of electronic payments for retail payment transactions

Notable progress made since commencement of pricing reforms in May 2013

	2013	2014
	% increase (+) / % decrease (-)	
Usage of Cheques	- 3	**- 10**
IBG Transactions	+ 19	**+ 36**

Cheque and IBG Transaction Volume



Continuous efforts to drive and sustain e-payment adoption

Incentive fund framework and payment card reforms

Incentives for customers to migrate to e-payments

Transparency requirements

Promote comparison shopping and competition

Building awareness and confidence

Media campaigns, roadshows and outreach programs

Management of cyber risks

Critical IT systems remain resilient and customer information is adequately protected

Source: Bank Negara Malaysia

New arrangements to complement existing talent development initiatives

Elevating the standards of professionalism, quality and ethics



Comprehensive talent development institutions

AIF ASIAN INSTITUTE OF FINANCE
ASIAN INSTITUTE OF CHARTERED BANKERS
iclif leadership & governance | The Iclif Leadership & Governance Centre
fstep enriching talent
The Malaysian Insurance Institute
INCEIF THE GLOBAL UNIVERSITY IN ISLAMIC FINANCE

- **Establishment of the Financial Services Talent Council and Financial Services Professional Board to raise the supply and quality of financial professionals**
- **Continued focus on ensuring high standards of professional learning programmes**
  - Finance Qualification Structure and FAA Learning Standards
  - Financial Institutions Directors' Education in Islamic Finance (FIDE-i) and Shariah Leaders Education Programme
  - Transformation of IBBM into Asian Institute of Chartered Bankers and Asian Banking School

Discussion