



Perbadanan Insurans Deposit Malaysia
Protecting Your Insurance And Deposits In Malaysia

Enhancing Financial Consumer Protection



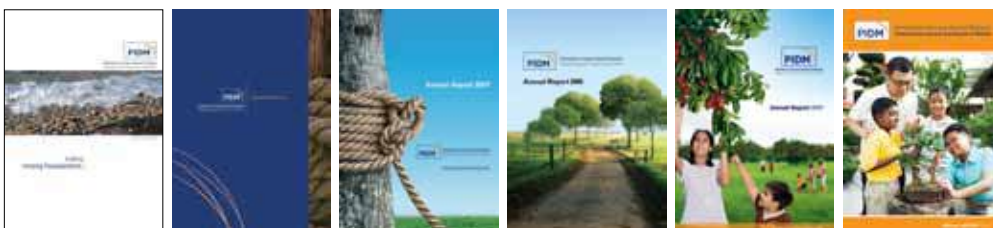


Financial consumer protection is an umbrella ready for any weather. Since 31 December 2010, financial consumer protection in Malaysia has been enhanced in many ways. PIDM's coverage now extends not only to depositors but also to insurance policy owners and takaful participants.

Our objective is to ensure we play our part as a safety net player and resolution authority. Preparedness to act and execute our mandate in the event of a member institution failure is also critical to financial consumer protection and public confidence and hence, a major theme of our work. As such, we ensure that all our initiatives are driven by clear strategies, sound planning and meticulous preparation.

At PIDM, we achieve our objectives through the unwavering teamwork of a diverse and multi-talented group of employees, carefully choreographed by skilled leadership, and by nurturing effective partnerships with our key stakeholders.

PIDM is, at all times, committed to protect the interests of financial consumers, come rain or shine.



PIDM stresses the importance of responsible management in all aspects of its work. This is reflected in the environmentally friendly paper specially chosen for the production of the Annual Report. This paper is certified by the Forest Stewardship Council (FSC), a worldwide body that supports the highest standards for forest management.

OUR VISION

To be a best practice financial consumer protection organisation

OUR MISSION

We strive to promote and contribute to public confidence in the stability of the nation's financial system by:

- protecting Islamic and conventional deposits;
- protecting takaful and insurance benefits; and
- fulfilling our financial consumer protection mandate in an effective and efficient manner, having regard to the interests of our key stakeholders and employees



OUR STRATEGIC THRUSTS

- Sound governance
- Operational readiness and excellence
- Public confidence in the financial system

OUR CORPORATE VALUES

- Financial Stewardship
- Excellence and Professionalism
- Respect and Fairness
- Integrity and Trustworthiness
- Communications and Teamwork

OUR CORPORATE OBJECTIVES

- Educated and informed stakeholders
- Effective partnerships
- Well-governed and well-managed organisation
- Robust risk assessment, monitoring, intervention and resolution capabilities
- Sound business and financial practices
- Competent and knowledgeable workforce
- Conducive corporate environment

TABLE OF CONTENTS

SECTION 1: INTRODUCTION

| | |
|--|----|
| Corporate Profile | 4 |
| The Year at a Glance | 6 |
| Five-Year Highlights of Our Accomplishments | 9 |
| Financial Summary: Five-Year Performance | 10 |
| Message from the Chairman, Tan Sri Datuk Dr. Abdul Samad Haji Alias | 12 |
| Board of Directors: Members and Profiles | 18 |
| Message from the Chief Executive Officer, Jean Pierre Sabourin | 20 |
| Organisation Chart | 25 |
| Executive Management Committee: Members and Profiles | 28 |
| Other Management Committees | 32 |

SECTION 2: REFLECTIONS OF OUR FIRST CHAIRMAN

| | |
|-----------------------------------|----|
| Reflections of Our First Chairman | 35 |
|-----------------------------------|----|

SECTION 3: CORPORATE GOVERNANCE

| | |
|-------------------------------|----|
| Managing Our Risks | 39 |
| Statement on Governance | 44 |
| Statement on Internal Control | 61 |

SECTION 4: MANAGEMENT'S DISCUSSION AND ANALYSIS

| | |
|--|----|
| Our Operating Environment | 69 |
| Review of 2011 Operations and Achievements | 69 |
| Financial Overview | 86 |
| Summary of Our Corporate Plan 2012 - 2014 | 98 |

SECTION 5: FINANCIAL STATEMENTS

| | |
|--|-----|
| Directors' Report | 102 |
| Statement by Directors | 105 |
| Statutory Declaration | 106 |
| Auditor General's Certification | 107 |
| Statement of Financial Position | 108 |
| Statement of Comprehensive Income | 109 |
| Statement of Changes in Funds and Reserves | 110 |
| Statement of Cash Flows | 112 |
| Notes to the Financial Statements | 113 |

SECTION 6: OVERVIEW OF MEMBERSHIP

| | |
|------------------------|-----|
| Overview of Membership | 153 |
|------------------------|-----|

SECTION 7: ARTICLE

| | |
|--|-----|
| Target Fund for the Deposit Insurance System | 159 |
|--|-----|

SECTION 8: PUBLIC AWARENESS INITIATIVES AND CORPORATE SOCIAL RESPONSIBILITY

| | |
|---------------------------------|-----|
| Public Awareness Initiatives | 167 |
| Corporate Social Responsibility | 175 |

SECTION 9: CALENDAR OF EVENTS

| | |
|--------------------|-----|
| Calendar of Events | 178 |
|--------------------|-----|

APPENDIX

| | |
|-----------------------------------|-----|
| Charter of Governance Committee | 189 |
| Charter of Remuneration Committee | 192 |
| Charter of Audit Committee | 194 |
| Corporate Scorecard 2012 - 2014 | 199 |
| List of Member Institutions | 201 |
| Glossary of Terms | 202 |
| Contact Details | 205 |



MFI INDUNGI SIMPANAN
INSURANS ANDA
MALAYSIA



PROTECTING YOUR
INSURANCE AND DEPOSITS
IN MALAYSIA

Section 1

INTRODUCTION



DIRECTOR

INTRODUCTION

CORPORATE PROFILE



Perbadanan Insurans Deposit Malaysia (PIDM) is a statutory body established in 2005 under the Malaysia Deposit Insurance Corporation Act (MDIC Act) to protect financial consumers. As an integral part of the national financial safety net system, we administer the Deposit Insurance System (DIS) and the Takaful and Insurance Benefits Protection System (TIPS). PIDM insures depositors against the loss of part or all of their deposits and protects takaful certificate and insurance policy owners against the loss of part or all of their benefits in the event of a member institution failure. We are also mandated to provide incentives for sound risk management in the financial system, as well as to promote or contribute to the stability of the financial system.

Our member institutions comprise all commercial banks (including locally incorporated subsidiaries of foreign banks operating in Malaysia) licensed under the Banking and Financial Institutions Act 1989 and all Islamic banks licensed under the Islamic Banking Act 1983, as well as all insurance companies licensed under the Insurance Act 1996 and all takaful operators registered under the Takaful Act 1984. As at 1 February 2012, PIDM's membership

comprises 41 member banks (25 commercial and 16 Islamic) and 47 insurer members (35 insurance companies and 12 takaful operators).

The Malaysian deposit insurance system covers Islamic and conventional deposits separately. It is funded by annual premiums collected from member banks in respect of Islamic and conventional deposits, with the Funds separately administered. The Islamic Deposit Insurance Fund is administered in accordance with Shariah principles.

TIPS is similarly funded by annual premiums collected from insurer members in respect of takaful and insurance benefits. With PIDM's expanded mandate, we now administer six separate and distinct Funds:

1. Islamic Deposit Insurance Fund;
2. Conventional Deposit Insurance Fund;
3. Family Solidarity Takaful Protection Fund;
4. Life Insurance Protection Fund;
5. General Takaful Protection Fund; and
6. General Insurance Protection Fund.

PIDM reports to Parliament through the Minister of Finance and is currently governed by a nine-member Board of Directors. We are also known internationally as the Malaysia Deposit Insurance Corporation.

ENHANCED FINANCIAL CONSUMER PROTECTION

Under the new MDIC Act 2011, financial consumer protection in Malaysia has been enhanced. Effective 31 December 2010, the limit for deposit insurance was increased to RM250,000 from RM60,000 while the scope of coverage was extended to foreign currency deposits. The implementation of the Provision of Information on Deposit Insurance Regulations in April 2011 has further strengthened knowledge of the DIS. These Regulations are to ensure member banks provide depositors with accurate, relevant and timely information on deposit protection and coverage for deposit products they offer.

The new MDIC Act has entrusted PIDM with the added responsibility of administering TIPS to provide protection to owners of takaful certificates and insurance policies.

In the event of a troubled member institution, PIDM will act promptly to protect owners of takaful certificates or insurance policies whatever the case may be and take appropriate measures to promote and maintain public confidence in the stability of the Malaysian financial system.

FINANCIAL SYSTEM STABILITY

In carrying out our functions, we work closely with Bank Negara Malaysia (BNM), the primary regulator and supervisor. Our working relationship is mandated in the MDIC Act and detailed in a Strategic Alliance Agreement. Our partnership with BNM is critical, and ensures timely exchange of information on financial institutions and collaboration in all significant aspects of our risk assessment and monitoring activities as well as intervention and failure resolution activities.

PIDM also complements the existing regulatory and supervisory framework by providing incentives for member institutions to implement sound risk management practices. We are also empowered to intervene early to reduce or avert losses to the financial system, and we have at our disposal a wide range of legislative tools to deal with distressed member institutions.

PIDM undertakes risk assessment and monitoring of all member institutions and works closely with the supervisory authority to ensure that our concerns about the business and affairs of member institutions are addressed promptly.

However, we necessarily rely on the supervisory authority to take prompt corrective action to mitigate the possibility of a member institution failure. Our intervention and resolution powers enable us, among others, to undertake due diligence or special examinations of troubled members. Once a member institution is deemed by the supervisor to be no longer viable, we can intervene and if necessary assume control over the institution or take such other resolution action that minimises costs to the financial system.

Timely and clear communications to engender public confidence in the DIS and TIPS are key to our success in promoting and contributing to the stability of the financial system. As such, we carry out a multi-year public awareness programme and education initiatives to enhance the level of awareness and understanding about the benefits and limitations of our financial consumer protection.

INTRODUCTION

THE YEAR AT A GLANCE

Since its inception in 2005, PIDM has established and maintained a strong governance framework, a sound system of internal controls as well as effective business practices and processes. For 2011, we continued to focus our key efforts on supporting the state of readiness of the Corporation in the following key areas:

- building our capacity and capability in terms of operational readiness as well as intensifying risk assessment and monitoring activities;
- promoting public awareness including enhancing education initiatives;
- improving our operational effectiveness and efficiency; and
- enhancing the infrastructure, systems, policies and practices to effectively administer TIPS.

The new MDIC Act 2011, which came into operation on 31 December 2010, entrusted the Corporation with an enhanced mandate, greater powers and responsibilities, so as to continue to promote and contribute to public confidence in the stability of the financial system. In 2011, we completed a substantial number of initiatives relating to TIPS, and our public awareness campaign was expanded to include initiatives on educating insurance policy and takaful certificate owners.

We completed the majority of our planned key initiatives, with the exception of six information technology-related initiatives which have been reprioritised. These initiatives were achieved under budget, as set out in our approved financial plan.



Stakeholders

- Implemented the enhanced “PIDM Project MoneySmart 2011”, the education programme for secondary schools and tertiary students. We also included TIPS-related questions in the MoneySmart Online Game.
- Implemented the Provision of Information on Deposit Insurance Regulations.
- Continued to maintain good relationships with other deposit insurers and central banks around the world through participation in the International Association of Deposit Insurers (IADI) and by hosting study visits.
- Executed a Memorandum of Understanding with the Central Deposit Insurance Corporation, Taiwan to promote cooperation and collaboration through sharing and transfer of knowledge.

Governance and Internal Processes

- Held several Board education sessions in various areas such as risk assessment and monitoring, target fund, Intervention and Failure Resolution (IFR) as well as TIPS.
- Continued to implement the succession plan for Directors and Management.
- Continued our work on Corporate Social Responsibility including by implementing our multi-year Scholarship Programme, and by sponsoring money management and career planning workshops for the hearing-impaired community.
- Completed the remaining ERM Board Risk Policies on Reputation Risk, Assessment and Monitoring Risk, Strategic and Governance Risk, Operational Risk as well as Intervention and Failure Resolution (IFR) Risk.
- Continued to support the Financial Institutions Directors’ Education (FIDE) Programme and its Alumni associations (FIDE Forum).
- Issued guidelines to insurer members and enhanced guidelines applicable to member banks.
- Developed the comprehensive Risk Assessment Methodology and Framework as well as the Supervisor Validation for the Returns on Calculation of Premiums for TIPS.
- Conducted training sessions on IFR for all employees, as well as two mini simulations and one two-and-a-half-day simulation exercise.
- Completed the integration between the Payout system modules, and the development of the audit programme for Depositor Liabilities Information Management System (DLIMS) to ensure the integrity of payout data.
- Developed the Authority Matrix, which summarises the authorities for the day-to-day administration of the business and affairs of the Corporation.
- Completed the development of the interim Disaster Recovery Site (DRS) and tested the Business Continuity Plan.

Learning and Growth

- Continued to develop our employee talents through a comprehensive Learning and Development plan.
- Developed the Knowledge Management framework in support of continuous knowledge sharing among the employees.
- Continued to implement the competency model and succession planning based on the Board-approved framework for key positions.
- Conducted the employee satisfaction survey.

External Recognition

- Received the “2011 Deposit Insurance Organisation of the Year” Award, presented by the IADI.
- Received the “Best Annual Report of Non-Listed Organisations” Award for our 2010 Annual Report, awarded at the National Annual Corporate Report Awards (NACRA).



Awards and Recognition

Guided by the mission and vision, PIDM has made significant inroads since its inception in 2005. With great teamwork and a culture of excellence, the Corporation has risen to greater heights towards being recognised as a best practice financial consumer protection organisation.

NACRA 2011 Best Annual Report of Non-Listed Organisations

PIDM has been awarded the “Best Annual Report of Non-Listed Organisations” by the National Annual Corporate Report Awards (NACRA) for the third consecutive year. This award is in recognition of achieving NACRA’s benchmark of high governance standards, excellence in corporate reporting in terms of high standards of transparency and disclosure of information as well as greater corporate accountability.

Winning this prestigious accolade for three consecutive years is a further testimony of our continuous effort to enhance our quality of disclosure and reporting.

IADI 2011 Deposit Insurance Organisation (DIO) of the Year Award

PIDM’s continued efforts for improvement and adoption of best practices have produced results and earned the Corporation this award by the International Association of Deposit Insurers (IADI), which is in recognition of its accomplishments and contributions in the field of deposit insurance, both locally and internationally.

In his speech at the award presentation, the President of IADI, Martin Gruenberg, said:

“PIDM was selected to receive the DIO of the year award because of its achievements in strengthening the deposit insurance systems and their associated contributions to financial stability in Malaysia. It was recognised for its willingness to share its knowledge and to assist in training other IADI members, and through all of its efforts in helping to achieve IADI objectives”.

Quality Assurance Review Certification by The Institute of Internal Auditors Malaysia

PIDM has been certified by the Institute of Internal Auditors Malaysia (IIAM) in recognition of conformity with the Institute of Internal Auditors’ International Standards for the Professional Practice of Internal Auditing. This certification acknowledges that the internal audit function of PIDM maintains quality work performance and uses successful auditing practices, demonstrates professionalism as well as conforms to the international standards.

INTRODUCTION

FIVE-YEAR HIGHLIGHTS OF OUR ACCOMPLISHMENTS

2006

Stakeholders

- Executed a Strategic Alliance Agreement with Bank Negara Malaysia (BNM).
- Hosted the Executive Council meetings of the International Association of Deposit Insurers (IADI).
- Promoted public awareness through various activities.

Governance

- Established Board Committee Charters.
- Implemented key governance policies including Code of Business Conduct and Ethics, Policy for Disclosure of Information Concerning Wrongdoing in the Workplace, and Board Governance Policy.
- Instituted key framework and concepts including internal control and enterprise risk management.
- Established management committees i.e. Asset and Liability Management Committee (ALCO) and Information Technology Steering Committee (ITSC).
- Established the Information Technology Governance Framework.
- Submitted our first Annual Report 2005 to the Minister of Finance within the statutory deadline of 31 March 2006.

Internal Processes

- Developed the key framework on risk assessment, monitoring and payout activities.
- Commenced development of the Differential Premium Systems (DPS) Framework.
- Issued the Guidelines on Total Insured Deposits (TID) and the Guidelines on Disclosure Requirements for Trust Accounts and Joint Accounts.
- Implemented a new and comprehensive accounting system.
- Developed the communications policy.

External Recognition

- Accepted as the first deposit insurer on the Islamic Financial Services Board as an Associate Member.

2007

Stakeholders

- Focused on activities to raise public awareness including holding the Malaysia Financial Exhibition 2007 and hosting the sixth IADI Annual Conference.
- Implemented Phase 1 of our five-year Integrated Communications Plan 2007 - 2011 including the first Corporate Outreach and Deposit Insurance Awareness Week.

Governance

- Conducted four Board Education sessions and a Board Orientation Programme.
- Established the framework for enterprise risk management and internal control.
- Established the Enterprise Risk Management (ERM) Committee.
- Developed the Corporate Compliance Framework.
- Established succession management framework for the Board.

Internal Processes

- Implemented the Risk Assessment and Monitoring Framework.
- Established the framework for crisis communication management.
- Established the Information Technology Data Centre.

Learning and Growth

- Established succession management framework for Management.
- Conducted the first employee voice survey.
- Implemented a 360-degree feedback mechanism on Management.
- Established a Policy on Workplace Harassment.
- Established the Safety and Health Committee.
- Organised PIDM's inaugural Family Day and Annual Dinner.
- Relocated our office to 1 Sentral, Kuala Lumpur Sentral.

External Recognition

- Recipient of the "Certificate of Merit" Award for the 2006 Annual Report, presented at the National Annual Corporate Report Awards (NACRA).

2008

Stakeholders

- Hosted the first international Islamic deposit insurance seminar.
- Continued to implement Phase 2 of our five-year Integrated Communications Plan 2007 - 2011.

Governance

- Conducted three Board Education sessions.
- Implemented the internal control framework.
- Implemented a risk-based audit planning and auditing process.

Internal Processes

- Implemented the DPS Framework.
- Issued the Terms and Conditions of Membership Regulations and DPS Regulations.
- Implemented the Risk Assessment System (RAS).
- Developed the Intervention and Failure Resolution Framework and Contingency Plan.
- Commenced development of the Payout System.
- Conducted IT infrastructure enhancement.

Learning and Growth

- Developed and implemented the Talent Management Framework and Competency Model.
- Implemented the Learning and Development needs analysis and Recognition and Rewards Programme.

Other Achievements

- Developed the framework to administer the Government Deposit Guarantee.
- Developed and implemented the Financial Institutions Directors' Education (FIDE) Programme jointly with BNM.
- Elected as a member of the Executive Council, the governing body for IADI.
- Our current Chief Operating Officer led and chaired the formation of the Islamic Deposit Insurance Group (IDIG) of IADI.

External Recognition

- Received a Financial Management Excellence Award in the Federal Statutory Category by the National Audit Department (NAD).
- Nominated for the "2008 Deposit Insurance Organisation of the Year" Award.
- Recipient of the "Certificate of Merit" Award for the 2007 Annual Report, presented at the NACRA.

2009

Stakeholders

- Participated in the Trilateral Board Meeting between PIDM, Deposit Protection Agency Thailand (DPA Thailand) and Indonesia Deposit Insurance Corporation (IDIC).
- Hosted the second international Islamic deposit insurance seminar.
- Developed Scholarship Programme for undergraduate studies.

Governance

- Conducted two Board Education sessions.
- Established an ERM Charter and the reporting line of the Chief Risk Officer to the Board of Directors through the Audit Committee.
- Conducted self-assessment on the effectiveness of our ERM Framework.
- Established the Corporate Compliance Committee.
- Undertook a long-term horizon in implementing our Board succession plan.

Internal Processes

- Commenced development of the detailed processes, policies and procedures for intervention and failure resolution activities.
- Implemented Phase 1 of the Payout System i.e. Depositor Liabilities Information Management System and Depositor Support Management System.
- Developed the Target Fund and Provisioning Framework.
- Implemented the Information Classification Policy and the Policy and Procedures on Public Disclosure of Information.
- Implemented the External Auditor Validation Programme on DPS and Return on Total Insured Deposits.
- Conducted IT Network and security infrastructure enhancements.
- Developed the Business Continuity Plan, and Haze and Infectious Disease Plan.

Learning and Growth

- Carried out key senior Management succession plan.
- Integrated the Competency Model into the Performance Management System.

Other Achievement

- Tabled the Stabilisation Insurance legislation in Parliament which was enacted in January 2010.

External Recognition

- Nominated for the "2009 Deposit Insurance Organisation of the Year" Award.
- Recipient of the NACRA 2009 for "Best Annual Report of Non-Listed Organisations" Award for our 2008 Annual Report.

2010

Stakeholders

- Officially launched the PIDM Project MoneySmart.
- Implemented the multi-year Scholarship Programme.
- Participated in the Tripartite Meeting between PIDM, DPA Thailand and IDIC.
- Developed the Provision of Information on Deposit Insurance Regulations 2011.

Governance

- Conducted two Board Education sessions.
- Implemented the Board succession plan and recommended the appointments of two new Directors to the Board.
- Developed and implemented three ERM Board Risk Policies, namely Insurance Powers Risk Policy, Market Risk Policy and Liquidity Risk Policy.
- Conducted the first Risk Management and Internal Control Survey and Compliance Test.
- Supported the FIDE Programme and the establishment of a company limited by guarantee for the FIDE Alumni.

Internal Processes

- Developed the enhanced DPS Framework and regulations.
- Developed Phase 1 of the Early Warning System.
- Continued the development of detailed IFR policies, processes and procedures.
- Conducted the first simulation exercise on IFR.
- Implemented the Corporate Enterprise Portal.
- Conducted a desktop exercise to test the Business Continuity Plan.

Learning and Growth

- Conducted two Corporate-wide employees training sessions on IFR Framework, Contingency Plan and two resolution options.
- Organised the first off-site teambuilding session for employees.
- Relocated our office to Quill 7, Kuala Lumpur Sentral.

Other Achievements

- Developed and implemented the transition package to exit the Government Deposit Guarantee.
- Recommended a new Act to replace the Malaysia Deposit Insurance Corporation Act 2005 and developed requisite regulations.
- Undertook the development and implementation of the Takaful and Insurance Benefits Protection System (TIPS).

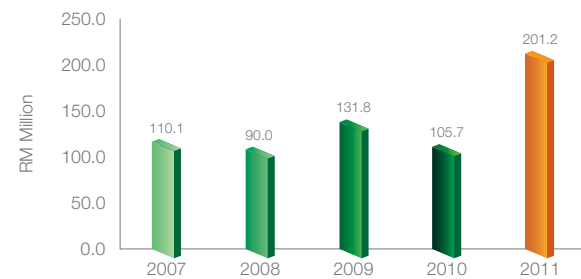
External Recognition

- Recipient of the NACRA 2010 for "Best Annual Report of Non-Listed Organisations" Award for our 2009 Annual Report.

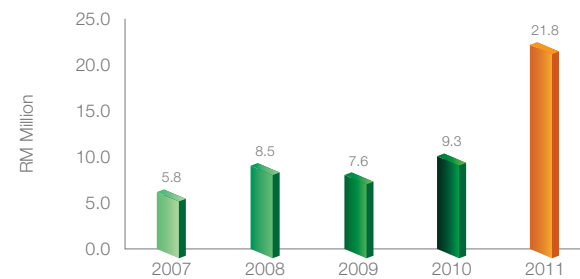
INTRODUCTION

FINANCIAL SUMMARY: FIVE-YEAR PERFORMANCE

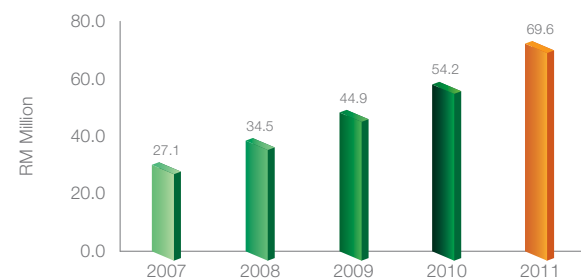
PREMIUM REVENUE



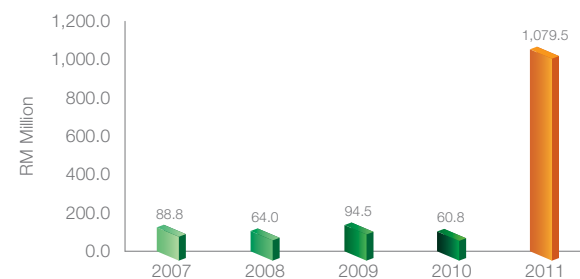
INVESTMENT INCOME



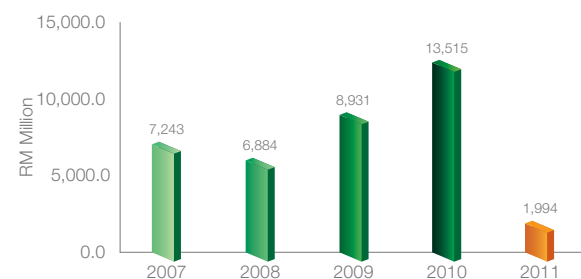
OPERATING EXPENDITURES



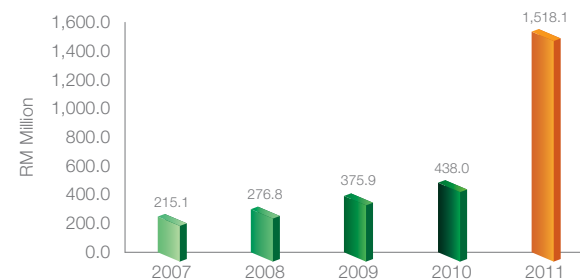
NET SURPLUS



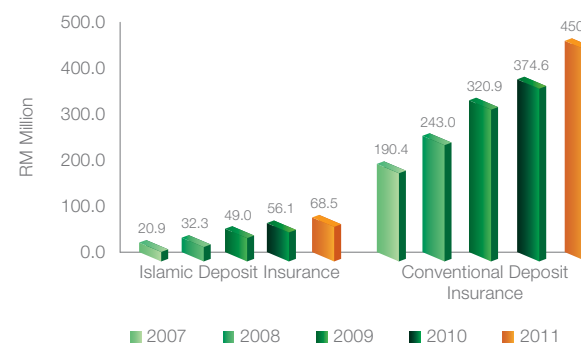
CAPITAL EXPENDITURES CONTRACTED



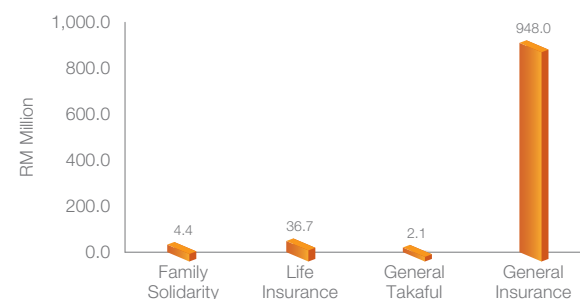
TOTAL ASSETS



DEPOSIT INSURANCE FUNDS



TAKAFUL AND INSURANCE BENEFITS PROTECTION FUNDS – 2011



SELECTED ITEMS FROM THE STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER

| | 2011 | 2010 | 2009 RM Million | 2008 | 2007 |
|--|----------------|--------------|--------------------|-------------|--------------|
| Premium Revenues | 201.2 | 105.7 | 131.8 | 90.0 | 110.1 |
| Deposit Insurance Funds | 120.5 | 105.7 | 131.8 | 90.0 | 110.1 |
| Takaful and Insurance Benefits Protection Funds | 80.7 | - | - | - | - |
| Investment Income | 21.8 | 9.3 | 7.6 | 8.5 | 5.8 |
| Deposit Insurance Funds | 12.9 | 9.3 | 7.6 | 8.5 | 5.8 |
| Takaful and Insurance Benefits Protection Funds | 8.9 | - | - | - | - |
| Gains / (losses) from sales of available-for-sale investments | 3.7 | - | - | - | - |
| Deposit Insurance Funds | - | - | - | - | - |
| Takaful and Insurance Benefits Protection Funds | 3.7 | - | - | - | - |
| Operating Expenses | 69.6 | 54.2 | 44.9 | 34.5 | 27.1 |
| Operational Net Surplus | 157.1 | 60.8 | 94.5 | 64.0 | 88.8 |
| Moneys and investments received from Insurance Guarantee Scheme Funds | 922.4 | - | - | - | - |
| Net Surplus for the Year | 1,079.5 | 60.8 | 94.5 | 64.0 | 88.8 |
| Net unrealised gains / (losses) on available-for-sale investments | (0.6) | - | - | - | - |
| Total Comprehensive Income | 1,078.9 | 60.8 | 94.5 | 64.0 | 88.8 |

SELECTED ITEMS FROM THE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER

| | | | | | |
|--|----------------|--------------|--------------|--------------|--------------|
| Total Assets | 1,518.1 | 438.0 | 375.9 | 276.8 | 215.1 |
| Total Liabilities | 8.4 | 7.3 | 6.0 | 1.5 | 3.8 |
| Funds and Reserves | 1,509.7 | 430.7 | 369.9 | 275.3 | 211.3 |
| Deposit Insurance Funds | 518.5 | 430.7 | 369.9 | 275.3 | 211.3 |
| Conventional Deposit Insurance Fund | 450.0 | 374.6 | 320.9 | 243.0 | 190.4 |
| Islamic Deposit Insurance Fund | 68.5 | 56.1 | 49.0 | 32.3 | 20.9 |
| Takaful and Insurance Benefits Protection Funds | 991.2 | - | - | - | - |
| Family Solidarity Takaful Protection Fund | 4.4 | - | - | - | - |
| Life Insurance Protection Fund | 36.7 | - | - | - | - |
| General Takaful Protection Fund | 2.1 | - | - | - | - |
| General Insurance Protection Fund | 948.0 | - | - | - | - |
| Total Liabilities, Funds and Reserves | 1,518.1 | 438.0 | 375.9 | 276.8 | 215.1 |

INTRODUCTION


GOING FORWARD



Our Corporate Plan 2012 - 2014 sets out our strategic direction, focus and priorities that serve as our primary guide to ensure the effective and efficient management of our business and affairs consistent with our statutory mandate. We also continue to be guided by our vision to be a best practice financial consumer protection organisation.

Going forward, we shall intensify our efforts to enhance the organisation's capacity and capability by focusing on employee competencies, strengthen the Corporation's operational readiness and continue to highly promote public awareness and education about our mandate and activities. We will also continue to build and establish related policies, processes, systems and infrastructure for our TIPS operations, while strengthening the current practices for DIS. As we strive to build confidence in our ability to meet our mandate, we continue to subscribe to best practices in governance.





MESSAGE FROM THE CHAIRMAN

TAN SRI DATUK DR. ABDUL SAMAD HAJI ALIAS

It is a distinct honour and privilege to have been appointed, with effect from 14 August 2011, as the Chairman of the Board of Perbadanan Insurans Deposit Malaysia. I would like to extend my sincere appreciation to our Board for recommending me to the Minister of Finance for this privilege.

Deposit Insurance System

I am fortunate to be appointed Chairman of PIDM at a stage of evolution where we are beginning to see the fruits of our endeavours. In 2011, we were honoured to receive the Deposit Insurance Organisation of the Year Award from the International Association of Deposit Insurers (IADI). This award is an international recognition of our achievements in strengthening deposit insurance systems and our contributions to the stability of the financial system in Malaysia. It also recognises our significant support to IADI objectives through our sharing of knowledge with other IADI members.

I would observe that our participation at the international level in IADI has a greater significance than first meets the eye. International exchanges help us to anticipate problems and plan for the future, as we learn from others. Through our IADI activities, we also keep a pulse on global trends in deposit insurance and regulation. Our leadership and participation in Islamic Deposit Insurance Group within IADI also provides us with the opportunity to provide thought leadership as well as learn from others in this unique area.

Since our establishment, we have benchmarked ourselves against international best practices, including those prescribed by IADI. Some of you will remember our feature article in the 2009 Annual Report, which was a self-assessment of the Corporation against IADI's Core Principles for Effective Deposit Insurance Systems.

A key aspect of these Core Principles prescribes the need for an effective funding framework, which is critical to maintaining public confidence in the deposit insurer's ability to execute prompt depositor reimbursement during a bank failure. In this connection, you will see in this report, a great emphasis on our efforts to develop an internal target size for our funds, following benchmarking exercises and extensive research. We aim to achieve, in future, a level of funding that should be adequate to meet future obligations arising from providing deposit insurance protection. As for external funding, we have also been working closely with the relevant departments of the Ministry of Finance to finalise a government funding agreement for liquidity, if ever needed.

INTRODUCTION

MESSAGE FROM THE CHAIRMAN

Insofar as our readiness to conduct an intervention and resolution (IFR) of member banks is concerned, I am pleased to report that we have completed a set of guidance, so that all who are involved are clear at the outset on their roles and responsibilities and what is expected. We have also conducted simulations of various IFR scenarios. In a crisis, it is critical to be clear on the authorities of Management and the Board as well as the accountabilities among safety net players, and we have established clarity in this regard by developing a comprehensive authority matrix.

Takaful and Insurance Benefits Protection System

The introduction of the Takaful and Insurance Benefits Protection System (TIPS) in 2011 was widely welcomed by the public, as we exited the Government Deposit Guarantee at the end of 2010. This initiative was in line with developments in the region, such as Singapore, and more lately, Hong Kong. It aims to provide policy owners with protection, along the lines provided to depositors, thereby providing a level playing field and enhance the insurance industry's stability and competitiveness. In 2011 we thus welcomed new member institutions from the insurance and takaful industry. The Insurance Guarantee Scheme Funds, formerly administered by Bank Negara Malaysia, have been entrusted to PIDM, as required by law, and will be administered separately according to businesses.

Our expanded mandate gave rise to many challenges, in terms of resources, capability and urgency. In 2011, the Board made it a priority to deal with these challenges, leveraging on our existing infrastructure through upgrades, improvements and where needed, new initiatives. In particular, we focused our public awareness campaign on TIPS, and we are pleased with our survey results that show a fair awareness about TIPS. Key among our priorities was to also educate our employees on the ins and outs of the industry. Given our expanded role, we also embarked on developing a comprehensive risk assessment methodology and framework for insurer members within TIPS, and we have set specific initiatives for 2012 such as developing a differential levy system for insurer members.

Corporate Governance Developments

The Board itself continued to focus on aspects of governance needed to ensure continued effectiveness. Board succession planning and identifying the right candidates for the Board vacancies was an important activity in 2011, and we were gratified with the results. Mr. Alex Foong was appointed with effect from August 2011, and Datuk Dr. Rahamat Bivi Yusoff and Encik Mohamad Abdul Halim Ahmad were appointed with effect from January 2012. The Board also resolved that Board succession planning would be an ongoing long-term activity for the Board.

I am also highly pleased to report on our ongoing efforts to promote corporate governance more widely in the industry. The Financial Institutions Directors' Education Programme, sponsored by Bank Negara Malaysia and PIDM since 2008, continues to be a great success. Not only that, it has inspired former participants to establish an alumni association, with the Governor of Bank Negara Malaysia as its patron. The Alumni, known as FIDE Forum, and which I currently chair, plans to lead and promote high standards of corporate governance among financial institutions in Malaysia. Among others, it will arrange events for director-networking and life-time learning and will act as a liaison between industry and regulators. We trust that our financial institutions will participate in this initiative, which benefits not only them individually, but our financial system as a whole. This is consistent with PIDM's statutory object of promoting sound risk management in the financial system.

A Note of Thanks

Before I conclude, and on behalf of our Board, I will take this opportunity to thank Tan Sri Dato' Abdul Aziz Haji Taha, our first Chairman, for his stalwart leadership and commitment. His unyielding focus on ensuring the implementation of sound governance and internal controls, excellence and ethical behaviour, has set the tone for all of our future endeavours, and after six years under his guidance, the Corporation stands on solid foundations. On behalf of us all, I would record our deep gratitude to him.

I am also grateful for the immense support and wise counsel of my fellow members of the Board, and the continuing support of our ex officio Directors, Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz, the Governor of BNM and Tan Sri Dato' Sri Dr. Wan Abdul Aziz Wan Abdullah, the Secretary General of the Treasury.

As I mentioned earlier, we are fortunate to welcome Mr. Alex Foong as a Board member in August 2011. We are also delighted to welcome our two new members, Encik Mohamad Abdul Halim Ahmad and Datuk Dr. Rahamat Bivi Yusoff, who were appointed effective January 2012. I am equally pleased to report that the Minister of Finance has reappointed Mr. David Dass as our Director for a further two-year term. Together with our existing Board members, we now have a full complement of skills and experience to achieve our future aspirations.

It goes without saying that the accomplishments of our organisation would not have been possible without the exceptional leadership of our CEO and the support of his team. Mr. JP Sabourin's tenacity and energy speaks for itself in the accomplishments highlighted in this Annual Report. It is also excellent news that the Minister of Finance has reappointed our CEO, Mr. JP Sabourin, for another term with effect from August 2011.

I do not of course forget our team of talented and passionate employees, whose hard work and dedication must be acknowledged, and whose willingness to learn inspires much promise for the continuing success of the Corporation.

Looking Forward

To conclude, it is clear that the outlook for the future will remain as challenging and volatile as 2011, if not more so. Though we predict stability in our financial system, we would nevertheless keep a wary eye on significant risks and continue to enhance our readiness, as the global turmoil specifically in Europe continues to pose the biggest risk to the outlook. At the same time, we acknowledge that the rise of more diverse financial institutions and more complex activities can also pose a risk, as domestic financial institutions expand their activities outside our borders. In a fast changing economic environment, we must therefore always be aware and constantly monitor new developments and potential risks.

Looking over a long-term horizon, I note that Bank Negara Malaysia's 10-Year Financial Sector Blueprint 2011 - 2020 charts the future direction of the financial system as Malaysia transitions towards becoming a high value-added, high-income economy. This will also set an agenda for PIDM, in the future, to develop a framework that

will enable us to perform our role as a National Resolution Agency to deal with a wider type and range of financial institutions in Malaysia.

In the more immediate term, as you will see from our Statement on Governance (page 44) that the Board has also amended its Board Governance Policy to emphasise the importance of supporting a productive workforce in the Corporation. As the Corporation moves into a new phase of development, we must ensure a continuous pipeline of talent, and consolidate our knowledge and skills to ensure the long-term sustainability in terms of effectiveness and efficiency. Our "lean but professional workforce" model means that human capital challenges – including retention of knowledge and skills – are more unique than for most other organisations. Therefore, aside from our key initiatives, knowledge management and retention, and coaching and learning must be major themes in our work in the near future. To quote Wilbur Wright (of the Wright Brothers), "It is possible to fly without motors, but not without knowledge and skill".

I am pleased to present to you PIDM's Annual Report, which details our achievements in 2011.



TAN SRI DATUK DR. ABDUL SAMAD HAJI ALIAS

INTRODUCTION

BOARD OF DIRECTORS



From left to right:

Mr. George Anthony David Dass, Dato' Halipah Esa, Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz,
Tan Sri Datuk Dr. Abdul Samad Haji Alias, Tan Sri Dato' Sri Dr. Wan Abdul Aziz Wan Abdullah,
Mr. Alex Foong Soo Hah, Mr. Lim Tian Huat



INTRODUCTION

BOARD OF DIRECTORS: MEMBERS AND PROFILES

Tan Sri Datuk Dr. Abdul Samad Haji Alias

Chairman

Tan Sri Datuk Dr. Abdul Samad Haji Alias was appointed as the Chairman of PIDM on 15 August 2011 and his current term of appointment continues until 14 August 2014.

A Fellow of the Institute of Chartered Accountants in Australia, Tan Sri Dr. Abdul Samad has had extensive experience in auditing and accounting. He is also the Chairman of Malaysia Venture Capital Management Bhd and Malaysia Debt Venture Bhd, and was recently appointed as an independent non-executive Director of Bursa Malaysia. He is also a member of the Malaysian Institute of Certified Public Accountants and the Malaysian Institute of Accountants. In 2006, Tan Sri Dr. Abdul Samad received global recognition through the Association of Chartered Certified Accountants' Award for Achievement in Asia.

Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz

Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz was appointed the Governor of Bank Negara Malaysia since May 2000 and is one of the two ex officio Members of the Board.

As Governor, she has a key role in monetary policy formulation and implementation and in ensuring stability of the Malaysian financial system. She also oversaw the successful transformation of the Malaysian financial system into one of the most developed and resilient financial systems in an emerging economy.

Dr. Zeti is actively involved in shaping the future of financial cooperation in the Asian region and is an important voice for the emerging economies in the international financial fora. She chaired the Executives' Meeting of East Asia Pacific Central Banks taskforce to draw up the blueprint for future regional financial cooperation. Dr. Zeti is a member of the Bank for International Settlements (BIS) Central Bank Governance Group and a founding member of the Asian Consultative Council for the BIS. Dr. Zeti also continues to promote the development of Islamic finance, domestically and internationally. She served as the Islamic Financial Services Board Council Chairman for the 2007 term and was also the Chairperson of the International Islamic Liquidity Management Corporation (IILM) Governing Board until 2011. Dr. Zeti is currently the Chairperson of the IILM's Board Executive Committee. She also chaired a high-level international taskforce mooted by the Islamic Development Bank, which examined the role and relevance of Islamic finance in promoting global financial stability. Dr. Zeti was a member of the United Nations Commission of Experts to examine possible reforms in the global financial system.

Dr. Zeti received her Bachelor of Economics (Honours) from the University of Malaya and her PhD from the University of Pennsylvania.

Tan Sri Dato' Sri Dr. Wan Abdul Aziz Wan Abdullah

Tan Sri Dato' Sri Dr. Wan Abdul Aziz Wan Abdullah was appointed the Secretary General of Treasury, Ministry of Finance since 28 February 2007 and holds an ex officio position on the Board of PIDM.

Tan Sri Dr. Wan Abdul Aziz has 36 years of experience in the public sector, most notably in the area of economic planning. He started his career at the Economic Planning Unit, Prime Minister's Department in 1975, serving in various capacities in the area of macro economy, human resource and energy. He also served as an Alternate Executive Director for the World Bank Group in Washington DC, where he represented several Asian countries. He then returned to Malaysia and served in the Ministry of Finance, and in 2007 he was appointed the Secretary General of Treasury. He presently holds membership in the Board of Directors for organisations such as the Federal Land Development Authority, Malaysia Airlines System Berhad, Petroliaam Nasional Berhad, MISC Berhad, Kumpulan Wang Persaraan (Diperbadankan), Inland Revenue Board, Syarikat Bekalan Air Selangor Sdn. Bhd., Cyberview Sdn. Bhd., Pembinaan BLT Sdn. Bhd. and Bank Negara Malaysia. Tan Sri Dr. Wan Abdul Aziz holds a PhD in Economics from the University of Leeds, the United Kingdom.

Dato' Halipah Esa

Dato' Halipah Esa was appointed as a Board Member on 14 August 2010 and her current term continues until 15 August 2013.

Dato' Halipah Esa began her service in the public sector at the Economic Planning Unit (EPU) of the Prime Minister's Department in 1973. During her tenure in EPU, she served in various capacities in the areas of infrastructure, water supply, energy, health, education, housing, telecommunications, urban services, macro economy, international economy, environment and regional development. She has held various senior positions in the EPU including Director of Energy, Senior Director of Macroeconomics and Deputy Director General of the Macro Planning Division and retired as the Director General in 2006. She had also served in the Ministry of Finance as Deputy Secretary General (Policy) from 2004 to 2005.

She is currently the Chairman of Cagamas SME Bhd and serves on the Boards of MISC Berhad, KLCC Property Holdings Berhad, Malaysia Marine and Heavy Engineering Holdings Berhad, Northport (Malaysia) Bhd and the Securities Industry Dispute Resolution Centre. She was previously Chairman of Pengurusan Aset Air Berhad and has also served on the Boards of Petrolim Nasional Berhad, Employees Provident Fund, Inland Revenue Board, FELDA and UDA Holdings Berhad. She was a consultant to the World Bank and United Nations Development Programme in advising the Royal Kingdom of Saudi Arabia on economic planning, and has also provided technical advice to planning agencies in Vietnam, Cambodia, Indonesia and several African countries.

Dato' Halipah received her Bachelor of Arts (Honours) degree in Economics and a Master of Economics from the University of Malaya. She also holds a Certificate in Advanced Economic Management from the IMF Institute, Washington and the Kiel Institute for World Economics, Germany as well as a Certificate in Advanced Management Programme from Adam Smith Institute, London.

Mr. George Anthony David Dass

Mr. George Anthony David Dass was appointed as a Board Member on 3 February 2009 and his current term continues until 2 February 2012. His term of appointment has been extended for another two years until 2 February 2014.

Mr. Dass was a partner at the legal firm, Shahrizat, Rashid & Lee (formerly Rashid & Lee), for over 25 years. He has extensive expertise in conveyancing, banking, construction, joint ventures, privatisation, contracts and corporate law. He has served as a director of several public listed companies and was a Main Board Director of Costain PLC, one of the oldest construction companies in the United Kingdom, between 1997 and 2000. Currently, he continues to do some consultancy work for a law firm after stepping down from active practice in December 2004.

Mr. Dass was called to the Bar in Malaysia in 1971 and started his legal career in the law firm of Ng Ek Teong & Partners. In 1975, he joined the Institut Teknologi MARA (now known as Universiti Teknologi MARA or UiTM) as a lecturer in law. In June 1977, he went to London to pursue a Masters in Law and returned to legal practice in 1979.

Mr. Dass holds a law degree from the University of Singapore and a Masters in Law (LLM) from Kings College, University of London. He is currently a Board member of United Bintang Berhad and Montfort Boys Town and is a Past President of the Rotary Club of Damansara.

Mr. Lim Tian Huat

Mr. Lim Tian Huat was appointed as a Board Member on 14 August 2010 and his current term continues until 15 August 2013.

Mr. Lim is the Managing Partner of Lim Tian Huat & Co, Chartered Accountants and a licensed auditor and liquidator. He was previously a partner of Ernst & Young from 2002 to 2009, and prior to that served as a partner of Arthur Andersen & Co. from 1990 to 2002.

He has also served as Commissioner to the United Nations Compensation Commission from 1998 to 2002 and co-authored a book entitled "The Law and Practice of Corporate Receivership in Malaysia and Singapore".

Mr. Lim is the founding President of the Insolvency Practitioners Association of Malaysia (IPAM). IPAM was formed in 2010 by a group of accountants, lawyers and bankers. He is a member of the Malaysian Institute of Accountants, Council Member of the Malaysia Institute of Certified Public Accountants and a Fellow of the Association of Chartered Certified Accountants. He holds a BA Economics (Honours) degree.

Mr. Alex Foong Soo Hah

Mr. Alex Foong Soo Hah was appointed as a Board Member on 15 August 2011 and his current term continues until 14 August 2014.

Mr. Foong sits on the Boards of Bank Simpanan Nasional and the Malaysian Insurance Institute, and is a member of the Rating Committee of Malaysian Rating Corporation Bhd. He has extensive experience in the insurance industry, having served as the Chief Executive Officer of a leading insurance company from 1996 to 2009, and another public listed insurance company prior to that. He has also served as president of both the Life Insurance Association Malaysia and the Actuarial Society of Malaysia.

He holds a Masters of Actuarial Science from the Northeastern University, Boston, USA, and a Bachelor of Science (Hons) in Mathematics from Universiti Malaya. He is a Fellow of Society of Actuaries, USA and a Registered Financial Planner with the Malaysian Financial Planning Council.

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

JEAN PIERRE SABOURIN

INTRODUCTION

The economist Professor Frank Knight of the University of Chicago held the view that there are circumstances when "... the results of human activity cannot be anticipated and then only insofar as even a probability calculation in regard to them is impossible and meaningless". Whether or not in 2011 the world has officially recognised the conditions of Knightian uncertainty, events in recent times have made it clear that today the global banking industry, investors, and policymakers alike are faced with challenges that will not lend themselves readily to statistical analysis or traditional policy responses.

In 2011, as the global financial crisis dominated the front pages of business news and left us wondering about the soundness of various institutional foundations, global recovery stood at a precipice – for a second time in three years. The world had hardly caught a breath following the US subprime crisis when the Eurozone sovereign debt crisis emerged. By year end, the two-year-old European debt crisis had seen the bail-outs of three countries yet came no closer to resolution. What started as a financial crisis in a few small and peripheral economies now threatens to cause a meltdown of the Eurozone, dimming economic prospects. Amidst broad plans and coordinated actions to shore up confidence in the financial system, global banks have come under increasing pressures from worries about sovereign health, capital and liquidity.

Yet despite the global economic turmoil, the Malaysian economy has remained resilient and its financial system stable. Prudent monetary management, government spending support through the implementation of projects under the Economic Transformation Programme, domestic demand and strong economic fundamentals underpin this resilience. As for our financial institutions, Bank Negara Malaysia's recent Financial Sector Blueprint reflects the following state of affairs:

"Malaysian financial institutions today are well capitalised with strong buffers, improved risk management and corporate governance practices, and greater regional presence. The financial infrastructure in Malaysia has also been significantly strengthened, including the development of a deep and vibrant bond market, robust payment and settlement systems, and an effective financial safety net. This has been supported by a comprehensive and robust regulatory and supervisory framework and effective surveillance that is forward looking and focused on addressing the risks to overall financial stability. In addition, Malaysia has a comprehensive Islamic financial system that is recognised as among the most advanced in the world".

While we do not and cannot discount our external risks, it would seem clear that we, the Malaysian regulators, are at a fortunate place. The stable state of affairs in Malaysia provides us at PIDM with the opportunity to continue our immediate and essential work of monitoring and operational readiness. Not only that, it allows us to contemplate what steps we should take in the future to anchor our financial system to strong foundations as it matures and as our institutions become more regionally active and more complex.





INTRODUCTION

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

2011 AT PIDM

Given a fast changing environment, over the past few years we have risen to our challenges with pragmatic responses, all the while maintaining focus on the essential. Even as challenges arose with the Government Deposit Guarantee and the Takaful and Insurance Benefits Protection System (TIPS), we continued our work to establish and enhance the infrastructure and capacity of the organisation. As you will have seen from our previous reports, our essential work includes corporate governance, monitoring and risk assessments, and working to achieve high levels of operational readiness in order to effectively execute our mandate.

I am pleased to report a productive and meaningful year for PIDM. It was productive, as you will see from the details in this Annual Report, as we prioritised our resources to implement TIPS in its very first year alongside our other work within the Deposit Insurance System (DIS).

It was also meaningful, with the receipt of the Deposit Insurer of the Year award from the International Association of Deposit Insurers. This was external – indeed international – recognition of the quality of our work and contributions to the field of deposit insurance. Additionally, as continuing testimony of our commitment to transparency and good corporate governance, our 2010 Annual Report once again received the NACRA Best Annual Report for the Non-Listed Organisations category.

Premiums

With the admission of insurer members as our new members, in 2011 our premiums collection amounted to RM201.2 million, comprising RM120.5 million from member banks and RM80.7 million from insurer members. The premiums assessed against member banks represented an increase of RM14.8 million or 14% over the RM105.7 million collected from them in 2010. This is primarily attributed to the increase in the coverage limit from RM60,000 per depositor per bank to RM250,000 per depositor per bank.

Operating results

Our total operating expenditures for the year were RM69.7 million, which is RM15.5 million or 29% higher than the previous year, mainly due to the expanded

operations to administer TIPS. However, expenditures were RM20 million or 22% below budget. Our capital expenditures were RM2 million or 73% below budget, mainly due to reprioritisation of certain projects. We now manage a total of six, as opposed to two, distinct and separate Funds. Including the moneys and investments transferred from the Insurance Guarantee Scheme Funds to PIDM of a fair value of RM922 million, our net surplus for the year stood at RM1.1 billion.

Operating environment

For the year, the overall financial performance of member institutions remained strong with good growth despite cautious sentiments that accompanied a sluggish global economic environment. Though 2012 could bring with it some challenges, we do not anticipate any significant issues with our membership that would affect their viability.

Key initiatives under TIPS and the DIS

In 2011, given our expanded mandate, we completed a significant number of key initiatives relating to TIPS, even as we strengthened the existing practices for the DIS. Among others, we developed a validation system for the returns on calculation of premiums and developed the concept for a risk assessment methodology and framework.

A key development for the DIS was the implementation of the Provision of Information on Deposit Insurance Regulations, as part of the enhanced financial consumer protection package. These regulations are aimed at ensuring customers receive accurate and timely information on deposit insurance at point of sale, and are thus made aware of which deposits are insured and how.

Overall, we completed the majority of our key initiatives within the approved corporate and financial plan. Other key aspects of our work included the following:

- (a) **Operational readiness.** We continued our focus on efforts to build our capacity and capability – in particular to build operational readiness and intensify risk assessment and monitoring. Having completed our Intervention and Failure Resolution (IFR) policies and procedures for deposit insurance, we carried out extensive training for the whole

organisation and two major simulations over several days for each. To ensure the integrity of payout data, we also completed the integration between our payout system modules, and developed an audit programme for the “Depositor Liabilities Information Management System”. I am pleased, therefore, to report considerable progress in relation to the IFR of the Deposit Insurance System, and that work in this connection to address TIPS has already begun. In this connection, we also sent our teams overseas to Indonesia and the Philippines to learn from other deposit insurers about their experiences with payout and crisis management. All these activities are aimed at ensuring an essential element in the event of a payout, namely, the speedy and accurate reimbursement and effective handling of depositors.

- (b) **Funding.** We also made significant progress with a critical initiative namely, establishing the levels of internal funds that we target to achieve. This complex exercise entailed much research and was guided by approaches and methodologies of deposit insurers from other jurisdictions. We will be developing a similar target fund for insurer members in the next few years. An article on our Target Fund for the DIS is found on page 159 of this Annual Report.
- (c) **Public awareness and education.** 2011 saw the final stage of our five-year Integrated Communications Plan and the implementation of TIPS as part of the enhanced financial consumer protection package. In line with our strategy to exit the Government Deposit Guarantee, we implemented a comprehensive communications campaign to educate the public and other stakeholders on the enhanced protection package, including the increased limit and scope of coverage for deposit insurance. We stepped up advertising in the print and electronic media, and conducted a total of 67 briefing sessions for various stakeholder groups including member institutions, at the same time engaging the media for greater reach. We widened the scope and reach of our education programme, continuing our talks and roadshows in 250 schools and 50 institutions of higher learning. As a result, the deposit insurance awareness level has increased to 27% from 21% in 2010, while the awareness level of PIDM was registered at 40% compared with 18% the previous year. The externally conducted survey also shows an awareness level of TIPS at 37%, in its first year of implementation.

With respect to our governance processes, we have made good progress, obtaining an excellent result following an external independent assessment of our internal control division. We also completed the rest of our Board risk policies. These steps have provided further validation that PIDM has the necessary operating and governance controls.

As mentioned in our Chairman’s message, our philosophy is that developing and retaining a well-trained, motivated and satisfied workforce is a must for our sustainability and success. Our most recent employee satisfaction survey, conducted at the end of 2011, shows a well-above average employee engagement index of 90% (our target was 75%) and therefore a high level of satisfaction with PIDM as a workplace. These results are telling, and PIDM is committed to continuing to provide such an environment.

Closing remarks

In closing I would put on record our collective and deepest appreciation for the service of Tan Sri Dato’ Abdul Aziz bin Haji Taha, who retired last year as Chairman of the Board of Directors. Tan Sri Aziz has left an indelible mark on the organisation and imparted to us valuable lessons about discipline, perseverance and integrity in public service. At the same time we are delighted with the appointment of our new Chairman Tan Sri Datuk Dr. Abdul Samad Haji Alias, who until his appointment as Chairman of the Board had chaired our Audit Committee. His understanding and insights into the Corporation’s business and affairs made the transition in leadership of the Board in August 2011 seamless, and we very much look forward to his leadership and guidance to take us to the next phase. It is a privilege too to work with the other members of the Board, including Mr. Alex Foong, who joined the Board last year. I am confident we will benefit further from the strategic wisdom of the collective Board, including our new Directors who will join with effect from 1 January 2012, Encik Mohamad Abdul Halim Ahmad and Datuk Dr. Rahamat Bivi Yusoff.

I would of course thank our employees for their hard work and commitment, and it goes without saying that it is only with their cooperation and perseverance that the highest levels of success can be achieved for our organisation and the community at large.

GOING FORWARD

In the immediate term, we will necessarily continue to build on our foundations, adopting sound governance and management practices and continue our work on

INTRODUCTION

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

public awareness, our infrastructure and readiness, so as to ensure PIDM remains effective and efficient in administering the two financial consumer protection systems.

Looking forward to the years ahead, there is no doubt that vigilance over economic management and risks will be needed in the midst of the unpredictability of our global environment. Nonetheless, as I mentioned at the beginning, we are better placed than most, and we have the opportunity to observe and learn from the difficulties faced in other parts of the world. What is even more encouraging is that we have a clear vision for the future of the financial sector, as articulated in Bank Negara Malaysia's Financial Sector Blueprint. Thus, we are also in a better position to predict likely developments in our financial sector and the economy, to monitor and identify the accompanying risks and to take steps to ensure our financial safety net continues to be robust. Having strengthened our regulatory framework, I foresee that a key aspect for our policy work must be to continually review our resolution framework to ensure that all financial institutions, including those that operate across borders, can be resolved safely and quickly, as they should, without destabilising the financial system and exposing the taxpayers to the risk of loss.

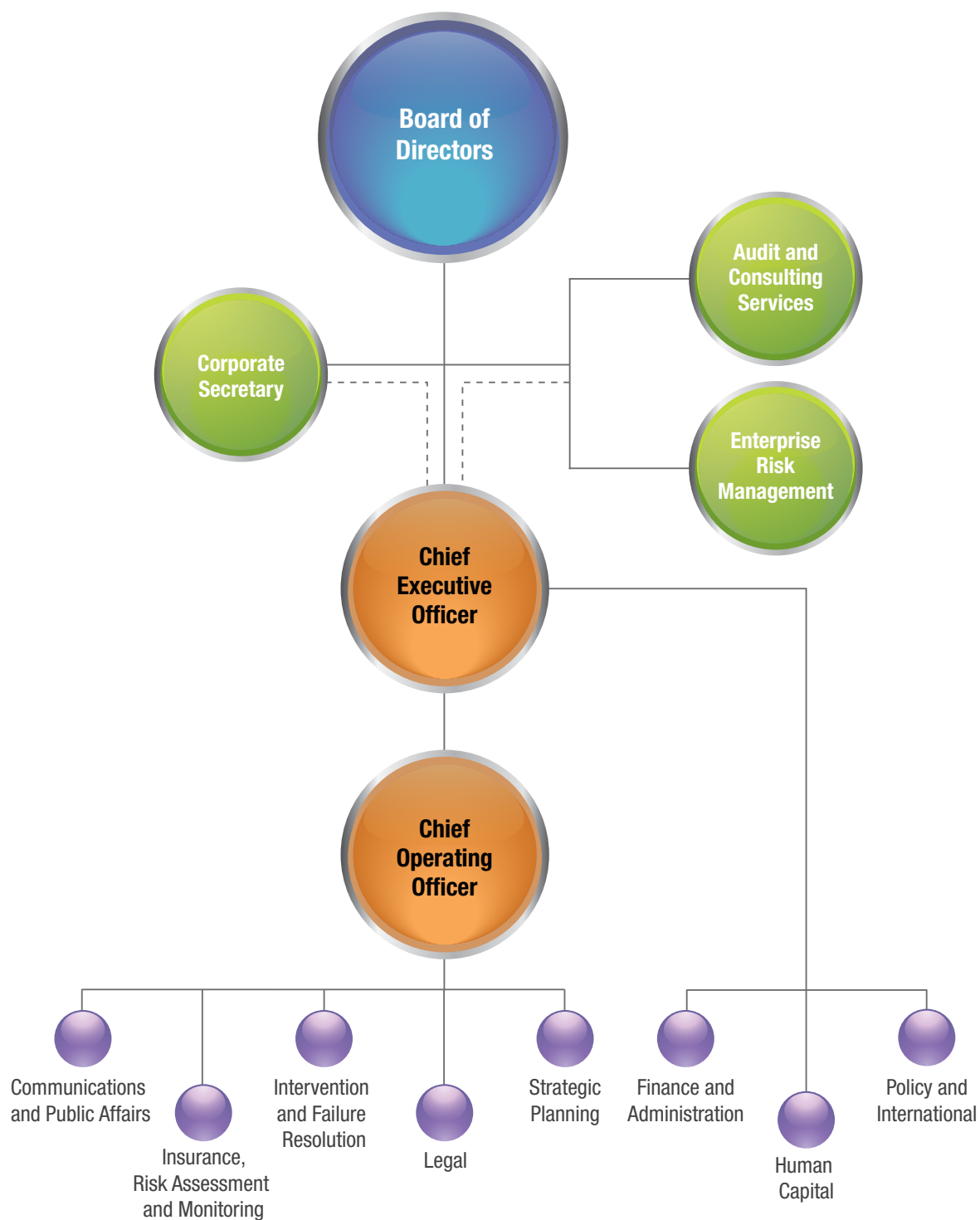
I will end my message with the words of the former US President John F Kennedy, which are these – “There are risks and costs to a program of action. But they are far less than the long-range risks and costs of comfortable inaction”.

A handwritten signature in black ink, consisting of a large, stylized 'S' and 'P' intertwined, with a horizontal line extending to the right.

JEAN PIERRE SABOURIN

INTRODUCTION

ORGANISATION CHART



INTRODUCTION

EXECUTIVE MANAGEMENT COMMITTEE



From left to right:

Chua Ee Leen, Lim Yam Poh, Wan Ahmad Ikram Wan Ahmad Lotfi, Lee Yee Ming, Rafiz Azuan Abdullah, Jean Pierre Sabourin, Md Khairuddin bin Hj Arshad, Lim Kong Kuan, Noorida Baharuddin, Chong Chen Voon, Patricia Griffin, Hasina Mohamed.



INTRODUCTION

EXECUTIVE MANAGEMENT COMMITTEE: MEMBERS AND PROFILES

PIDM's Executive Management Committee (EMC) is chaired by the Chief Executive Officer who is not a member of the Board of Directors. The EMC is a forum for the discussion of issues relating to the management and day-to-day operations of PIDM. Its members comprise the Heads of Division who are also responsible for supporting the Board of Directors in fulfilling its governance responsibilities. The EMC is intended to facilitate effective communications, teamwork, adaptability to change and effective collaboration throughout all areas of PIDM, as well as to serve as a conduit for information to all employees.

Jean Pierre Sabourin

Chief Executive Officer

Jean Pierre Sabourin has been the Chief Executive Officer (CEO) of PIDM since its establishment in August 2005. He has gained unparalleled experience and expertise in all aspects of deposit insurance during his 35-year career. His assistance has been widely sought by many jurisdictions on establishing and improving their deposit insurance systems.

Among his many achievements, was the chairmanship of the Financial Stability Forum's¹ International Study and Working Groups on Deposit Insurance and the chairmanship of the first ever APEC Policy Dialogue on Deposit Insurance. In May 2002, he led the establishment of the International Association of Deposit Insurers (IADI) and was elected its first Chair of the Executive Council and President, a position he held until the end of his term in 2007.

He was employed by the Canada Deposit Insurance Corporation (CDIC) in 1976, and held various positions within CDIC before being appointed by the Canadian Government as CDIC's President and CEO in 1990, a position he held for 15 years until his retirement in April 2005. In August 2005, he was appointed by the Malaysian Government as the first CEO of PIDM, and his current term of office expires in August 2014. Mr. Sabourin is a member of the Board of Directors of the ICLIF Leadership and Governance Centre and a member of Bank Negara Malaysia's Financial Stability Executive Committee. He holds a Master of Business Administration degree from the University of Toronto.

Md Khairuddin bin Hj Arshad²

Chief Operating Officer

Md Khairuddin bin Hj Arshad was appointed the Chief Operating Officer in 2010 and assists the CEO in managing the day-to-day operations of the Corporation. Prior to this appointment, he was the General Manager of the Insurance, Risk Assessment and Monitoring Division, responsible for analysis and monitoring of the risk level of banks as well as the intervention and failure resolutions of troubled banks.

Khairuddin served in Bank Negara Malaysia for over 15 years in the Bank Regulation Department and the Islamic Banking and Takaful Department. He has extensive experience in Islamic banking and finance and is a leader in the area of Islamic deposit insurance. He is currently the Chairman of the Islamic Deposit Insurance Group of IADI, and an observer of the Malaysian Accounting Standards Board's working group on Islamic financial transactions. He has also provided technical assistance to various countries in developing their Islamic banking industry and Islamic deposit insurance system and regularly presents various papers at domestic and international seminars. He holds an accounting degree from the International Islamic University, Malaysia.

Lim Yam Poh²

General Counsel and Corporate Secretary

Lim Yam Poh was appointed the General Counsel and Corporate Secretary in 2006, and she is responsible for legal and corporate secretariat services at PIDM.

Her responsibilities include the provision of a range of legal services needed by PIDM, including ensuring compliance with all applicable statutory requirements, and the certification of deposit products. She also provides secretariat services to the Board, and supports the Governance Committee and the Board in the development and maintenance of best practices in governance by providing research and advice.

She has over seven years of experience in a leading law firm in Kuala Lumpur. She was employed by the Malaysian Securities Commission between 1997 and 2000 and by the Hong Kong Securities and Futures Commission between 2000 and 2005. She holds an honours Bachelor of Laws degree from the University of Birmingham, England and has been called to the Bar of England and Wales and in Malaysia.

¹ Now known as Financial Stability Board

² Corporate officers appointed by the Board of Directors

Wan Ahmad Ikram Wan Ahmad Lotfi²

Chief Financial Officer and General Manager, Finance and Administration

Wan Ahmad Ikram Wan Ahmad Lotfi was appointed the Chief Financial Officer (CFO) in 2006 and is responsible for the overall financial and office administration of PIDM. In particular, he is accountable for the direction, management and control of the accounting and treasury functions as well as functions related to information and technology system management, and operational business processes, policies and controls.

A Chartered Accountant by training, he is a member of the Institute of Chartered Accountants in Australia and the Malaysian Institute of Accountants. He started his career with Telekom Malaysia Berhad before pursuing his professional accounting career with KPMG in Melbourne, Australia. On his return to Malaysia, he joined Tahan Insurance Malaysia Berhad as the Chief Internal Auditor and was later appointed as its CFO in March 2004. He holds a Bachelor of Commerce degree from the University of Melbourne, Australia.

Chong Chen Voon²

Chief Risk Officer and General Manager, Enterprise Risk Management

Chong Chen Voon was appointed the Chief Risk Officer in 2011 and heads the Enterprise Risk Management (ERM) Division. He is responsible for the implementation of PIDM's ERM framework on a Corporate-wide basis and assists the Board, Audit Committee and Management to ensure that PIDM's significant risks are being consistently and continuously identified, assessed, managed, monitored and reported on accordingly.

He has more than 17 years of experience in providing assurance services to both private and public companies in Malaysia and abroad, focusing on enterprise risk management, internal audit, corporate governance, Sarbanes-Oxley Act Section 404, statutory audit and accounting services. He was a columnist for a locally published magazine, writing on enterprise risk management-related topics, and a speaker on governance, risk and compliance related topics.

He began his career as an external auditor and subsequently joined KPMG in its Kuala Lumpur, Malaysia and Taipei, Taiwan offices. He then became an Executive Director of a consulting firm prior to joining PIDM.

He holds a Bachelor's degree in Accountancy from Edith Cowan University in Australia and a Master's degree in business administration majoring in finance from Universiti Putra Malaysia. He is a Certified Internal Auditor (USA), Chartered Accountant (Malaysia), Certified Practising Accountant (Australia) as well as a Chartered Member of the Malaysian Institute of Accountants and Institute of Internal Auditors Malaysia. He is also accredited by the

Institute of Internal Auditors Malaysia to perform Internal Quality Assessment / Validation for Internal Audit Functions.

Noorida Baharuddin²

Chief Internal Auditor and General Manager, Audit and Consulting Services

Noorida Baharuddin was appointed the Chief Internal Auditor in 2006 and heads the Audit and Consulting Services Division. Her main responsibilities include providing independent and objective assurance and consulting services which are designed to improve the effectiveness and efficiency of PIDM's operations, reliability and integrity of PIDM's financial reporting as well as ensure PIDM's compliance with applicable laws and regulations.

She has 20 years of combined experience in auditing, risk management and policy development gained through her career with an external audit firm, regulatory bodies and a public-listed company. Her auditing experience includes external and internal auditing as well as supervisory examination. In supervisory examination, she had led examinations of capital market institutions and intermediaries licensed and supervised by the Securities Commission, as well as offshore financial and insurance institutions licensed by the Labuan Financial Services Authority (LFSA), formerly known as Labuan Offshore Financial Services Authority. She was also involved in the development and implementation of enterprise-wide risk management for LFSA. On attachment with the Islamic Financial Services Board, she gained experience in the development of standards for the Islamic financial services industry. She holds a Bachelor of Business degree in accounting from the University of Tasmania, Australia and a Bachelor of Law degree from the Universiti Institut Teknologi Mara (UiTM), Malaysia. She is a Certified Practising Accountant (Australia), a Chartered Member of the Institute of Internal Auditors Malaysia and a Certified Financial Planner with the Financial Planning Association of Malaysia.

Lee Yee Ming

General Manager, Policy and International

Lee Yee Ming is the General Manager, Policy and International Division. She is responsible for PIDM's key policy areas and international relations. Her main responsibilities are to assess, develop and propose policies that concern the mandate and operations of PIDM and help advance the views and interests of PIDM, and to position PIDM internationally in its mission and vision. In October of 2011, she was elected to the Executive Council (EXCO) of IADI for a three-year term. The roles of IADI EXCO include recommending the process for establishing a guide to enhance the effectiveness of deposit insurance systems and developing policies for advice on deposit insurance issues.

INTRODUCTION

EXECUTIVE MANAGEMENT COMMITTEE: MEMBERS AND PROFILES

She was previously the Chief Risk Officer of PIDM, heading the Enterprise Risk Management (ERM) Division.

She has over 10 years of consulting and banking experience in ERM, Basel II, corporate governance and internal audit. She began her career in the United States with a financial institution in Illinois and subsequently joined Ernst & Young in its Kuala Lumpur, Malaysia and Taipei, Taiwan offices. She has advised organisations in Malaysia and internationally on the implementation of their respective ERM frameworks, and also project managed Basel II system implementation and Basel II-related implementation projects for Taiwanese banks. She holds an honours degree in business administration (summa cum laude) and a Master of Business Administration degree in finance from Western Michigan University. She is also a Certified Internal Auditor.

Lim Kong Kuan

General Manager, Intervention and Failure Resolution

Lim Kong Kuan was appointed the General Manager, Intervention and Failure Resolution Division in 2010. His responsibilities include building the infrastructure for conducting timely and effective intervention and failure resolution activities of PIDM. He was previously Deputy General Manager, Insurance, Risk Assessment and Monitoring Division.

Prior to PIDM, he served for 11 years at BNM from 1995, including as a manager in the Prudential Policy Division, Bank Regulation Department. His experience in BNM included developing and reviewing prudential policies on capital adequacy requirements and banking risk management, particularly market risk and Basel II-related regulations.

He was a BNM scholar and obtained a Bachelor of Economics (Accounting major) at the University of Sydney, Australia. He was also awarded an additional scholarship from BNM to complete his Masters of Science in Mathematical Trading and Finance from City University Business School, City University London, in 2001 where he graduated with distinction.

Patricia Griffin

General Manager, Human Capital

Patricia Griffin has been serving as the General Manager, Human Capital Division since April 2011. Her responsibilities include human capital strategy and the provision of the full range of strategic human capital policies, programmes and services to ensure that PIDM can attract, develop and retain the necessary talent to fulfil its mandate.

Patricia has had a long career in managing the human resources function in various Canadian government and government-linked organisations, including 14 years as the Head of Human Resources with the Canada Deposit Insurance Corporation (CDIC). She has also held positions at the General Manager level in a number of Canadian government organisations such as Revenue Canada, Public Works and National Archives. Since 2007 she has been an independent consultant providing human capital solutions for a number of clients including PIDM.

She is a Certified Human Resources Professional (Canada) and is a member of the Canadian Human Resources Professionals Association. She has Bachelor of Arts (English) and Bachelor of Physical Education degrees from McMaster University, Hamilton, Canada, and attended the Executive Development Programme at Queen's University School of Business, Kingston, Canada.

Rafiz Azuan Abdullah

General Manager, Insurance, Risk Assessment and Monitoring

Rafiz Azuan Abdullah was appointed the General Manager, Insurance, Risk Assessment and Monitoring Division in 2010. He is responsible for analysis and monitoring of the risk level of member banks as well as the insurance and premium collection function of PIDM. He joined PIDM in January 2007 and spearheaded the completion of the Risk Assessment System for PIDM.

Prior to PIDM, Rafiz was employed for more than 10 years with Rating Agency Malaysia, where he specialised in ratings of financial institutions, real estate and construction companies. During that period, Rafiz was also seconded for a year to the Corporate Debt Restructuring Committee at BNM in December 1999 to assist in the restructuring of distressed companies as a result of the economic recession.

Rafiz holds an accounting and finance degree from Lancaster University, the United Kingdom.

Chua Ee Leen

General Manager, Strategic Planning

Chua Ee Leen was appointed the Senior Manager, Strategic Planning Division in 2010. Effective 1 January 2012, she heads the division as the General Manager. She is responsible for the implementation of PIDM's strategic planning process and assists the Board and Management in setting the Corporation's strategic direction and the development of a strategic plan, taking into account the opportunities and risks facing the Corporation. She joined

PIDM's Enterprise Risk Management (ERM) Division in December 2007 and was assisting the Chief Risk Officer in the implementation of PIDM's ERM framework.

She has seven-and-a-half years of experience in auditing, risk management, as well as the development of policies and procedures through her career at the Ernst & Young Kuala Lumpur office, including a one-year secondment to a global group of energy and petrochemical companies. Her auditing experience includes external and internal auditing, Sarbanes-Oxley independent compliance review as well as certification-related review. She holds a Bachelor of Commerce degree in accounting and finance from the Curtin University of Technology, Perth, Western Australia. She is a Certified Practising Accountant (Australia) and a member of the Malaysian Institute of Accountants.

Hasina Mohamed

Deputy General Manager, Communications and Public Affairs

Hasina Mohamed was appointed the Deputy General Manager, Communications and Public Affairs Division in 2008. She is presently heading the Communications and Public Affairs Division, responsible for the full range of communications initiatives for the Corporation's public awareness programmes, public relations, publications and stakeholders' engagement programmes.

Hasina has more than 19 years of working experience in strategic marketing and branding, marketing communications, marketing research, retail audits, product management, project management, events management, media management, client servicing, advertising and promotions. She started her career as a Marketing Executive in MBF Leisure Holidays Sdn. Bhd. between 1991 and 1992; Advertising and Promotion Senior Executive and later expanded her roles to do Product Management in Sanofi Direct Malaysia, between 1992 and 1997. Hasina then joined Padi Beras Nasional Berhad in 1997 as a Manager in the Chief Executive Officer's Office and has headed various departments and many key projects in Bernas during her 10-year stay there. Her last position was as the Head of Marketing Communication for Bernas Group before joining Pakarmedia Sdn. Bhd. under the Carat Group of Media Specialists as Accounts Director where she was also part of the branding consulting team. Hasina was a part time trainer in Mark Plus Institute of Marketing.

Hasina holds a Bachelor of Economics, an Advanced Diploma in Marketing and a Professional Postgraduate in Marketing (Chartered Marketer, Chartered Institute of Marketing, the United Kingdom). She is also currently pursuing a Masters of Communication at Lim Kok Wing University of Creative Technology.

INTRODUCTION

OTHER MANAGEMENT COMMITTEES

Senior Management Committee

PIDM's Senior Management Committee (SMC) is chaired by the Chief Executive Officer. The SMC is a forum for information exchange and highlighting the key issues affecting the respective divisions or functions. Its meetings are held after each Board of Directors (Board) meeting to inform of the Board's major deliberations and decisions. Its members comprise the General Managers, the Deputy General Managers or the Senior Managers who directly support the Heads of Division. The SMC is intended to facilitate effective communications, teamwork and effective collaboration throughout all areas of PIDM, as well as to serve as a conduit for information to all employees.

Enterprise Risk Management (ERM) Committee

The ERM Committee provides oversight and direction for the consistent application of the Corporate ERM framework and business continuity management. The ERM Committee champions risk management and monitors the risk exposures as well as ERM activities of PIDM at a Corporate-wide level.

The ERM Committee comprises the following members:

- Chief Executive Officer (CEO) (Chair)
- Chief Operating Officer (COO)
- Chief Financial Officer (CFO)
- General Counsel
- Chief Risk Officer (CRO)
- General Manager, Human Capital Division
- General Manager, Insurance, Risk Assessment and Monitoring Division
- General Manager, Intervention and Failure Resolution Division
- General Manager, Policy and International Division
- General Manager, Strategic Planning Division
- Deputy General Manager, Communications and Public Affairs Division
- Deputy General Manager, Economics and Research, Policy and International Division

The Deputy General Manager of the ERM Division acts as the Secretariat to the ERM Committee, while the Chief Internal Auditor (CIA) attends all ERM Committee meetings as an observer.

Strategic Planning and ERM Working Committee

The Strategic Planning and ERM Working Committee (PERM Working Committee) supports the ERM Committee at an operational level across PIDM. This includes updating

the divisional business continuity plans, assessment and rating of existing risks, monitoring the progress against the mitigation plans of the respective divisions and updating such plans.

The PERM Working Committee comprises the following members:

- CRO (Chair)
- Deputy General Manager, ERM Division
- Representatives of the following divisions in PIDM:
 - Communications and Public Affairs Division
 - Finance and Administration Division
 - Human Capital Division
 - Intervention and Failure Resolution Division
 - Insurance, Risk Assessment and Monitoring Division
 - Legal Division
 - Policy and International Division
 - Strategic Planning Division
- Assistant Manager, ERM Division (Secretary)
- Senior Manager, Audit and Consulting Services Division (Observer)

Asset and Liability Management Committee

The Asset and Liability Management Committee (ALCO) is a management committee designed to support the CFO on issues related to asset and liability management of PIDM. The Committee also provides assistance, information and support on funding, liquidity, investment and financial risk management. It also acts as a forum to discuss the implications of decisions in respect of PIDM's asset and liability management.

The Committee members are:

- CFO (Chair)
- CRO
- General Manager, Insurance, Risk Assessment and Monitoring Division
- General Manager, Intervention and Failure Resolution Division
- Deputy General Manager, Communications and Public Affairs Division
- Deputy General Manager, Economics and Research, Policy and International Division
- Deputy General Manager, Finance
- Senior Manager, Finance (Secretary)
- CIA (Observer)
- CEO (ex officio)
- COO (ex officio)

Information Technology Steering Committee

The primary function of the Information Technology Steering Committee (ITSC) is to provide oversight, as well as manage and implement Information Technology (IT) strategies, plans and budgets. The ITSC oversight offers direction and guidance to ensure that the implementation of IT strategies is consistent with PIDM's goals. The Committee reviews the IT strategic plan status, overall IT project progress, major IT procurements, IT budget utilisation, and deliberates on Corporate IT and information policies on a quarterly basis. The ITSC also allows Management to monitor, manage and address IT-related risks and opportunities from external sources or external events.

The ITSC members are:

- COO (Chair)
- CFO
- General Manager, Insurance, Risk Assessment and Monitoring Division
- General Manager, Intervention and Failure Resolution Division
- Deputy General Manager, Administration
- Deputy General Manager, Communications and Public Affairs Division
- Deputy General Manager, Information Technology
- Senior Legal Counsel
- CIA (Observer)
- CRO (Observer)
- CEO (ex officio)

Corporate Compliance Committee

The Corporate Compliance Committee provides assistance to the Board of Directors in fulfilling its corporate governance and oversight responsibilities in relation to PIDM's compliance with laws, regulations, industry codes, policies and procedures, contractual obligations and organisational standards that are applicable to PIDM by virtue of its business activities and functions.

The Corporate Compliance Committee ensures that compliance is integrated into the various Divisions and that identification of improvement areas on Corporate-wide compliance is enabled. Areas for improvement include increasing awareness and understanding of key policies and procedures and, where relevant, the implementation of practices to ensure compliance with applicable laws.

Its members are:

- General Counsel (Chair)
- CFO
- CRO
- Deputy General Manager, Insurance, Risk Assessment and Monitoring Division

- Senior Manager, Audit and Consulting Services Division
- Senior Manager, Communications and Public Affairs Division
- Senior Manager, Human Capital Division
- Senior Manager, Organisation and Methods Department
- Senior Legal Counsel (Secretary)

Safety and Health Committee

The Safety and Health Committee, established in accordance with the Occupational Safety and Health Act 1994 and the Occupational Safety and Health (Safety and Health Committee) Regulations 1996, assists Management to promote a safe, healthy and conducive working environment for all its employees, contractors, consultants, visitors and any others who have dealings with the Corporation. The main functions of the Committee are to review the measures taken to ensure safety and health at the workplace, investigate any matter related to safety and health, and to resolve those matters.

The Committee members are:

- General Manager, Human Capital Division (Chair)
- General Manager, Strategic Planning Division
- Deputy General Manager, Administration
- Deputy General Manager, Finance
- Deputy General Manager, Insurance, Risk Assessment and Monitoring Division
- Manager, Insurance, Risk Assessment and Monitoring Division (Secretary)
- Representatives of employees from:
 - CEO's Office
 - Communications and Public Affairs Division
 - ERM Division
 - Finance and Administration Division
 - Human Capital Division / Audit and Consulting Services Division
 - Insurance, Risk Assessment and Monitoring Division
 - Intervention and Failure Resolution Division
 - Legal Division
 - Any other officers or employees of PIDM as required, to be determined by the Chair

Section 2

REFLECTIONS OF OUR FIRST CHAIRMAN



Perbadanan Insurans Deposit Malaysia

PROTECTING YOUR
INSURANCE AND DEPOSITS
IN MALAYSIA



REFLECTIONS OF OUR FIRST CHAIRMAN

INTRODUCTION

For the last five years, at the beginning of each year, I have had the singular privilege of writing the Chairman's message for PIDM's annual reports. I have been given the opportunity to again say a few words, and I thank the Board of PIDM for their kind invitation to do so.

First, the 2011 Deposit Insurance Organisation of the Year Award from the International Association of Deposit Insurers. What this award says is what I already know – PIDM's Deposit Insurance System is of world class. Congratulations to you all!

ON RETIRING

I stepped down as Chairman of PIDM's Board of Directors in August 2011 after six years with PIDM.

Doctor W. Gifford Jones, one of Canada's leading medical newspaper columnists, has opined that one should never retire. The doctor points out that Michelangelo was carving the *Rondanini Pietà* at age 89 and Verdi finished his opera *Falstaff* when he was 80. My stepping down as Chairman of PIDM was precipitated not so much by the need to retire, but by my belief that change is a necessary ingredient for optimising corporate performance.

Change, even in leadership, is a powerful catalyst for growth. Indeed, organisational agility requires an astute mix of stability and reconfigurability. PIDM must be allowed to benefit from simultaneously managing strong, stable cultures while maintaining the flexibility necessary to survive the ebbs and flows of turbulent environments.

As for stability, the Board took considerable care to plan so that in August 2011 PIDM had a suitable successor, and so it does, and a very capable one at that. I was pleased to hand the chairmanship over to Tan Sri Datuk Dr. Abdul Samad Haji Alias, whose skills, experience and expertise bring both stability and progress to the Corporation.

ON THE CHANGING ENVIRONMENT AND THE EVOLUTION OF PIDM

As I look back on all the events during my tenure as the Chairman of PIDM, I must say that when I was first appointed back in August 2005, I could not have anticipated the enormity of the challenges that we would eventually face in the early years of the Corporation. I certainly did not predict that PIDM would have assumed the expanded role and mandate that it did, in so short a period of time.

For the first year and half or so of PIDM's establishment, its operating environment was unexceptional. By the beginning of 2008, I was able to report good progress in the foundations for PIDM. The Board was compliant with all but one of its standards of governance arrangements. The Corporation's resources model and human capital strategy were well established. PIDM's risk assessment and monitoring system for deposit insurance had been established. It was ready to implement the differential premium systems; and it had begun our work on making sure it planned for all contingencies and failures. PIDM also then received a second merit award from NACRA for our 2007 Annual Report in the category of non-listed organisations. All was in order.

By October in the very same year, around the world, more than 25 banks had failed or been bailed out. Despite having among the best regulated banks in the world, concerns and anxiety about the global financial crisis prevailed. Countries that were not suffering any crisis, still intervened with government guarantees and other measures, so as to ensure public confidence and prevent capital flight¹. For PIDM, that meant amending legislation to provide the Minister of Finance with stabilisation powers and to allow PIDM to effectively administer the Government Deposit Guarantee. This was the first significant expansion of PIDM's role.

By 2010, as we exited the Government Deposit Guarantee, the Government made a policy decision to establish an insurance protection scheme. It was found timely, at this point, to also broaden the coverage and limits of deposit insurance. A key feature of PIDM's expansion was the consolidation of the role for protecting financial consumers so that not only banks, but insurance companies would be insured by PIDM. This was driven, quite rightly, by reasons of economies and ability to leverage on existing infrastructure. Malaysia also became the first country in the world to provide a financial safety net for the takaful industry together with conventional insurance. This was yet another, and even more material expansion of PIDM's role.

Oftentimes we do not appreciate the significance of world events as they are unfolding. But one point that did become subsequently clear – especially following the Government Deposit Guarantee – is that deposit insurance systems have taken on increasing relevance and importance since they were originally conceived. The public policy objectives of deposit insurance systems have been expanded so that the deposit insurer also helps in periods of crises by promoting the stability of the financial system.

¹ Those providing government guarantees included Austria, Australia, Germany, Denmark, Portugal, Singapore, Taiwan and Malaysia.

REFLECTIONS OF OUR FIRST CHAIRMAN



ON PIDM'S PEOPLE

Insofar as PIDM as an organisation of individuals is concerned, I would be far too glib if I stated that it was by sheer luck that we found the people that run the organisation. I would thank the Governor of Bank Negara Malaysia, Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz, for her foresight in persuading Mr. Sabourin to lead as the CEO of PIDM, and for the Bank's generous sharing of some of its talents in the taskforce that originally developed the design of the system to work with PIDM.

Again, not by accident, the organisation did benefit from a Board of Directors composed of the right mix of skills, character, judgement and vision. I do not forget to mention the past Directors, the former Federal Court judge, the late Tan Sri Dato' Seri Haji Mohd Azmi bin Dato' Haji Kamaruddin, the former Secretary General of the Treasury, Tan Sri Dato' Sri Izzuddin Dali, Tan Sri Dato' Sri Dr. Sulaiman Mahbob, and Mr. Michael Wong, all of whom I thank for their immense support to the Board, and their contributions to the Corporation. It was a distinct pleasure and my honour to work with these individuals as well as Board Members who remained on the Board in 2011, namely, Tan Sri Governor, Tan Sri Dr. Wan Abdul Aziz Wan Abdullah, Tan Sri Datuk Dr. Abdul Samad Haji Alias, Dato' Halipah Esa, Mr. Lim Tian Huat and

Mr. David Dass. They shared my philosophy about how a Board works with an organisation. This entails achieving the Board's duties for strategy and oversight, whilst having a judicious degree of trust in Management to execute Board-approved strategies. They understood the need to set an example in conduct and ethics in public service.

I would also congratulate PIDM's CEO, Mr. JP Sabourin, on his team. This is a team that has not disappointed in their quest for excellence, dedication and hunger for achievement. Much of my confidence that PIDM would meet the many challenges of expanded responsibilities was precisely because of its people. It is especially gratifying that PIDM has received international recognition and that PIDM has built a vast network of experts and international colleagues it can count on for guidance, knowledge sharing and benchmarking. Mr. Sabourin's leadership has demonstrated his adroitness for forward thinking, psychology and communications.

If I were to admit that luck had a role to play during my term as Chairman of the Board, it was the ease with which I could carry out my job with the support of these individuals.

TO MEMBER INSTITUTIONS

Having been given the opportunity to reflect, I will make an observation to our membership. Before that, I sincerely thank PIDM's members for their cooperation as participants in the current Deposit Insurance System and Takaful and Insurance Benefits Protection System. Then I will attempt to answer a question that we sometimes hear - Why do we need government-backed insurance, if the industry is so well regulated and member institutions will not fail?

I do not wish to be a misanthrope, but I would remember that not too long ago, we experienced the Asian financial crisis with large-scale economic and social implications. Attributed to crony capitalism, this led to calls for new financial architecture. Despite this, we find ourselves nonetheless witnessing another global financial crisis, one which will be remembered in the annals of history to have morphed into an economic crisis, then in some countries into an employment crisis, and as we see today, in many countries, into social and political crises.

As far as the US crisis was concerned, the U.S. Financial Crisis Inquiry Commission concluded, in January 2011, that it was "... caused by: Widespread failures in financial regulation, including the Federal Reserve's failure to stem the tide of toxic mortgages; Dramatic breakdowns in corporate governance including too many financial firms acting recklessly and taking on too much risk; An explosive mix of excessive borrowing and risk by households and Wall Street that put the financial system on a collision course with crisis; Key policymakers ill-prepared for the crisis, lacking a full understanding of the financial system they oversaw; and systemic breaches in accountability and ethics at all levels." As of March 2011, at a national level, the US Federal Deposit Insurance Corporation had to pay out \$9 billion to cover losses on bad loans at 165 failed financial institutions². At an international level, what this crisis began has brought unprecedented costs and debts for governments that will be felt for decades to come.

There is much reason for reflection, change and action, by all of the actors in this dramatic stage. It is clear that private sector solutions to deal with the global systemic instability of such ignominious proportions will not be sufficient, and that the days of light regulation and unconstrained financial innovation are gone.

Nevertheless we can still expect that markets will be given opportunities to increase innovation, investments and generate productivity growth, as regulatory frameworks to manage risk and correct market failures are reviewed and enhanced. But as history has demonstrated time and time again, there will be no failsafe solutions against frauds, self-interests or risk-taking; there can only be mitigants.

Therefore, banks and other financial institutions have a major interest in preserving confidence in the stability of the financial system, and the public will only have this if they are assured that something will be quickly done to protect them in the event of such a failure. The answer thus to the question - why government-backed insurance - is somewhat intuitive. The Economist says, in one of its articles: "... The truth of the matter is that however much banks moan about the restrictions and obligations imposed by governments and regulators, they know that this is the price they pay in return for something hugely valuable. That something ... takes the form of deposit insurance."³

In closing, I will say that I am very proud to have been part of the beginning at PIDM. I hope that all of you in PIDM will, when you retire, be equally proud to have been associated with an organisation that is committed to contribute to the community in a fair and progressive way.

As I come to the end of my message-writing duties, I felt somewhat obliged to utter a few words of wisdom, and so, on stumbling upon these cogent Confucian words, felt also compelled to repeat them here:

"To put the world in order, we must first put the nation in order; to put the nation in order, we must first put the family in order; to put the family in order, we must first cultivate our personal life; we must first set our hearts right".



TAN SRI DATO' ABDUL AZIZ BIN HAJI TAHA

² Sidel, Robin (March 16, 2011). "FDIC's Tab For Failed U.S. Banks Nears \$9 Billion". (Wall Street Journal. http://online.wsj.com/article/SB10001424052748704396504576204752754667840.html?mod=WSJ_hp_LEFTWhatsNewsCollection.)

³ "Still Money in that Franchise" April 30, 1994

Section 3

CORPORATE GOVERNANCE



CORPORATE GOVERNANCE

MANAGING OUR RISKS



OVERVIEW

Consistent with our vision to be a best practice financial consumer protection organisation, PIDM's Enterprise Risk Management (ERM) Division was established in 2007 to help the Corporation fulfil its mandate, mission and vision. Since its inception, the ERM Division has continued to develop and mature along with the Corporation. In 2011, we continued with the operation of our ERM process, provided risk advisory services and shared information on risks at PIDM whilst further enhancing our ERM framework and practices.

OUR KEY ACHIEVEMENTS IN 2011

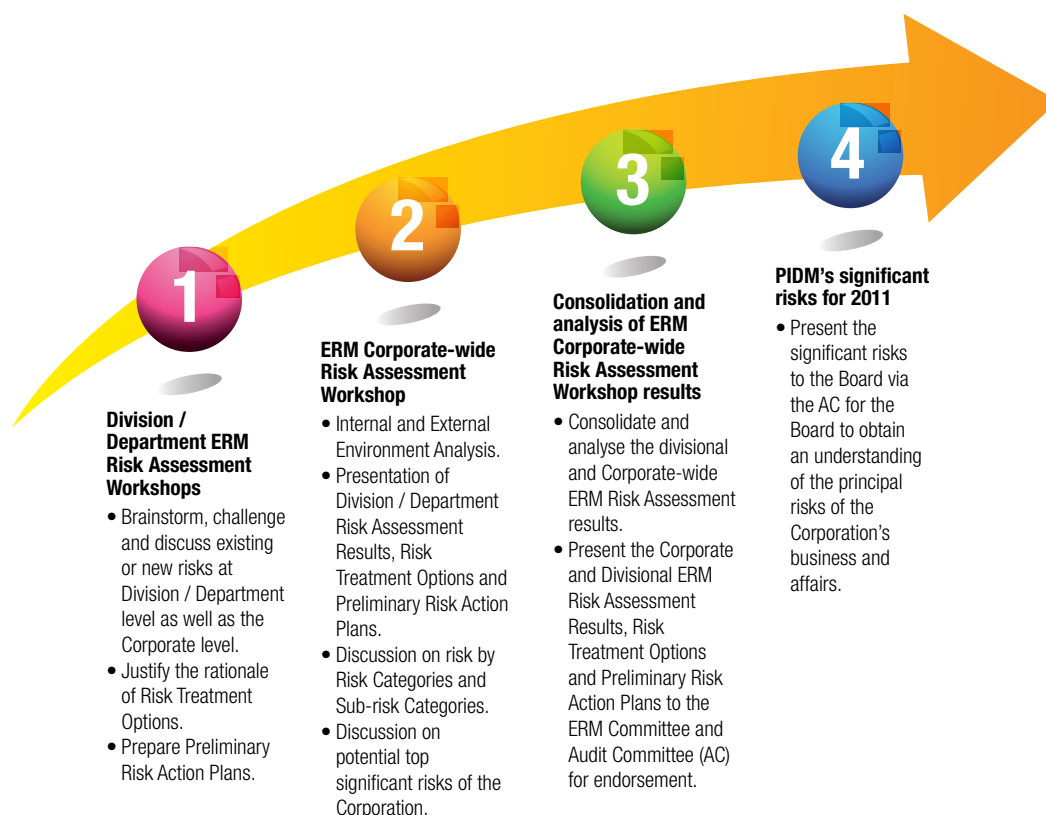
In 2011, we completed another full cycle of the ERM process, developed our Board Risk Policies, and made progress in our Business Continuity Management programme. In more detail, the key achievements of the ERM Division in 2011 are listed below.

Annual ERM Process

We completed another full cycle of the ERM process, which is to identify, assess, evaluate, treat, monitor, report and communicate the risks facing the Corporation. The key activities of the annual ERM process are summarised diagrammatically in the following page.

CORPORATE GOVERNANCE

MANAGING OUR RISKS



A significant aspect of the annual ERM process was the risk assessment workshops. A total of 14 separate divisional or departmental risk assessment workshops for employees were conducted prior to a Corporate-wide risk assessment workshop, during which corporate and inter-divisional risks were discussed and assessed.

Subsequent to the divisional and Corporate-wide risk assessment workshops, we developed the ERM Risk Assessment Report, including the risk register, which contains the detailed description and assessment of all the Corporation's risks as well as the controls and action plans to mitigate them.

Board Risk Policies and Reports

The Board Risk Policies clarify the oversight function of the Board of Directors (Board) in relation to specific risks and outline the Board's expectations of Management's roles in supporting them.

The Board Risk Reports, which are for the Board's information, outline the current controls, processes and Management oversight in place in managing the respective risk categories. The Chief Risk Officer (CRO) also provides an overall assessment and conclusion of each risk category in the Board Risk Reports.

Following the completion of the Financial Risk: Market Risk, Financial Risk: Liquidity Risk and Insurance Risk: Insurance Powers Risk policies and reports in 2010, we also completed the development of the following Board Risk Policies and Reports in 2011:

- Reputation Risk
- Operational Risk
- Strategic and Governance Risk
- Insurance Risk: Assessment and Monitoring Risk
- Insurance Risk: Intervention and Failure Resolution Risk

With the completion of these Board Risk Policies, the Corporation has completed the development of all key Board Risk Policies based on the Board-approved risk categories of the Corporation.

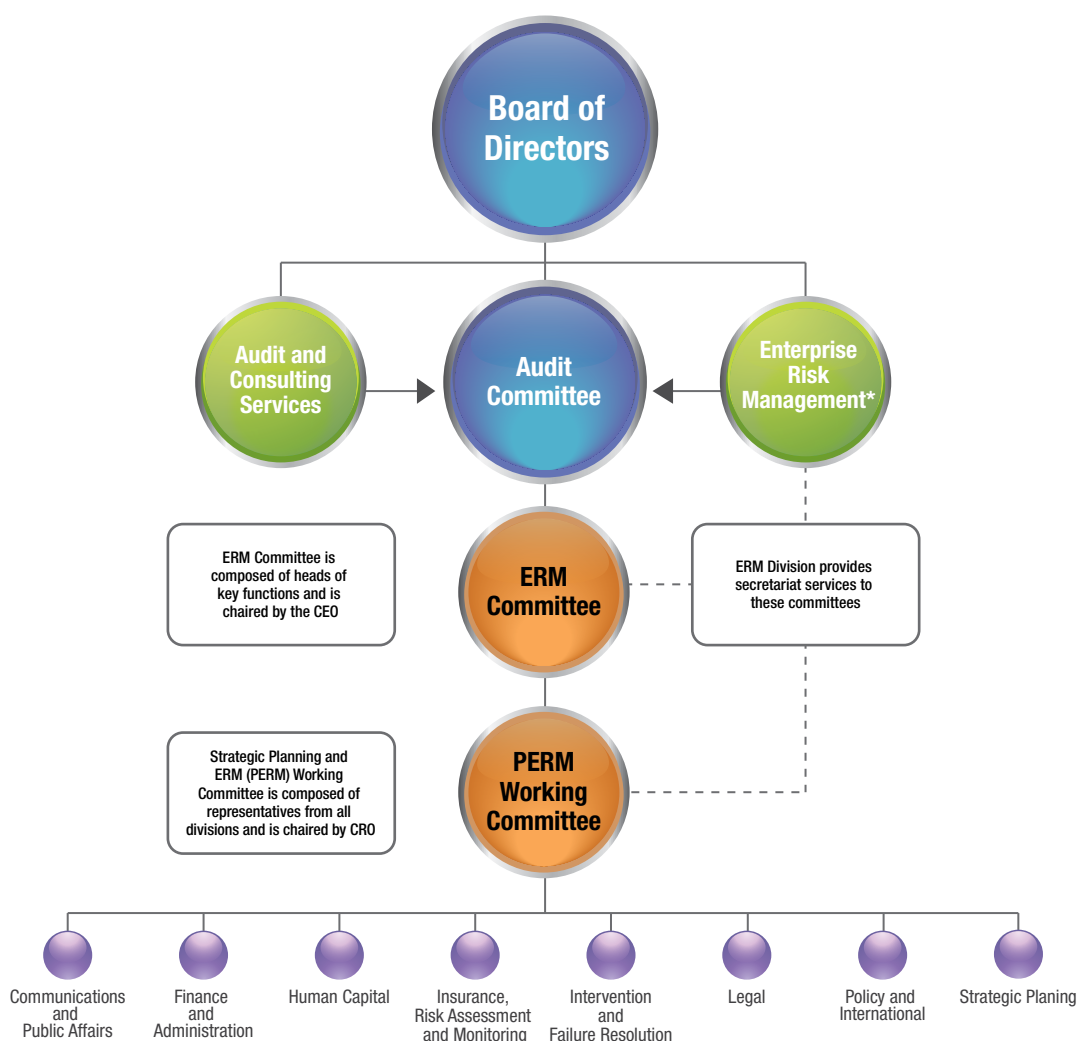
In addition to the Board Risk Policies and Reports, we have also begun the process of developing a Corporate-wide Board Risk Report which furnishes the Board via the AC, among others, an independent assessment of whether Management is meeting the expectations of the Board as set out in the Board Risk Policies, and the status of key initiatives to be taken to lower the residual risk for each of the risk categories or sub-risk categories.

Business Continuity Plan

The Corporation has reached another milestone in its Business Continuity Management programme. Since the development of a Business Continuity Plan for the Corporation in 2009, we have been enhancing the plan and testing it annually to ensure that PIDM can continue with its critical business functions in the event of a disaster.

In 2011, we completed the development of our Disaster Recovery Site (DRS) to enable us to continue with our critical operations should we have a disaster that damages our main office or causes it to be inaccessible. On completion of the DRS, we successfully tested our Business Continuity Plan from the site through a crisis simulation exercise. A total of 46 employees including Management and IT personnel actively participated in the crisis simulation exercise.

ERM OVERSIGHT STRUCTURE



* The CRO reports functionally to the Board via the AC and administratively to the Chief Executive Officer (CEO).

Our ERM Oversight Structure provides clear accountabilities and responsibilities for the risk management process. This ensures that the risk management activities remain appropriate and prudent, and that significant risks are managed and monitored continuously.

In 2011, the ERM Committee and the PERM Working Committee each met six and seven times respectively to discuss and decide on various risk-related matters.

The ERM Division also regularly updates the Board via the AC and seeks their directions on ERM matters throughout the year.

CORPORATE GOVERNANCE

MANAGING OUR RISKS

The following is a description of the responsibilities for risks within PIDM:

- (a) The Board is ultimately responsible for the oversight and management of PIDM's principal risks. The Board, through the AC, ensures that an appropriate and prudent risk management system is in place to manage the significant risks emanating from PIDM's business and affairs.
- (b) The AC is responsible for ensuring that sound policies, procedures and practices are implemented to manage PIDM's significant risks. The AC reviews and advises the Board on policies to manage PIDM's risk exposures. The AC is also responsible for the oversight of the work of the ERM Division and for the compensation, performance and oversight of the CRO. The AC ensures that the ERM Division has a sufficient amount and quality of resources to fulfil its roles.
- (c) The CRO reports directly to the Board via the AC, and administratively to the CEO. This relationship requires that the AC and the CRO have unrestricted and direct access to each other. The CRO regularly attends all Board meetings. The CRO, as the head of the ERM Division, is responsible for the implementation, development and maintenance of the ERM Policy and Procedures, and provides information to the AC on all ERM activities and outcomes of the ERM process. The ERM Division also provides assessments of PIDM's risk exposures and recommends to the AC, ways to improve the Corporation's risk management capabilities. The ERM Division also acts as the secretariat for both the ERM Committee and PERM Working Committee.
- (d) The ERM Committee, chaired by the CEO, is a senior management committee. It provides oversight and direction for the implementation and consistent application of the ERM system on a Corporate-wide basis. This committee champions risk management, as well as manages and monitors the risk exposures and ERM activities of PIDM at the corporate level. At each meeting, the ERM Committee considers whether there are any significant matters that require attention and if action plans are required to be implemented to manage such risks.
- (e) The PERM Working Committee supports the ERM Committee. It facilitates and coordinates ERM and strategic planning activities at an operational level. This includes updating the assessment and rating of existing risks, monitoring the progress against the mitigation

plans of the respective divisions and updating these plans. The PERM Working Committee comprises representatives from every division.

- (f) The Audit and Consulting Services (ACS) Division is responsible for performing independent assessments on and validation of the effectiveness and compliance of the ERM process, and for providing assurance to the Board via the AC that PIDM has an effective ERM process and that risk management policies are being adhered to.
- (g) PIDM employees are responsible for managing and reporting risks at source.

In summary, at PIDM, risk management is everyone's responsibility.

SIGNIFICANT RISKS AFFECTING PIDM

Our annual ERM risk assessment process involves the identification and assessment of the significant risks affecting the Corporation and the development of action plans and initiatives to address these risks.

The significant risk areas for 2011 were "Strategic and Governance Risk", "Insurance Risk", "Operational Risk" and "Reputation Risk". "Financial Risk" was assessed as "well managed" and no additional corporate initiatives were proposed to address this risk.

Management has initiated the following key risk action plans to address these significant risks.

Strategic and Governance Risk

The Corporation will continue to conduct an annual Business Continuity Plan simulation exercise to ensure the readiness of the Corporation to continue with its critical business functions at its DRS in the event of a disaster.

Insurance Risk

Operational readiness of the Corporation, in particular in relation to the Takaful and Insurance Benefits Protection System (TIPS), remains the key risk factor in the Insurance Risk category. In this regard, the Corporation has initiated the development of a Risk Assessment and Monitoring Methodology and System for TIPS, which includes the development of a Risk Assessment System, Differential Levy System framework and guidelines, Terms and Conditions of Membership Regulations, and Information Regulations.



We are also leveraging on our experience from our Intervention and Failure Resolution (IFR) project on the Deposit Insurance System (DIS) to incorporate any relevant applications for TIPS in its IFR policies, procedures and infrastructure, including the development of a claims management system for TIPS.

Furthermore, we are working on a compliance programme to mitigate the risk of non-compliance by member institutions with the Malaysia Deposit Insurance Corporation Act (MDIC Act) 2011 and related regulations.

Operational Risk

There is an ongoing process to implement the Competency model and Knowledge Management framework. This takes into consideration the need for talent management, and the need to achieve operational readiness.

We will also continue to enforce our Information Classification Policy and enhance our Corporate Information Management System, through policies and procedures to manage administration and operations and to mitigate information security risk.

Reputation Risk

We will continue with our efforts to strengthen public awareness about the Corporation, DIS and TIPS, to achieve our targeted public awareness indices, by implementing our Integrated Communications Plan 2012 - 2016.

CONCLUSION

In conclusion, 2011 marked another milestone for the Corporation and its ERM Division. We have taken another step forward in our progress in managing risks.

We plan to continue our efforts to maintain an effective ERM system by providing risk advisory services and work towards embedding a risk management culture at all levels.

For 2012, among other initiatives, we plan to complete the development of a Corporate-wide Board Risk Report and develop a Crisis Management Policy and Procedure for the Corporation.

CORPORATE GOVERNANCE

STATEMENT ON GOVERNANCE

INTRODUCTION

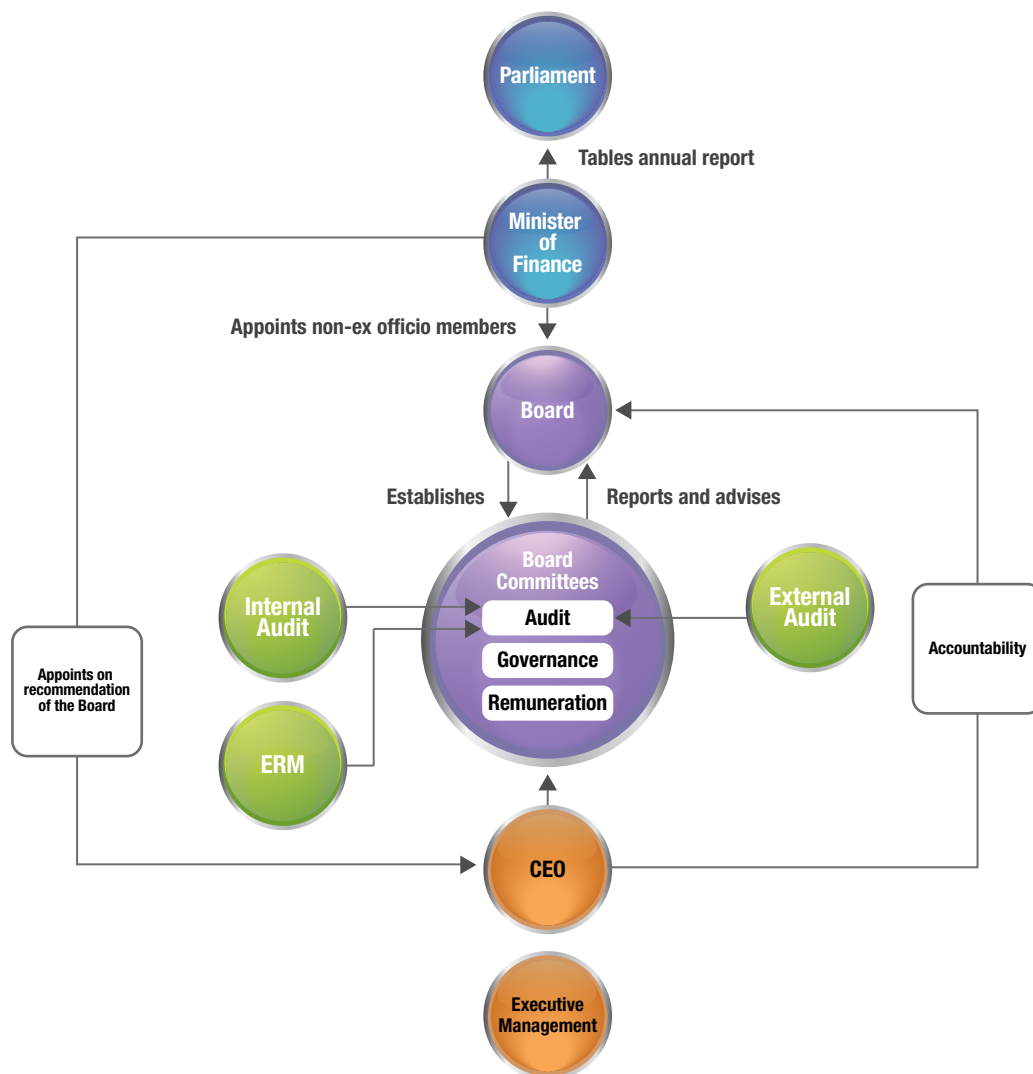
PIDM's Board Governance Policy was approved by the Board of Directors (Board) in 2006, and is reviewed annually. The Board Governance Policy sets out 15 standards, drawn from international and local best corporate governance principles and practices. The Board complies with the Board Governance Policy in all respects. Annually, it reports to its stakeholders against these standards.

The Corporation has, since the beginning, emphasised the importance of having an organisational climate that engenders the right behaviour and ethics among its employees. In 2011, to emphasise the role performed by the Board in this regard, the Board Governance Policy was amended to state that the Board would:

“... direct Management to develop adequate policies, strategies, processes and controls within the Corporation to maintain an organisational climate that fosters ethical behaviour, employee commitment to the operations of the Corporation and a high degree of employee satisfaction”.

Our Statement on Governance describes how PIDM has complied with the best practices set out in each standard of the Board Governance Policy.

OUR GOVERNANCE FRAMEWORK



OUR STATEMENT

As a statutory body, unlike listed entities, there is no requirement for PIDM to make a statement on compliance with any specific corporate governance codes in our Annual Reports. However, our Board is committed to accountability and transparency and believes that it is good corporate governance practice to provide such a statement. Whilst there is no “code” against which the Board can certify compliance, the Board Governance Policy sets the standards, which are derived from various best practices in the public sector in other jurisdictions¹ as well as from the Malaysian Code on Corporate Governance, where applicable.

For 2011, the Board is pleased to report its full compliance with the standards in the Board Governance Policy. Details are found in the section on “The Work of the Board”.

BOARD OF DIRECTORS

Composition, Appointment and Remuneration

In 2011, the Board comprised seven Directors with diverse skills and experience from the private and public sectors. Two of these Directors are ex officio, namely the Governor of Bank Negara Malaysia (BNM) and the Secretary General of the Treasury. All Directors are non-executive, so as to maintain the independence of the Board, and the Chief Executive Officer (CEO) is not a member of the Board.

The Minister of Finance appoints all the non-ex officio Directors, on the recommendation of the Board. Further to the recent MDIC Act, two of the Directors are “public sector” Directors to give a public sector perspective. The remaining non-ex officio Directors are from the private sector, at least one of whom must have relevant banking and financial sector experience. The Chairman must also have relevant private sector experience.

On 14 August 2011, the former Chairman of the Board, Tan Sri Dato’ Abdul Aziz bin Haji Taha, retired from the Board after serving as Chairman since August 2005. The Minister of Finance, on the recommendation of the Board, appointed Tan Sri Datuk Dr. Abdul Samad Haji Alias as the new Chairman with effect from 15 August 2011. The Minister (on the recommendation of the Board of Directors) also appointed Mr. Alex Foong Soo Hah as a private sector Director with insurance industry experience, with effect from 15 August 2011.

In 2011, prior to assuming his role as the new Chairman of the Board, and to ensure that he was able to meet the demands of his position, Tan Sri Datuk Dr. Abdul Samad Haji Alias retired from Board membership in five other entities including as Chairman of Bank Pembangunan Malaysia Berhad. He remains the Chairman of Malaysia

Venture Capital Management Bhd and Malaysia Debt Venture Bhd, and was recently appointed as an independent non-executive Director of Bursa Malaysia. His profile and the profiles of the other Directors of the Corporation are found on page 18 of this Annual Report.

In 2011, the Directors collectively received a total of RM468,757 as remuneration for Board and Committee work.

Board Responsibilities

The MDIC Act sets out the Board’s overall responsibility for the conduct of the business and affairs of PIDM, and the Directors’ duties of honesty, diligence, and duties to act in the best interest of the Corporation.

The roles and responsibilities of the Board are also set out in the Board Governance Policy and in their position descriptions. The new MDIC Act, the Board Governance Policy, and the related job descriptions are found on PIDM’s website, at www.pidm.gov.my under “How PIDM is Governed”.

Board Meeting Attendances

In 2011, there were four Board meetings. The attendance record is as follows:

| BOARD OF DIRECTORS | ATTENDANCE |
|---|------------|
| Tan Sri Dato’ Abdul Aziz bin Haji Taha, Chairman* (Retired on 14 August 2011) | 2/2 |
| Tan Sri Dato’ Sri Dr. Zeti Akhtar Aziz (ex officio) | 2/4 |
| Tan Sri Dato’ Sri Dr. Wan Abdul Aziz Wan Abdullah (ex officio) | 3/4 |
| Tan Sri Datuk Dr. Abdul Samad Haji Alias (Appointed as Chairman on 15 August 2011) | 4/4 |
| Mr. George Anthony David Dass | 4/4 |
| Dato’ Halipah Esa | 4/4 |
| Mr. Lim Tian Huat | 4/4 |
| Mr. Alex Foong Soo Hah** (Appointed on 15 August 2011) | 2/2 |

* Up to the date of his retirement

** From the date of his appointment

¹ These references can be found in the Board Governance Policy itself

CORPORATE GOVERNANCE

STATEMENT ON GOVERNANCE

THE WORK OF THE BOARD

The following sections describe how the Board has complied with all the standards of the Board Governance Policy.

Early Years 2006 - 2009

The Board began to establish its corporate governance arrangements in 2006, and has worked since then to achieve full compliance with the Board Governance Policy. By 2008, the Board was able to report full compliance with the Policy.

Overview of Board Work in 2011

Since 2009, at the beginning of each year, the Board would identify certain specific areas of focus for the year in question, and would work towards fulfilling that objective.

In 2011, among others, the Board's objective was to implement measures to fulfil the expanded mandate of the Corporation pursuant to the MDIC Act to include TIPS, and to ensure focus on the most critical matters for the Corporation at a strategic level. This was in anticipation of the Corporation's business and affairs becoming increasingly complex.

To achieve this goal, the Board adopted the following key action plans to ensure that the Board was effective in fulfilling its roles and responsibilities:

- (a) to implement the approved Board Succession Plan and to conduct Board recruitment as an ongoing activity;
- (b) to ensure effective use of Board and Committee time, Directors could request for face-to-face sessions with Directors or with Management before the Board or Audit Committee meetings. This was to identify key issues for discussion, as well as to clarify matters for the newer Directors, thereby allowing for more focused and efficient meetings; and

- (c) to keep in mind a list of strategic matters focused on risk assessment and monitoring of member institutions; the state of readiness of the Corporation for any intervention and failure resolution; the Target Fund; and to implement appropriate Board and employee training programmes on the insurance industry. A list of these items is included in each Board folder by way of reminder to Members of the Board.

The Board implemented its key action plans and focused on all key strategic and policy matters. A Strategic Planning session was held in September 2011².

² 29 September 2011

The following table details the progress of the Board in regard to each of the standards in the Board Governance Policy.

| DESCRIPTION OF STANDARD | REPORT ON COMPLIANCE IN 2011 |
|---|---|
| Standard 1: Independence of the Board | |
| Board members will exercise independent judgment. | The MDIC Act separates the roles of the Chairman and the CEO so as to ensure independence. The CEO is not a member of the Board. As provided under the MDIC Act, all Directors are non-executive and must use their independent judgment to act in the best interests of PIDM. |
| Standard 2: Board effectiveness and governance responsibilities | |
| <p>The Board will obtain and maintain an understanding of the Corporation's objects and powers, as well as of its governance responsibilities.</p> <p>To achieve this, the Board will:</p> <p>(i) develop and maintain approaches to fulfilling those responsibilities and will evaluate objectively, on a regular basis, its effectiveness in doing so; and</p> <p>(ii) ensure that the Corporation has arrangements for the orientation of new directors and ongoing training appropriate to the Board's governance responsibilities and needs.</p> | <p>During the year, Board members attended four Board Education Sessions on various subjects as follows:</p> <p>(a) the insurance and takaful industries in Malaysia;</p> <p>(b) economic conditions for strategic planning purposes;</p> <p>(c) the qualitative risk assessment of member banks; and</p> <p>(d) the approach to Intervention and Failure Resolution and the Board's role.</p> <p>(i) Process for evaluating its effectiveness. In line with best practices, the Board and the respective Committees evaluate their effectiveness each year, collectively and individually. The questionnaires, which were updated in 2010 to focus on the behavioural aspects of the Board's and Committee's effectiveness, were also used in 2011 and the results of the assessments have been reported to the Governance Committee and the Board.</p> <p>In 2011, the Board also reviewed the Board and Committee evaluation approach. It was decided that, in 2012, the Board would dedicate an entire Board session in the middle of the year to discuss any possible areas for improvement. This would focus on areas for improvement by the Board, its Committees, as well as on the quality and the manner in which Management provides information to the Board. This session is scheduled for July 2012 and the discussions will be led by the Chairman of the Board.</p> <p>(ii) Orientation. In 2011, the Board-approved Orientation Programme was implemented in respect of our new Director. The key objective of the Orientation Programme is to ensure that new Directors can be brought quickly up to speed on the work of the Corporation, so that the Board can better benefit from his or her input. As part of the programme, new Directors will receive material information regarding the Corporation early on including a Directors' Guide³. New Directors will receive a comprehensive Directors' Handbook containing all key material and key contacts, meet with the existing Board Members, and receive briefings from senior management in each of the key areas of work, before they attend a Board meeting.</p> <p>(iii) Education sessions. As in previous years, the Board agreed on the education sessions that it would participate in at the beginning of the year. In 2011, Board members continued to participate in education sessions, as reported above. Certain Members also participated in the Financial Institutions Directors' Education (FIDE) Programme, and attended the elective programmes organised by FIDE⁴.</p> <p>(iv) Tripartite meeting with deposit insurers in the region. The tradition of holding tripartite meetings between PIDM and deposit insurers from Indonesia and Thailand for further cooperation and knowledge sharing continues.</p> |

³ A copy of the Directors' Guide is found on www.pidm.gov.my under the section on "How PIDM is Governed"

⁴ Established in 2008, the FIDE programme is a joint initiative of PIDM and BNM that focuses on enhancing corporate governance practices in financial institutions in Malaysia

CORPORATE GOVERNANCE

STATEMENT ON GOVERNANCE

| DESCRIPTION OF STANDARD | REPORT ON COMPLIANCE IN 2011 |
|--|--|
| Standard 3: Roles and responsibilities of Committees | |
| Where the Board appoints a committee, it will establish the responsibilities and authority of Board Committees, as well as accountability requirements for them. | <p>The responsibilities, authority and accountability requirements of Board Committees are detailed in the respective charters.</p> <p>All the respective Board Committees' charters are reviewed annually to ensure currency and relevance. In 2011, changes were made to the Remuneration Committee (RC) Charter, the Governance Committee (GC) Charter and the Audit Committee (AC) Charter respectively as reported on pages 189 to 198.</p> <p>Each Committee assesses whether it is fulfilling its key responsibilities at each meeting, as well as related action plans.</p> |
| Standard 4: Board composition and succession | |
| <p>The Board constitution should maintain independence, and there should be an appropriate mix of skills and capabilities, given the objectives and strategic direction of the Corporation.</p> <p>To achieve this, the Board will, in consultation with the CEO:</p> <ul style="list-style-type: none"> (i) develop a profile of desirable skills and capabilities that would best enable the Board to fulfil its responsibilities and advise the Minister of Finance on the desired mix that should be sought in filling upcoming non-ex officio Board vacancies; and (ii) have a Board succession plan to recommend to the Minister of Finance the orderly turnover of directors. | <p>Background. In 2007, the Board established a Board succession plan, which comprises a Policy on Tenure, Retirement and Succession, and a process to develop a Board profile and an individual Board Member's profile so as to assess the appropriate mix of skills and expertise available on the Board. This plan was communicated to and noted by the Minister of Finance as part of the Board's recommendation on the appointment of Directors.</p> <ul style="list-style-type: none"> (i) Board profiles. The process for developing Board profiles (collective and individual) was established in November 2006. The profiles were developed and have been reviewed on an annual basis, considering the current needs, the stage of development, and aspirations of the Corporation. The profiles then form the basis for determining the skills and experience that should be sought in fulfilling upcoming Board vacancies, and are considered in developing a list of suitable candidates. (ii) Skills gap analysis. As for previous years, in 2011 the Board carried out its yearly skills gap analysis, comparing the skills, knowledge and experience available on the Board with the desired profiles. This was to determine if there were any skills, knowledge and experience needed on the Board that was not currently available. <p>Board succession planning and implementation was a specific action plan for the Board in 2011. The Board identified several areas, namely:</p> <ul style="list-style-type: none"> • to address the Corporation's needs arising from its expanded mandate for TIPS; • to ensure a smooth transition in Board leadership as Tan Sri Dato' Abdul Aziz bin Haji Taha retired as Chairman in August 2011; and • to regard Board succession planning with a long-term horizon and as an ongoing activity for the Board, as this is critical to ensure the continued effectiveness of PIDM and its ability to fulfil its mandate. <p>Additional skills. In 2011, specific insurance industry expertise on the Board was needed as a result of the expansion of the Corporation's mandate to include TIPS. As a result, and on the recommendation of the Board, the Minister of Finance appointed Mr. Alex Foong Soo Hah as a Director on 15 August 2011.</p> |

| DESCRIPTION OF STANDARD | REPORT ON COMPLIANCE IN 2011 |
|--|---|
| Standard 4: Board composition and succession | |
| | <p>Leadership transition. In 2011, with the expansion of PIDM's mandate this year to cover TIPS, the Board considered it necessary to ensure stability and continuity on the Board. The Board therefore made recommendations to the Minister of Finance to appoint Tan Sri Datuk Dr. Abdul Samad Haji Alias as the Chairman effective 15 August 2011. His appointment ensured a smooth transition in Board leadership.</p> <p>Additional Directors. Further to the MDIC Act of 2011, the maximum number of Directors increased from seven to nine. The Board made recommendations to the Minister of Finance for candidates to fill these two new positions, and these were filled with effect from 1 January 2012.</p> <p>Reappointment of Mr. George Anthony David Dass. To ensure continuity and staggering of retirements, the Board also recommended, and the Minister of Finance reappointed Mr. David Dass on the Board with effect from 3 February 2012 until 2 February 2014.</p> <p>The Board is pleased to note that Board succession planning for 2011 is complete, but will continue to consider Board succession plans as an ongoing activity.</p> |
| Standard 5: Roles and responsibilities of the Chief Executive Officer | |
| <p>The responsibilities and accountability of the Chairman and the CEO should be clearly distinguished and documented.</p> <p>In this connection, the Board will:</p> <p>(i) develop a position description for the CEO;</p> <p>(ii) develop a set of corporate objectives at least annually for which the CEO is responsible for achieving, and evaluate the performance of the CEO against those objectives; and</p> <p>(iii) establish an accountability relationship for the CEO to the Board.</p> | <p>The responsibilities and accountability of the Chairman and the CEO have been distinguished and documented with clarity in the position descriptions for both roles.</p> <p>In this connection:</p> <p>(i) The position description for the CEO has been reviewed annually since the establishment of PIDM. No significant amendments were made following the review in 2011.</p> <p>(ii) The Key Performance Indicators (KPIs) for the CEO are determined annually based on the corporate objectives of PIDM. His performance against those KPIs is tracked and considered by the Board, with the assistance of the RC, at the end of the year. This was carried out for 2011 as usual.</p> <p>(iii) Under the MDIC Act, the CEO is held accountable to the Board for the exercise of his powers and the performance of his duties. The CEO's job description also describes that accountability relationship.</p> |
| Standard 6: Appointment of senior corporate officers | |
| <p>The Board will appoint the senior corporate officers of the Corporation (other than the CEO) and determine their terms of office and compensation.</p> | <p>Corporate officers are appointed by the Board and their terms of service and compensation are determined by the Board.</p> |
| Standard 7: Compensation of officers | |
| <p>The Board will satisfy itself, on a regular basis, that the compensation of PIDM's officers and employees is consistent with the sustainable achievement of the Corporation's objects, the prudent management of its affairs and the risks to which it is exposed and adherence to its policies and procedures.</p> <p>The Board will review the compensation programme for all directors, and make recommendations to the Minister of Finance in that regard.</p> | <p>The RC has the responsibility to report and make recommendations to the Board on compensation matters. The employee compensation and benefits policy and the performance management policy have been approved by the Board. The policies are in line with our business model, which requires a specialised team of people with the ability to achieve our mandate and leverage on key strategic partners and suppliers when needed. The Board benchmarks regularly against the market to ensure PIDM's compensation remains competitive.</p> <p>As stated in the MDIC Act, the Minister of Finance determines the Board's remuneration, on recommendation of the Board. Each Board member is paid an annual fee, and allowances are also paid for each of the meetings attended. The Board reviewed the compensation programme in 2010 and made recommendations to the Minister of Finance, which were approved in 2011.</p> |

CORPORATE GOVERNANCE

STATEMENT ON GOVERNANCE

| DESCRIPTION OF STANDARD | REPORT ON COMPLIANCE IN 2011 |
|--|---|
| Standard 8: Succession planning | |
| The Board will plan for the succession of the CEO and review succession plans for key senior management. | In 2011, the Board considered the reports on succession plans and coverage for key senior management positions and satisfied itself that appropriate plans were in place. Implementation of the plan is considered on an ongoing basis. |
| Standard 9: Standards of behaviour and ethics | |
| <p>The Board will establish standards of conduct and ethical behaviour for Directors and for the Corporation's officers and other employees, and obtain, on a regular basis, reasonable assurance that the Corporation has an ongoing, appropriate and effective process for ensuring adherence to those standards.</p> <p>The Board is also to direct Management to develop adequate policies, strategies, processes and controls with the Corporation to maintain an organisational climate that fosters ethical behaviour, employee commitment to the operations of the Corporation and a high degree of employee satisfaction.</p> | <p>The Board has established standards of behaviour and ethics expected of Directors and employees through the Code of Business Conduct and Ethics, as well as the Conflict of Interest Code, which are available on PIDM's website, at www.pidm.gov.my under "How PIDM is Governed". Management reports to the Board on compliance with these Codes annually.</p> <p>All employees undergo training on the Codes and must declare compliance annually. Under the Policy for Disclosure of Information Concerning Wrongdoing in the Workplace (the Whistleblowing Policy), there is also a mechanism to allow employees and other stakeholders to make reports of wrongdoing in the workplace. These codes and policies are reviewed annually to ensure that they remain in line with best practices and that they are current and relevant.</p> <p>The Whistleblowing Policy was recently reviewed and updated to take into consideration the provisions of the Whistleblower Protection Act 2010 and related Guidelines. The key amendment was to make sure that individuals can make reports on relevant offences against the MDIC Act as well as about breaches of PIDM's Codes, and that these were not limited to wrongdoings in the workplace.</p> <p>There is also a Board-approved formal compliance programme, which can be found on PIDM's website www.pidm.gov.my in the section under "How PIDM is Governed". This compliance programme has also included the establishment of a Corporate Compliance Committee, with the objective of ensuring the fulfilment of oversight responsibilities in relation to PIDM's compliance with laws, regulations, industry codes, policies and procedures, contractual obligations and organisational standards that are applicable to the Corporation. Reports on compliance are made annually to the Board (through the RC and the AC) on adherence to these standards, and the General Counsel also provides an assurance on compliance through a formal letter of representation to the CEO.</p> <p>There is a Board-approved Policy on Engagement of Separate Independent Legal and Other Counsel, which allows the Board and Committees to appoint independent advisors to assist them to fulfil their responsibilities.</p> <p>Accordingly, the Board has a high degree of assurance that a compliance system is in place and is being adhered to.</p> <p>Through the RC, the Board receives reports on the progress against the Corporation's Human Capital strategy plan. In 2011, an Employee Voice Survey was conducted by external consultants, to gauge employee satisfaction with their work environment as well as senior management. The results of the survey show an employee engagement score of 90% which is above the benchmarks of both the Malaysia national norm and the global high-performing companies' norm.</p> |

| DESCRIPTION OF STANDARD | REPORT ON COMPLIANCE IN 2011 |
|---|---|
| Standard 10: Significant risks to the Corporation | |
| <p>The Board will:</p> <p>(i) obtain an understanding of the principal risks of the Corporation's business;</p> <p>(ii) ensure that appropriate and prudent risk management systems to manage these risks have been implemented and are reviewed regularly; and</p> <p>(iii) obtain reasonable assurance, on a regular basis, that systems are being adhered to and the risks affecting the Corporation continue to be effectively managed.</p> | <p>(i) In 2011, the Board ensured that an appropriate and prudent risk management system was implemented. Amongst others, and in line with its commitment to the ERM Policy Statement, the Board:</p> <ul style="list-style-type: none"> • monitored compliance with the ERM programme to ensure consistent application of risk management practices in identifying, assessing, evaluating, monitoring and reporting risks throughout PIDM; • monitored Management's undertaking of another complete cycle of the ERM process, and received regular risk reports that identify controls and risk action plans to mitigate the risks identified; • considered and agreed to the key significant risk profiles; • approved the Board Risk Policies; and • received a detailed report on each policy. <p>The CRO functionally reports to the Board through the AC, so as to ensure independence from Management.</p> <p>(ii) During 2011, the Board-approved specific risk policies as described in the article on "Managing Our Risks" on page 39.</p> <p>(iii) The Board obtains an understanding of the principal risks to PIDM by receiving and reviewing regular reports on the soundness of member institutions. The Board also receives and reviews regular reports from Management and the ERM Division on risks to its business and affairs, to gain an understanding of the nature and magnitude of significant risks to PIDM.</p> <p>(iv) The Board also receives regular reports from the ACS Division on compliance with internal controls and certain key areas of audit. The Chief Internal Auditor (CIA) also validates ERM reports, through audits on compliance with internal controls. This enables the Board to have reasonable assurance that risk management policies are being adhered to. The CRO annually provides a formal representation letter to the CEO and the Board. Accordingly, the Board has a degree of assurance that ERM systems are in place and are being adhered to.</p> |

CORPORATE GOVERNANCE

STATEMENT ON GOVERNANCE

| DESCRIPTION OF STANDARD | REPORT ON COMPLIANCE IN 2011 |
|--|---|
| Standard 11: Control environment and internal audit | |
| <p>The Board will ensure that the Corporation has a control environment that supports the prudent management of its operations and of the risks to which it is exposed (including risks to the attainment of its objects) and has effective policies and practices to ensure the integrity of internal controls and management information systems.</p> <p>In this connection, the Board will:</p> <ul style="list-style-type: none"> (i) allocate resources for, and establish an internal audit group, setting out its mandate; (ii) approve its audit plan each year; and (iii) seek from the internal audit group, on a regular basis, reasonable assurance regarding the monitoring of, and the compliance with internal controls, the integrity of the system, and that appropriate action is being taken to address any significant weaknesses or breakdowns identified. | <p>The Board accepts overall responsibility for PIDM's system of internal control and risk management and obtains assurance from Management, the CRO and the CIA respectively.</p> <p>In this connection:</p> <ul style="list-style-type: none"> (i) The Board has established an internal audit function, approved its charter, and provides adequate resources to ensure that it can fulfil its roles and responsibilities. The charter is reviewed annually. (ii) The Board has put in place a process to approve rolling three-year audit plans each year. In 2011, the Board approved the plan for 2012 to 2014. Performance in accordance with the audit plan is reported and reviewed on a semi-annual basis. (iii) The Corporation's internal control framework was completed in February 2007. In January 2011, the Board considered the internal audit's report on its assessment of Management's compliance with internal controls using agreed criteria. The CIA provides reasonable assurance on the compliance with internal controls and the integrity of the internal control system through the filing of a formal letter of representation to the CEO, the AC and the Board. (See the Statement of Internal Control on page 61). |
| Standard 12: In control | |
| <p>The Board will obtain, on a regular basis, reasonable assurance that the Corporation is "in control".</p> <p>(Note: The concept of being "in control" refers to a state where the Corporation's operations are subject to effective governance by the Board and are being managed in accordance with an ongoing strategic and risk management process in an appropriate control environment and where significant weaknesses related to those matters will be identified, addressed and brought forward to the Board's attention.)</p> | <p>In 2011, the Board obtained, in line with the criteria set out in the framework, reasonable assurance that PIDM's business and affairs are being managed effectively in accordance with the strategic and risk management processes in place within an appropriate control environment. See the Statement on Internal Control on page 61 below, and the article on "Managing Our Risks" on page 39.</p> <p>In particular, in 2011, PIDM commissioned a qualitative assessment review of the ACS Division on the efficiency and effectiveness of the functions of the ACS Division and ACS's conformance to the International Standards for Professional Practice of Internal Auditing (IIA Standards), which were promulgated by the Institute of Internal Auditors Inc. (IIA). The Board received an opinion from an independent external assessor on the entire spectrum of the audit and consulting functions and work of the ACS Division. The Board through the AC took note that the ACS Division was assessed to be in "general conformity" with the IIA Standards and was performing effectively and efficiently. This is discussed further in the Statement on Internal Control, on page 61.</p> |

| DESCRIPTION OF STANDARD | REPORT ON COMPLIANCE IN 2011 |
|--|---|
| Standard 13: Strategic management process | |
| <p>The Board is responsible for reviewing and overseeing the development of and approving a strategic plan and direction for the Corporation, taking into account the opportunities and risks facing the Corporation.</p> <p>To fulfil this responsibility, the Board will:</p> <ul style="list-style-type: none"> (i) periodically assess the Corporation's objects to ensure their continuing relevance and, if thought appropriate, propose changes for consideration by the Minister of Finance; (ii) adopt a strategic planning process; (iii) at least annually, approve operating objectives and strategies, the operating budget, capital budget, borrowing plan, corporate plan and premium rates that are appropriate and prudent in light of the Corporation's objects, current and anticipated environment, risks, resources and financial position; (iv) regularly evaluate the Corporation's performance in implementing its approved plans and budgets; and (v) obtain, on a regular basis, reasonable assurance that the Corporation has an effective strategic management process. | <p>Each year, a Strategic Planning session is scheduled to consider the strategic direction of PIDM. In September 2011, the Board met to consider and approve the strategic direction of the Corporation and its objectives, goals and key activities for the corporate planning period 2012 - 2014. A "risks and opportunities analysis" was also carried out. The Board thereafter approved the Corporate Plan for 2012 - 2014 at its December 2011 meeting.</p> <p>The Board annually assesses PIDM's objects to ensure its continued relevance. The MDIC Act is continuously being reviewed. If thought appropriate, recommendations for amendments will be proposed to the Minister of Finance.</p> <p>A strategic planning process has been adopted by PIDM since its inception.</p> <p>Annually, the Board approves a three-year rolling Corporate Plan in line with this standard, and the Corporate Plan is published and distributed to key stakeholders as part of PIDM's transparency and accountability regime.</p> <p>Regular reports on progress against the Corporate Plan are provided to Board Members, and these reports are considered in detail by the AC.</p> <p>The Board has direct oversight of the strategic management process through its involvement in the annual strategic planning session at various stages including those described earlier. Additional assurance is obtained via the participation of the ERM and ACS Divisions in the annual strategic planning sessions and Management's strategic planning workshops, thereby facilitating the effective integration of the ERM process with the strategic and audit planning processes. Internally generated information that is critical to PIDM's corporate objectives, such as the quarterly financial statements and the quarterly update on the Corporate Plan, is regularly reported to the Executive Management Committee of PIDM of which both the CRO and CIA are members.</p> |

CORPORATE GOVERNANCE

STATEMENT ON GOVERNANCE

| DESCRIPTION OF STANDARD | REPORT ON COMPLIANCE IN 2011 |
|---|--|
| Standard 14: Effective communication | |
| <p>The Board will ensure that the Corporation communicates effectively with the public, BNM, other statutory bodies or regulators, depositors, member institutions and other relevant parties.</p> | <p>The Board continues to engage with various stakeholders through various means and the Corporate Plan incorporates the management of relationships with stakeholders as a key performance indicator.</p> <p>Each year, PIDM's Corporate Plans and Annual Reports are distributed to key stakeholders. In conjunction with the release of our Annual Report, an annual dialogue session is held with our stakeholders. Ongoing meetings and discussions are held between PIDM and BNM officers relating to regulatory and supervisory issues. There is a comprehensive multi-year public awareness programme to educate the public on the benefits and limitations of the deposit insurance system. Information brochures are distributed and made available in all member banks. We hold ongoing consultations with key stakeholders on the development of key regulations, rules and guidelines issued by PIDM. PIDM is also an active participant in the International Association of Deposit Insurers (IADI).</p> <p>Specific briefings were provided to the insurance industry players as well as the banking industry on the enactment of the new MDIC Act, copies of which were provided to each CEO and Board member of the member institutions.</p> <p>In 2011, the annual dialogue with stakeholders was held on 12 May. The Board also continued to monitor public communications efforts by Management in 2011. Board members themselves participate in the Corporate Outreach programme that is organised in one state outside the Federal Territory each year and meet with Government officials and other community and business leaders. In 2011, the Corporate Outreach was held in Johor Bahru.</p> |
| Standard 15: Review of Board Governance Policy | |
| <p>The Board will annually review the Board Governance Policy to ensure that it remains responsive to the circumstances and needs of the Corporation and that it continues to reflect the legislation to which the Corporation is subject, the Corporation's mandate, guidance on matters of governance specific to statutory bodies and recognised best practices.</p> | <p>In its review of the Board Governance Policy in May 2011, the Board found that the policy was current and relevant to the needs and circumstances of PIDM and in line with corporate governance developments.</p> <p>As noted earlier, Standard No. 9 was in 2011 amended to reflect the Board's role to "... direct Management to develop adequate policies, strategies, processes and controls within the Corporation to maintain an organisational climate that fosters ethical behaviour, employee commitment to the operations of the Corporation and a high degree of employee satisfaction".</p> <p>The Board also considered the more notable current corporate governance developments and their relevance in the context of the Corporation's governance approach and practices, in particular the renewed focus in the UK Financial Reporting Council (FRC)'s Guidance published in March 2011, on (a) behaviour, (b) the Board's decision-making processes, as well as (c) diversity on the Board, and was of the view that the Corporation's Board practices were aligned with the guidance recommendations. No changes to the current corporate governance approach were therefore made.</p> |

Reliability of information

To ensure that the Board can rely on information provided by Management, the Board receives comprehensive representation letters from Management that address the accuracy and reliability of information provided to the Board. The Board obtains a validation from the CIA, on an annual basis, as a basis for reliance. The Board also expects Management to provide comprehensive Board reports detailing the purpose of the report and the issues to be considered and expects Management to provide quality assessment, analyses and sound recommendations. At the end of each year, the Board evaluates the support from Management in terms of the information provided to the Board, and gives Management detailed feedback and an overall rating. If needed, the Board can question Management and conduct detailed enquiries about any matter relating to the Corporation. The CRO does not only report directly to the Board through the AC, but the Board may ask the CRO to confirm whether the CRO has different views and opinions on significant matters brought forward to the Board, and questions the CRO on the key risks relative to the issue and the CRO's views on the reliability of the information provided. The CRO is expected to attend all scheduled Board meetings. In conclusion, the Board is satisfied with the quality of information provided to the Board and its ability to obtain reliable information from Management in a timely manner.

COMMITTEES

The Board has established three Board Committees, namely the Governance Committee, the Audit Committee, and the Remuneration Committee. Their Charters are found in the Appendix of the Annual Report.

Audit Committee (AC)

Members and Meeting Attendances

In 2011, the AC held six meetings, including a Special AC meeting. Attendances of AC members at meetings were:

| AUDIT COMMITTEE | MEETING ATTENDANCES |
|---|---------------------|
| Tan Sri Datuk Dr. Abdul Samad Haji Alias (<i>Chairman</i>) (<i>Retired as Chairman on 14 August 2011</i>)* | 4/4 |
| Mr. Lim Tian Huat (<i>Vice-Chairman</i>) (<i>Appointed as Chairman on 15 August 2011</i>) | 6/6 |
| Mr. George Anthony David Dass | 5/6 |
| Dato' Halipah Esa | 6/6 |
| Mr. Alex Foong Soo Hah** (<i>Appointed as Member on 4 October 2011</i>) | 1/1 |

* Up to the date of his retirement

** From the date of his appointment

The Board has also appointed one additional member on the AC. With the retirement of Tan Sri Dato' Abdul Aziz bin Haji Taha as Chairman of the Corporation, Tan Sri Datuk Dr. Abdul Samad Haji Alias was appointed as his successor. By virtue of his office as Chairman of the Board, the latter then became the Chairman of the GC and vacated the position of Chairman of the AC on 15 August 2011.

Mr. Lim Tian Huat, who had been appointed by the Board as Vice-Chairman of the AC in 2010, became its Chairman on 15 August 2011. Mr. Alex Foong Soo Hah, the newly appointed private sector Director, was appointed as a Member of the AC on 4 October 2011.

Audit Committee Charter

The AC Charter was amended in 2011 as follows:

- by incorporating a new paragraph 4.7(h), which states that the AC shall review with Management and advise the Board on whether a sound and effective approach has been followed in establishing the Corporation's business continuity planning arrangements, including whether disaster recovery plans have been tested periodically;
- by amending paragraph 4.6 to state that the appointment of the CIA must be approved by the Board;
- by amending paragraph 4.7 to state that the appointment of the CRO must be approved by the Board;
- by stating that any proposed amendments to the AC Charter will also be considered by the GC, together with the other Board Committee Charters, and that further changes may be recommended by the GC to the Board;
- by amending the definition of "financial expertise", which is a prerequisite for the position of the Chair or the Vice-Chair, so that the Chair and Vice-Chair must have professional accounting qualifications and extensive experience in auditing; and
- by stating that the appointment of the Vice-Chair be made non-mandatory, and that the Board may appoint a Vice-Chair if it considers such a position appropriate.

The AC Charter requires that meetings be held at least four times a year. The Committee must satisfy itself that the financial statements follow approved accounting principles and give an accurate account of PIDM's financial affairs in as comprehensible a way as possible. It must also satisfy itself that the internal and external auditors have no cause for concern about any aspect of the accounts or of PIDM's control and audit procedures. It also advises the Board on other financial reporting, accounting and internal control issues as well as financial management, and reviews and recommends the annual Corporate Plan for Board approval. The AC also plays a significant risk oversight function and its role in this regard is well documented within the ERM Framework and Guidelines.

CORPORATE GOVERNANCE

STATEMENT ON GOVERNANCE

Summary of Activities of the Audit Committee

The following is a summarised report of the AC's key areas of work in 2011:

Internal audit: In 2011, the AC considered four internal audit reports issued by the ACS Division. These included the audits carried out on:

- (a) the Corporation's financial reporting and disclosures for the financial year ended 31 December 2010;
- (b) the Corporation's procurement and supplier management processes;
- (c) the management and quality assurance processes relating to the development and implementation of the Corporation's policies and procedures; and
- (d) the effectiveness of the Corporation's physical security system, practices, policies, procedures and the Corporation's compliance with the requirements on safety, health and security.

The AC reviewed the internal audit charter, the internal audit function's three-year audit plan, budgets, and considered resource needs for the ACS Division. It monitored the internal audit function's performance against its audit plans on a semi-annual basis, and ensured the independence of the internal audit function.

Matters of concern: The AC has unfettered access to the external auditor and Management, as well as to external independent counsel pursuant to the Policy on Engagement of Separate Legal and Other Counsel. In 2011, it held two in camera sessions with different members of Management, the CRO and CIA, and with external auditors as part of good governance practices. These sessions also provide opportunities to discuss any areas of concern related to the annual audit.

Its direct reports: The CIA and the CRO report directly to the Board through the AC. In 2011, the AC continued to review reports on their performance of their respective functions.

Financial reporting: The AC obtained an understanding of the financial reports and monitored financial information for accuracy, reliability as well as clarity. It also considered the information provided in the Annual Report and the Corporate Plan. As stated in the MDIC Act, PIDM's Annual Report (including its financial statements and the external auditors' report), must be provided to the Minister of Finance three months after the year end (31 December).

Financial reporting processes, accounting policies and internal control structure: The Audit Committee considered:

- accounting policies and significant changes in the accounting policy for 2011;
- reviewed and advised the Board with respect to the annual financial statements, management discussion and analysis, the external audit report and the review of the integrity of the financial reporting process and internal control reports as well as Management representations;
- obtained a written certification from the CIA addressing the organisation's system of internal controls; and
- recommended the target fund levels as well as the making of the appropriate disclosures on the Target Fund in the Annual Report for 2011.

In particular, in 2011, to achieve the recommendations of "Core Principles for Effective Deposit Insurance Systems" by the Basel Committee on Banking Supervision and IADI, the AC focused on ensuring that the Corporation establishes an effective framework to build and manage internal funds. The AC reviewed and recommended to the Board, the levels of internal funds that would be sufficient to meet its objectives and fulfil its mandate (Target Fund) as well as time needed to achieve the level. An article on the Target Fund is found on page 159.

Strategic and financial management oversight:

In 2011, the AC fulfilled its responsibilities with regard to financial management oversight, including oversight of annual budgets and investments. The AC received regular reports on progress against the Corporate Plan 2011 - 2013 and considered and recommended the Corporate Plan 2012 - 2014 including the annual operating budget and capital plan.

Risk management: In relation to risk management, the AC provided advice and support to the Board in respect of the matters reported against Standards No. 10 to 12 of the Board Governance Policy, as discussed on page 51 of the Annual Report. The AC also carried out an internal risk assessment review in 2011 pursuant to the Corporation's internal control framework, founded on the internationally recognised Committee of Sponsoring Organisations of the Treadway Commission (COSO) framework. Based on the results of the assessment, it is the view of the AC that sound internal controls within the Corporation have been established through strong leadership, shared corporate values and culture and a conducive corporate environment that emphasises accountability for control and risk management.

In carrying out its duties, the AC has unrestricted and direct access to the CRO, who regularly reports on the activities of the ERM Division and the corporate risks to the AC and the Board.

Ethical and legal compliance: The AC reviewed the report on compliance with the applicable laws and regulations, as well as the key codes and policies. There were no incidents of non-compliance noted. The AC also noted the report on activities in relation to PIDM's compliance programme.

Review of Charter: In October 2011, certain amendments to the AC Charter were made as set out on page 194. The next annual review of the Charter will take place in 2012.

Remuneration Committee (RC)

Members and Meeting Attendances

The RC held two regular meetings in total in 2011. Attendances of the RC members at meetings in 2011 were as follows:

| REMUNERATION COMMITTEE | MEETING ATTENDANCES |
|--|---------------------|
| Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz (<i>Chairman</i>) | 2/2 |
| Mr. George Anthony David Dass | 2/2 |
| Dato' Halipah Esa | 2/2 |
| Mr. Lim Tian Huat | 1/2 |

Remuneration Committee Charter

The RC Charter is set out in the Appendix on page 192. The RC Charter requires the RC to meet at least twice a year and to review and make recommendations to the Board on a range of human resource issues, such as compensation, compliance with human resource-related legal requirements, personnel policies, training, succession planning, complaints and other human resource-related matters. The amendments made to the RC Charter in 2011 were as follows:

- (a) to reflect amendments to Standard No. 9 of the Board Governance Policy, so that the RC must ensure that the Corporation develops, on an ongoing basis, adequate, appropriate and effective policies, strategies, controls, processes and procedures within the Corporation to maintain an organisational climate that fosters ethical employee business conduct and behaviour, employee commitment to the operations of the Corporation and a high degree of employee satisfaction and shall review policies and codes in respect of the same and make recommendations, if any, to the Board for approval; and

- (b) by stating that any proposed amendments to the RC Charter will also be considered by the GC, together with the other Board Committee Charters, and further changes may be recommended by the GC to the Board.

Summary of Activities of the Remuneration Committee

Some of the key matters carried out or reviewed by the RC in 2011 are outlined below.

The RC:

- (a) continued to monitor the implementation of the Human Capital Strategy;
- (b) noted the report on compliance with key human resource-related policies and legal requirements, as well as the Conflict of Interest Code and the Code of Business Conduct and Ethics for Directors, and the Code of Business Conduct and Ethics for Employees;
- (c) considered compensation matters for employees including salary adjustments in line with the market movements;
- (d) approved the bonus policy for 2011 and bonus awards in line with the Board-approved bonus framework for employees;
- (e) assessed the 2011 CEO performance against the approved objectives and KPIs and made appropriate recommendations to the Board. The RC also considered the 2012 statement of objectives and KPIs for the CEO and recommended the same for Board approval;
- (f) considered the Knowledge Management Framework for the Corporation;
- (g) considered the succession management plan to ensure current leaders are encouraged to remain in the organisation and develop in their careers to ensure readiness to assume key positions;
- (h) considered the employee voice survey for 2011 and how it was to be managed and implemented; and
- (i) monitored the implementation of the Board-approved scholarship programme for Malaysians in need of financial assistance. This programme continued in 2011 with the award of scholarships to 10 candidates and is reported on page 175 of the Annual Report.

CORPORATE GOVERNANCE

STATEMENT ON GOVERNANCE

Governance Committee (GC)

Members and Meeting Attendances

The GC held three meetings in total in 2011. Attendances of the GC members at meetings in 2011 were as follows:

| GOVERNANCE COMMITTEE | MEETING ATTENDANCES |
|--|---------------------|
| Tan Sri Dato' Abdul Aziz bin Haji Taha (<i>Chairman</i>)* (Retired on 14 August 2011) | 2/2 |
| Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz | 3/3 |
| Tan Sri Dato' Sri Dr. Wan Abdul Aziz Wan Abdullah | 2/3 |
| Tan Sri Datuk Dr. Abdul Samad Haji Alias (Appointed Chairman on 15 August 2011)** | 1/1 |

* Up to the date of his retirement

** From the date of his appointment

Governance Committee Charter

The GC Charter is set out in the Appendix on page 189. The GC Charter requires the GC to meet at least twice a year. The GC's principal responsibilities include ensuring that appropriate structures and processes are in place to provide effective oversight of and direction for PIDM's activities. It also ensures compliance with governance policies and high governance standards, reviews the appropriate balance of skill, experience and knowledge of the Board and identifies skills gaps, as well as recommends future appointments for non-ex officio positions on the Board.

Summary of Activities of the Governance Committee

The GC supported the work of the Board on corporate governance, as highlighted in the report of the Board.

The following are some of the key highlights in relation to the GC's work in 2011. The GC:

- (a) developed the Board objectives for 2011 as described on page 46;
- (b) ensured that the implementation of the annual Board Education Plan for the Directors' continuing training and education about the operations of the Corporation and its governance responsibilities;
- (c) reviewed the current membership of all three Board Committees and made recommendations to the Board for the role of new Directors on the Committees and rotation of Committee members;

(d) reviewed PIDM's approach to governance as well as governance-related policies, including the Board Governance Policy, the Corporate By-Laws, position descriptions of the Chairman, Board members, and the CEO;

(e) reviewed the governance disclosures to be made to the public in line with best practices;

(f) reviewed all of the Board Committee Charters collectively, to ensure they were consistent and there were no overlaps in functions;

(g) monitored the succession planning for corporate officers; and

(h) reviewed the Board profiles, both collectively and individually, and undertook a skills gap analysis.

The GC also continued to monitor developments in corporate governance and best practices in Malaysia and other jurisdictions.

Committees' Progress

All of the Committees adopt the practice of tracking their progress against their key responsibilities in their Charters at each meeting, and consider action plans going forward. At the end of the year, each Committee reviews their work over the entire year, and each Member fills in a questionnaire to assess the effectiveness of the Committee, and responses are then discussed at Board level.

Each Committee also receives and considers a consolidated report of the work that it has carried out for the year, at the end of each year. In 2011, the Board was satisfied that the Committees had been fulfilling their key responsibilities as set out in their Charters.

CONCLUSION

In conclusion, the Board is of the view that the Board has fulfilled its responsibilities under the Board Governance Policy and met the standards of governance based on best practices.

Going forward in 2012, the Board will hold a session to discuss the Board's and Committees' performance and ways of improvement as well as Management's performance in providing information to the Board and Board Committees including the quality and timeliness of such provision of information.

The strategic items the Board will focus on in 2012 are:

- (a) the risk assessment and monitoring of member institutions, in particular, the insurer members;
- (b) the development of the differential levy system for insurer members;
- (c) the state of readiness of the Corporation for an intervention and failure resolution; and
- (d) oversight of the implementation of strategies to ensure the long-term sustainability of the Corporation such as succession planning for the Board and key Management positions.

OTHER INFORMATION

Stakeholders Communications

The Corporation's Communications Policy sets out its objectives, which, among others, are to:

- (a) create awareness and understanding of the Corporation's mandate by disseminating accurate, timely and relevant information in response to stakeholders' and the public's needs to assist them in making informed decisions about their savings and investments; and
- (b) promote transparency and accountability by providing information and being accessible to the public and stakeholders to gain their trust and support.

This is in line with PIDM's mandate, which includes the object of contributing to or promoting the stability of the financial system.

We maintain a user-friendly website to promote accessibility of information concerning PIDM's business and affairs. As a matter of transparency, we disclose and make available on our website our key policies, practices and procedures on areas such as governance, ethics and procurement.

Our communications strategy also involves the dissemination of PIDM-related materials to members of the public. These include our Corporate Plans and Annual Reports in the four main languages. Our information brochures are also available in the four main languages and Kadazandusun and Iban. More information about our communications initiatives is found in Section 8. PIDM endeavours to be transparent and provide quality reporting in its Annual Reports. Since the 2006 Annual Report, PIDM's Annual Reports have been recognised and received NACRA recognition or awards for excellence in reporting.

ACCOUNTABILITY AND AUDIT

Financial Reporting

We have adopted the Malaysian Accounting Standards Board Approved Accounting Standards in Malaysia for Entities Other than Private Entities. We maintain and administer two distinct and separate Funds for deposit insurance, one for the conventional deposit insurance system and the other for the Islamic deposit insurance system. Effective 31 December 2010, we also maintain and administer an additional four separate Funds for the respective business segments within the Takaful and Insurance Benefits Protection System namely, general insurance, life insurance, general takaful and family solidarity takaful. We account and report on all the six Funds separately.

The Directors' Report on the financial statements for the financial year ended 31 December 2011 and the accompanying Statement by Directors are found on page 102 onwards.

Internal Control

The Statement on Internal Control is found on page 61 of this Annual Report.

Risk Management

The section on PIDM's risk management is found on page 39 of this Annual Report.

Audit

Pursuant to the MDIC Act, the accounts of PIDM are audited by the Auditor General in accordance with the Audit Act 1957. From an operational standpoint, we maintain a collaborative working relationship with our external auditors from the National Audit Department (NAD), whose representatives have an open invitation to attend all AC meetings. NAD representatives receive, as a matter of course, all AC reports and documentation prior to the AC meetings. In this regard, they attended two of the six AC meetings held in 2011. Their annual fees can be found on page 137 of this Annual Report.

CORPORATE GOVERNANCE

STATEMENT ON GOVERNANCE

ISLAMIC DEPOSIT INSURANCE AND TAKAFUL BENEFITS PROTECTION SYSTEM

The Corporation seeks the advice and endorsements from the Shariah Advisory Council of BNM (the Council) on any Shariah issues relating to its Islamic deposit insurance operations and Takaful Benefits Protection System (TBPS). The arrangements and salient features of the Islamic deposit insurance operations and TBPS have been endorsed by the Council. Premiums collected from Islamic and Takaful member institutions are managed separately and invested according to Shariah principles.

These premiums and income from the investments are pooled in the Islamic Deposit Insurance Fund or the Takaful funds respectively. These Funds, together with the Conventional Deposit Insurance Fund and insurance protection funds, are used to finance the Corporation's activities. Only Shariah permissible expenses incurred will be charged to the Islamic Deposit Insurance Fund or the Takaful funds.

Any surplus will be used to meet its obligations (if any) in respect of Islamic insured deposits or takaful certificates. In the event the Corporation is required to raise funding from the Government and the market, such funding arrangement will be structured according to Shariah principles.

MANAGEMENT

Executive Management is responsible for the day-to-day management of PIDM. It is headed by the CEO, whose authority is derived from the MDIC Act and the Board-approved job description. A COO was appointed on 1 January 2010 for the purposes of succession planning, and the organisation chart is found on page 25. Executive Management is accountable for their respective functions, and the CEO, the Chief Financial Officer (CFO), the General Manager, Insurance Risk Assessment and Monitoring, the General Counsel, as well as the CIA and CRO are required to provide formal representation letters. Management also provides a comprehensive representation letter to the Board and the National Audit Department as part of the year-end audit. The CEO and the CFO also provide an enhanced statutory declaration on the financial statements and quality of internal controls. The statutory declaration can be found on page 106 of this Annual Report.

Directors have access to Corporation records and information, to the Corporate Secretary and to Executive Management. They receive regular detailed reports on financial and operational aspects of the Corporation's business and affairs and may request further explanation of those reports at any time. They also receive regular updates on information affecting PIDM's operating environment, and on key developments in deposit insurance matters.

The following key committees assist the CEO in the management of PIDM's operations:

- the Executive Management Committee;
- the ERM Committee supported by the Strategic Planning and ERM Working Committee;
- the Assets and Liabilities Management Committee;
- the Information Technology Steering Committee;
- the Safety and Health Committee; and
- the Corporate Compliance Committee.

These committees derive their authority from the CEO. The Board's expectations of Management are specifically set out in the Board Governance Policy.

CORPORATE GOVERNANCE

STATEMENT ON INTERNAL CONTROL

This Statement on Internal Control is intended to provide our stakeholders and users of this Annual Report with meaningful, high-level information about the state of PIDM's system of internal control.

INTRODUCTION

As a statutory body, unlike listed entities, there is no requirement for PIDM to make a statement of internal control in our Annual Reports. However, our Board of Directors is committed to maintaining a sound system of internal control, and acknowledges that it is consistent with good corporate governance practice to make a statement of internal control. Such a statement is also consistent with expectations from the Board under Standards No.11 and 12 of the Board Governance Policy.

This Statement has been prepared, where applicable, in accordance with "The Statement on Internal Control – Guidance for Directors of Public Listed Companies", which was published as guidance for companies complying with the Listing Requirements of Bursa Malaysia and the Malaysian Code on Corporate Governance.

This Statement outlines the nature and scope of PIDM's system of internal control during the financial year under review.

RESPONSIBILITIES FOR RISK MANAGEMENT AND INTERNAL CONTROL

Board of Directors

The Board sets the overall strategic direction for PIDM. It provides an important oversight function, and ensures that Management has an effective risk management system and a sound system of internal control to maintain good corporate governance within PIDM. The Board acknowledges that a sound system of internal control addresses the need for effective and efficient business operations, reliable financial reporting, strict compliance with applicable laws and regulations, as well as the proper safeguarding of PIDM's assets.

The Board recognises that PIDM's system of internal control as designed by Management is intended to manage and mitigate risks, rather than to eliminate entirely the risk of failure to achieve PIDM's statutory mandate and objectives.

The review of the effectiveness, integrity and adequacy of PIDM's system of internal control is a concerted and continuing process, and involves the AC, Management, the ERM Division, the ACS Division and PIDM's external auditors.

(a) Audit Committee

The principal responsibilities of the AC are set out in its Charter. The AC advises the Board on accounting and internal control issues as well as financial reporting and management. The AC also plays a significant risk oversight function.

Further details about the AC are set out in the Statement on Governance on page 55.

(b) Management

The CEO derives his authority from the MDIC Act and the Board-approved job description. He is accountable and answerable to the Board for the performance of his responsibilities, and is not a member of the Board.

The organisation structure of PIDM, headed by the CEO, is divided into 10 divisions. For the day-to-day operations, the CEO is supported by the COO. Appropriate checks and balances have been instituted within PIDM. This is represented by the establishment of reporting relationships, whereby operational divisions report directly to the CEO or to the CEO via the COO, and independent divisions such as the ACS and ERM Divisions report directly to the Board via the AC.

The CEO fulfils his responsibilities by providing leadership and direction to the rest of Management. He ensures that PIDM's organisational structure is adequately segregated by functions, and that there is a proper assignment of authority and responsibilities. This enables employees at the right levels of the Corporation to make decisions, overcome problems or implement improvements to effectively manage their operations. PIDM's Authority Matrix is another key control document which formally sets out the assignment of authorities. It is a comprehensive document that provides detailed compilation of strategic and operational authorities that reside within the respective instruments for delegation of authorities including the MDIC Act, Board-approved charters as well as PIDM's corporate and operational policies and procedures.

Management Committees such as the Executive Management Committee, Senior Management Committee, IT Steering Committee, Asset and Liability Management Committee and ERM Committee have been formed to provide input, insights and information on strategic or operational matters to the members responsible for the specific business functions, and assist Management to monitor the development and implementation of various initiatives identified in the Corporate Plan.

CORPORATE GOVERNANCE

STATEMENT ON INTERNAL CONTROL

Management continues to assist the Board in the implementation of PIDM's ERM and Internal Control frameworks. The ERM framework continues to provide the Board and Management with a tool to anticipate and manage both existing and potential risks, taking into consideration changes in PIDM's operating environment as well as the regulatory environment and the country's financial landscape throughout the year.

PIDM's Internal Control Framework is founded on the framework set out by the "Committee of Sponsoring Organisations of the Treadway Commission in Internal Control – Integrated Framework". The Internal Control Framework provides the Board and Management with a tool to ensure that an appropriate and sound internal control system is established and to help Management in performing an annual assessment on the extent of PIDM's compliance with internal controls. The Internal Control Framework encompasses five interrelated components, which are the control environment, risk assessment, control activities, information and communication, and a continuous monitoring process.

(c) Enterprise Risk Management Division

The Board-approved ERM Charter details the responsibilities, authority and accountability requirements of the Board, the AC, the CRO, the ERM Committee, PERM Working Committee and the Corporation's employees in respect of ERM. The Charter is subject to periodic review to ensure its continuing relevance.

The ERM Division continues to implement the ERM Framework and Guidelines. This Framework and Guidelines serve as the foundation for the ERM programme to ensure that risk management becomes the responsibility of all employees and risk management practices are applied consistently throughout PIDM. Risk Coordinators are appointed for all divisions to help coordinate and monitor the implementation of ERM activities. The Risk Coordinators are the members of the PERM Working Committee.

Annually, through the ERM process, PIDM carries out a Corporate-wide risk identification and assessment exercise through a workshop to identify and assess the significant risks affecting PIDM for the planning period. Awareness training on risk management is also conducted for existing and new employees. This training has contributed to greater understanding of risks facing PIDM and the actions required to mitigate such risks.

(d) Employees of PIDM

PIDM recognises that each employee has a responsibility to help maintain a sound system of internal control. Management continues to promote an internal control culture, by emphasising training and awareness of PIDM's values, avoidance of conflict of interest, application of the Code of Business Conduct and Ethics, and by requiring an annual declaration of personal assets and liabilities from employees. An orientation programme is organised by the Human Capital (HC) Division for new employees to introduce them to PIDM's structure, work practices, culture, policies and procedures.

Through the HC Division, Management reinforces corporate values through employee-related activities such as Management and employee team-building activities, in-house training on health and safety, family activities and the employee annual dinner.

Management is receptive to employees' suggestions on ways to enhance productivity, quality or other similar improvements. An Employee Voice Survey is undertaken every two years to gauge employees' satisfaction and engagement and provide employees with opportunities to share their views on the Corporation's strengths and areas for improvements.

In addition, each division continues to carry out its annual Internal Customer Satisfaction Survey to gauge the effectiveness of the services that each division provides to users in other divisions.

Management recognises that information is pertinent for effecting controls to improve business processes and operations. In this respect, Management ensures that there are proper and adequate communication channels for all employees. In managing information flow and access to information within the Corporation and to outside parties, the Information Classification Policy has been implemented and employees' access to the Internet is subject to the E-mail and Internet Usage Policy. The Enterprise Portal also serves as the platform to control access to information based on the information classification as provided in the Information Classification Policy.



(e) Audit and Consulting Services Division

Board's responsibility for control

Standard No. 11 of the Board Governance Policy on Control Environment and Internal Audit states that the Board will ensure that PIDM has a control environment that supports the prudent management of its operations and of the risks to which it is exposed and has effective policies and practices to ensure the integrity of internal controls and management of the information system. Standard No. 12 of the Board Governance Policy refers to the Board's responsibility to obtain, on a regular basis, reasonable assurance that the Corporation is "in control".

The role of ACS in assisting the Board and evaluating internal controls

The ACS Division assists the Board to comply with the Board Governance Policy Standards by supporting the oversight role of the AC. Further details on the AC are set out in the Statement on Governance on page 55.

The CEO and Management have ultimate responsibility for the adequate design and effective operation of the system of internal control. ACS, on the other hand, plays a significant role in verifying and validating whether Management has met its responsibility. This is carried out by evaluating controls, risk management, business and governance processes as well as monitoring whether Management has implemented the agreed action plans in line with recommendations for improvements in controls, risk management, business and governance processes. The ACS Division provides updates on the status of the implementation of recommended improvements to the AC twice a year.

Risk-based audit planning

The ACS Division continues to adopt a risk-based approach to audit planning, and its audit planning process integrates both the corporate planning and the ERM processes. The risk profiles as well as the priorities and timing of the development and implementation of these corporate initiatives during the corporate planning period set the overall direction of the ACS Division's audit and consulting activities for the corporate planning period.

Consulting and advisory services

Throughout 2011, the ACS Division also met internal demands for consulting and advisory services. A significant proportion of its audit-person days were allocated to provide consulting and advisory services to various working committees, task forces and individual divisions in relation to PIDM's projects or the Corporate Plan initiatives.

The effectiveness of the ACS Division

In 2011, the AC continued to review the overall performance and operations of the ACS Division on a semi-annual basis. This was to ensure that the ACS Division continued to function effectively, and that its performance was monitored and assessed against the Board-approved audit and consulting activities for the year. As a matter of practice, the ACS Division also seeks feedback and recommendations from the persons being audited on each audit performed, so that it might enhance the Division's performance. Overall, the ACS Division received positive feedback from the auditees in relation to the audit objective, planning and performance, competency of the auditors and quality of the audit deliverables. The survey results for 2011 have also been reviewed by the AC.

CORPORATE GOVERNANCE

STATEMENT ON INTERNAL CONTROL

Quality Assurance Review on ACS Division

The Quality Assurance Review (QAR) on the ACS Division was undertaken in 2011 by the Institute of Internal Auditors Malaysia (IIAM), the appointed third party assessor. The key objectives of the QAR were to assess the efficiency and effectiveness of the internal audit function; assess the ACS Division's compliance with the Institute of Internal Auditors' Standards and its Code of Ethics; and identify improvement opportunities to enhance the effectiveness of the internal audit function. Arising from the QAR, PIDM has received the certification from IIAM which acknowledges that the internal audit function of PIDM maintains quality work performance and uses successful auditing practices, demonstrates professionalism as well as conforms to the international standards. The detailed results of the review have been presented to the AC.

Training

PIDM is committed to maintaining good relationships and sharing of knowledge with deposit insurers and central banks around the world. In October 2011, PIDM hosted the third Internal Auditors' training. This training event was well received and attended by internal auditors and risk practitioners of various deposit insurance corporations from the South East Asia, Asia Pacific, Far and Middle East and African regions. The theme for the event was "Understanding the Risks of a Financial Institution and How Internal Auditors Can Add Value in Ensuring the Effectiveness of the Deposit Insurer's Function in Assessing and Monitoring the Risks of Its Members (Financial Institutions)".

(f) External Auditors

The NAD serves as PIDM's external auditors, as set out in the MDIC Act. The ACS Division and the NAD coordinate their audit work. In 2011, the ACS Division and NAD continued their cooperation to ensure efficiency and effectiveness. The representatives from the NAD are invited to all AC meetings and the NAD has access to all audit reports prepared by ACS.

The NAD performs a management audit on PIDM once in every three years. The objective of the management audit is to assess the effectiveness of the Corporation's governance structure and processes, financial system and management and the implementation of key policies and operational procedures. The last management audit on PIDM was carried out in 2010 and the results of the audit were presented to the AC in early 2011. Overall, the results of the audit revealed that PIDM practices good financial management, and its Board members, Management and all officers demonstrate positive effort and commitment in creating a chain of an effective management system in order to achieve PIDM's objectives.



Information Technology (IT)

Management continued with its efforts to develop and strengthen its IT security infrastructure against both internal and external threats. During the year under review, the IT Department implemented multiple IT security infrastructures to minimise disruption to system operations.

The Enterprise Portal serves as the platform where information is centralised to enable employees to carry out their day-to-day responsibilities. Employees' access to information stored on the Enterprise Portal is controlled in accordance with the information classification requirements as provided in the Information Classification Policy. During the year under review, PIDM implemented additional features to the Enterprise Portal to enhance PIDM's document management system and processes. The generation of the goods and services requisition and payment requisition forms is automated via the Enterprise Portal to capture all PIDM's procurement and payment information.

PIDM continues to organise the annual IT security awareness training for all employees to reinforce the concept that information security is an important part of the business processes. The training held in 2011 was intended to motivate and remind the employees of PIDM's expectations for employees in ensuring that PIDM's information is adequately secured and protected.

Business Continuity and Disaster Recovery

The Corporation strives to be operationally ready. In this regard, the Corporation's interim DRS was fully operational in September 2011. The IT Department carried out three simulation tests on the disaster recovery servers to ascertain the effectiveness of the servers' failover and fallback capabilities as the servers are now located at two different locations, i.e., at PIDM's office premises and at the DRS.

The full business continuity and disaster recovery simulation exercise was carried out in November 2011 to prepare employees for an event of a disaster. The exercise demonstrated the readiness of PIDM's employees in preparing for and continuing with critical business operations during an event of a disaster.

The feasibility assessment for a permanent DRS and infrastructure has been completed and the development of a permanent DRS is expected to commence in 2012.

Risk and Internal Control Self-Assessment Survey

PIDM continues to promote a culture of risk and internal control awareness. In particular, in 2011, a self-assessment survey on risk management and internal control was completed. The objective of the survey was to gauge the level of employees' awareness of risk management and

internal control system and practices in PIDM. The self-assessment survey, apart from promoting a risk and internal control-conscious culture within PIDM, facilitates common understanding about PIDM's risks and accountability for internal controls. The results of the survey showed that the Corporation has achieved a high employee awareness level for both internal control and risk management practices as well as their roles in effecting effective internal controls and managing the risks affecting the Corporation or their areas of responsibility.

Key Systems, Policies, Practices and Processes

In 2011, the following key systems, policies, practices and processes were established as part of our system of internal control:

- A Working Group on Policies and Procedures continues to track outstanding policies and procedures and oversee the streamlining, centralisation and integration of key operational policies and procedures.
- Existing key corporate policies, which require the Board's approval, continue to be reviewed and updated on an annual basis. Financial and operational policies and procedures are reviewed once in every two years. Those policies and procedures which were due for review in 2011 have been updated. This was to ensure that PIDM's financial and operational capabilities and integrity continued to be strengthened and remained consistent with the applicable laws and standards of best practices.
- A comprehensive Authority Matrix has been implemented. The Authority Matrix is a summarised compilation of strategic and operational authorities that reside within the respective instruments for delegation of authorities including the MDIC Act, by-laws and policies.
- During the year under review, PIDM completed another full cycle of the enterprise risk assessment exercise and completed the remaining five Board Risk Policies, namely the Reputation Risk, Assessment and Monitoring Risk, Strategic and Governance Risk, Operational Risk, and Intervention and Failure Resolution Risk. The Board Risk Policies clarify the oversight function of the Board in relation to specific risks and outline the Board's expectations of Management's roles in supporting them. The Board Risk Policies outline the current controls, processes and Management oversight that have been put in place in managing each specific risk category.
- The selection of accounting policies and principles in relation to PIDM's financial management and reporting is reviewed on an annual basis to ensure that they are in accordance with the requirements of applicable laws, accounting standards and Shariah principles, and that these policies and principles are consistently applied. Where there are no specific accounting standards or guidelines to govern the disclosure requirement of a

CORPORATE GOVERNANCE

STATEMENT ON INTERNAL CONTROL

specific subject matter, due to its uniqueness to the deposit insurance business, such as the Target Fund framework, a comprehensive study on the relevant accounting standards requirements, applicable best practices on the disclosure requirements and the disclosure approaches adopted by deposit insurers globally has been carried out. This is to ensure that PIDM continues to adhere to the relevant accounting standards and applicable best practices in financial statements' disclosures.

- Following the Corporation's expanded mandate to administer TIPS, the existing accounting system has been enhanced to facilitate adequate and effective allocation of common costs to the respective deposit insurance, and Takaful and Insurance Funds for the financial year of 2011.
- PIDM continues to develop its core operation systems. The second phase of the Payout System comprising the development of the Product Registry System, the Payout Payment Management System and the Request Management System has been completed. The integration of these three systems to the Depositor Liabilities Information Management System and the Depositor Support Management System will continue to be tested and strengthened on an annual basis. In connection with the development of the Payout System, the audit programme to ensure the integrity of the computation of the Total Insured Deposits data and the Payout data that is processed through the Depositor Liabilities Information Management System has also been completed.
- As part of PIDM's ongoing effort to be operationally ready in carrying out IFR activities of failed member institutions, a series of employee training sessions and crisis simulation exercises on IFR were conducted during the year and these will continue to be carried out on an annual basis. Further efforts to enhance PIDM's intervention readiness include the completion of most key policies and procedures on IFR actions that have been identified in the IFR framework. The Authority Matrix which clarifies the roles and responsibilities relating to the IFR actions was completed and approved by the Board in 2011.
- The Crisis Communications Policies and Procedures and the Media Relations Policy and Procedures have been developed. These policies and procedures were tested during the crisis simulation exercise to ensure that PIDM has put in place adequate strategies, systems and processes for effective communication with depositors and other key stakeholders during a crisis.

REVIEW OF SYSTEM OF INTERNAL CONTROL

The Board reviewed the effectiveness of PIDM's systems, policies, practices and processes based on the reports from various Board Committees and Management, and its review work included the following:

- As a matter of practice, the Board considered the reports of various Board Committees on a regular basis. These included the report on the review by the AC of PIDM's financial statements; its compliance with laws and ethics and the effectiveness of controls embedded in systems or processes audited by the ACS Division; the report from the Remuneration Committee on compliance with key human capital policies and related laws; and the report from the Governance Committee on compliance with key governance policies.
- On a quarterly basis, the Board considered:
 - (i) PIDM's financial reports;
 - (ii) the utilisation of resources as compared to the approved budget;
 - (iii) the implementation of the ERM framework and the update on PIDM's risks and measures to mitigate significant risks; and
 - (iv) the update and progress of Management's overall performance against approved initiatives set out in the Corporate Plan, as well as Management's assessments of internal and external factors that may impair the performance of the Corporate Plan.
- At each Board Committee meeting, the Committee considered its progress against its respective charter, and Management's proposed action plans to support the Committee to fulfil its key responsibilities. The results were reported to the Board.



STATEMENT ON EFFECTIVENESS OF THE SYSTEM OF INTERNAL CONTROL

The effectiveness of PIDM's compliance with internal controls as of 31 December 2011 has been assessed by Management and validated by ACS based on the criteria set out in PIDM's Internal Control Framework.

Based on that assessment and the effectiveness of PIDM's systems, policies, practices and processes established in 2011, the Board is pleased to report that a sound system of internal control within PIDM has been established. The Board is committed to ensuring that Management continuously takes proactive measures to:

- (a) maintain within PIDM a conducive corporate culture and environment that emphasises accountability for control and risk management;
- (b) identify, assess and address the various risks facing PIDM that could hinder the achievement of PIDM's corporate objectives during the corporate planning period; and
- (c) continuously review and monitor the entire system of internal control and address issues or problems adequately on a timely basis.

The Board is also pleased to report that for 2011 there were no reported incidents of weakness or deficiency in the adequacy and integrity of internal controls embedded in PIDM's systems, policies, practices and processes, and there were no financial losses incurred during the financial year under review resulting from weaknesses or deficiencies in internal controls.

This Statement is made in accordance with the Board's resolution dated 28 February 2012.

Section 4

MANAGEMENT'S DISCUSSION AND ANALYSIS



MANAGEMENT'S DISCUSSION AND ANALYSIS

OUR OPERATING ENVIRONMENT

Despite a challenging international economic environment, the Malaysian economy exhibited strong resilience with an expansion of 5.1% in 2011. Growth was driven primarily by broad-based expansion in domestic demand on the back of resilient consumer and government spending.

Going forward, the global economic environment would continue to be challenging. First, global economic growth would remain weak. Although recent data have provided tentative evidence that a modest rebound is taking hold in the US economy, the ability of the economy to gain traction would be weighed down by a persistent European debt crisis and, to a lesser degree, a slowing China economy. Second, the European debt crisis poses a threat to financial stability. And third, geopolitical tensions could again spike up oil prices.

This unsettled global backdrop suggests greater downside for Malaysia's growth prospects in the first half of 2012 before recovering gradually in the second half. The sustained growth in private sector activity, supported by public sector expenditure, may buffer the economy against the headwinds from slowing export demand. And Malaysia's high foreign reserves and the persistent current account surpluses provide a much needed degree of flexibility for policymakers to ensure that the liquidity strains emanating from the European sovereign debt crisis would remain manageable. Overall, with resilient domestic demand continuing to be the key driver of growth, the Malaysian economy is expected to expand by 4% to 5% in 2012.

With far too many unresolved fiscal and financial issues on the international front, great uncertainty still persists. The outlook for our operating environment would, therefore, remain challenging. PIDM will continue to monitor closely these external risks.

REVIEW OF 2011 OPERATIONS AND ACHIEVEMENTS

Progressing to our seventh year of operations, we have gained further recognition of our efforts, accomplishments and contributions, both locally and internationally, as evident from receiving the "2011 Deposit Insurance Organisation (DIO) of the Year" award, presented by the International Association of Deposit Insurers (IADI). This award will strategically position the Corporation towards being recognised as a best practice financial consumer protection organisation. In addition, PIDM has been awarded the 2011 National Annual Corporate Report Awards for "Best Annual Report of Non-Listed Organisations" for its 2010 Annual Report. Following the completion of a quality assurance review, we also received certification by the Institute of Internal Auditors Malaysia (IIAM) in recognition of conformity with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

This section provides a review of our operations for 2011 and our achievements against our Corporate Plan 2011 - 2013. Our three-year rolling Corporate Plan sets out our strategic direction, focus and priorities to ensure the effective and efficient fulfilment of our mandate. These are translated to Key Performance Indicators (KPIs) or initiatives in our Corporate Scorecard which we use to track our progress towards achieving our vision and mission and ultimately, fulfil our mandate.

MANAGEMENT'S DISCUSSION AND ANALYSIS

REVIEW OF 2011 OPERATIONS AND ACHIEVEMENTS

OUR ACHIEVEMENTS IN 2011

We continue to adopt three broad strategic thrusts, namely sound governance, operational readiness and excellence as well as promotion of public confidence in the financial system. In fulfilling our vision, mission and mandate, we aligned our 2011 KPIs and initiatives to the corporate objectives and strategic thrusts. Our corporate objectives are based on three Balanced Scorecard perspectives as follows:

Stakeholders

Educated and informed stakeholders

Well-informed stakeholders are integral to the effectiveness of the deposit insurance system and the takaful and insurance benefits protection system. We will continue to engage all stakeholders, to educate them through our comprehensive public awareness campaign and education programmes as well as to consult extensively with our stakeholders when developing our Regulations and Guidelines.

Effective partnerships

Given our business model, effective partnerships are critical to the fulfilment of our mandate. We will continue to work closely with our strategic partners including Bank Negara Malaysia, other regulators, other deposit insurers and key suppliers. We will also continue to maintain good relationships with our member institutions.

Governance and Internal Processes

Well-governed and well-managed organisation

We shall demonstrate that we are well governed and well managed through our sound business conduct and governance practices, as well as by adopting effective enterprise-wide risk management and internal control framework.

Robust risk assessment, monitoring, intervention and resolution capabilities

In ensuring fulfilment of our mandate and as readiness remains a key aspect of the Corporation, we will continue to maintain a robust risk assessment and monitoring capability, as well as to build the capacity and capabilities to effectively manage intervention and failure resolution activities.

Sound business and financial practices

To effectively administer our deposit insurance system, and takaful and insurance benefits protection system, we will continue to maintain sound policies, processes, procedures and infrastructure to be current and relevant. The sound practices that govern our operations will be based on relevant domestic and international best practices. We will also continue to build on our capacity and capabilities to ensure that we can fulfil our roles and responsibilities.

Learning and Growth

Competent and knowledgeable workforce

Our people are our most important asset. We provide competitive compensation packages and programmes to attract and retain the right people with the right skills, experience and attitude. We are committed to provide employees with opportunities for continuous learning and development, so as to meet their full potential.

Conducive corporate environment

We foster a conducive corporate culture and environment by instilling our corporate values as well as promoting a safe, healthy, harassment-free work environment and work-life balance.

Our key focus for 2011 continued to be on efforts to support the state of readiness of the Corporation in building our capacity and capability in terms of operational readiness as well as intensifying the risk assessment and monitoring activities; promoting public awareness including enhancing education initiatives; improving our operational effectiveness and efficiency; and enhancing the infrastructure, systems, policies and practices to effectively administer the Takaful and Insurance Benefits Protection System (TIPS).

Overall, we completed the majority of our planned key initiatives, with the exception of six information technology-related initiatives which have been reprioritised, within the approved financial plan. These included numerous TIPS-related initiatives that have strengthened our foundation towards ensuring the fulfilment of our expanded mandate. Highlights of our achievements are summarised in the 2011 Corporate Scorecard in the following page.

SNAPSHOT OF 2011 CORPORATE SCORECARD

P Progressing as scheduled; and / or within budget
A Target achieved, initiative completed

F Not yet initiated / future date
D Deferred due to reprioritisation

N Target not achieved, slippage – time to completion; and / or below target; and / or >±10% (full year) budget variance

| Corporate Objectives | | Key Performance Indicators (KPIs) / Corporate Initiatives | Target 2011 | Results Dec 2011 |
|-----------------------------------|--|--|-----------------------|------------------|
| Stakeholders | A Educated and informed stakeholders | 1. Public awareness index: | | |
| | | a. General awareness of PIDM | 35% | A |
| | | b. General awareness of deposit insurance system (DIS) | 30% | N ¹ |
| | | c. General awareness of takaful and insurance benefits protection system (TIPS) | 10% | A |
| | | 2. Engagement and responsiveness to external stakeholder needs | 100% responsiveness | A |
| | | 3. Successful completion of key initiative(s): | | |
| | | a. Review and implement Integrated Communications Plan | Complete | A |
| | | b. Education programme | Implement and review | A |
| | | c. Provision of Information on Deposit Insurance Regulations 2011 | Implement | A |
| | B Effective partnerships | 4. PIDM's relationship with: | | |
| | | a. Bank Negara Malaysia | Strong | A |
| | | b. Member institutions | Satisfactory | A |
| | | c. Key suppliers and strategic partners | Strong | A |
| | | d. Other deposit insurers | Strong | A |
| | | e. Other stakeholders | Satisfactory | A |
| | | 5. Participate in international fora | Active participation | A |
| Governance and Internal Processes | C Well-governed and well-managed organisation | 6. Board assessment on: | | |
| | | a. Best practices of governance adopted | High satisfaction | A |
| | | b. Significant policies and practices complied with | High satisfaction | A |
| | | c. Timeliness and relevance of information and quality of recommendation provided by Management for the Board to make informed decisions and fulfil its responsibilities | High satisfaction | A |
| | | 7. Successful completion of key initiative(s): | | |
| | | a. Remaining ERM Board Risk policies and practices: | | |
| | | i. Strategic and Governance Risk | Develop and implement | A |
| | | ii. Operational Risk | Develop and implement | A |
| | | iii. Intervention and Failure Resolution (IFR) Risk | Develop | A |
| | | b. Involvement in the Financial Institutions Directors' Education (FIDE) Programme | Active participation | A |

| Corporate Objectives | | Key Performance Indicators (KPIs) / Corporate Initiatives | Target 2011 | Results Dec 2011 |
|-----------------------------------|---|--|-----------------------|------------------|
| Governance and Internal Processes | D | 8. Successful completion of key initiative(s): | | |
| | | a. Differential Premium Systems (DPS), Total Insured Deposits (TID) and Total Protected Policies (TPP) framework: | | |
| | | i. Review and enhance regulations and order for DPS and TID framework for DIS | Develop and implement | A |
| | | ii. Develop and implement DPS and Return of TPP framework for TIPS: | | |
| | | a(ii)(1). Premiums assessed against insurance company | Implement | A |
| | | a(ii)(2). Guidelines on Return of TPP: Calculation of TPP, Premium and Completion of Returns | Develop and implement | A |
| | | a(ii)(3). Supervisor validation on Return of TPP | Develop | P ² |
| | | a(ii)(4). DPS Framework | Research and develop | A |
| | | a(ii)(5). Guidelines on DPS and the regulations | - | F |
| | | a(ii)(6). External auditor validation on guidelines on Return of TPP | - | F |
| | | b. Continuous enhancement to the Risk Assessment and Monitoring Methodology and Framework: | | |
| | | i. Banks | Review and implement | D |
| | | ii. Insurance companies and takaful operators: | | |
| | | b(ii)(1). Risk Assessment Methodology and Framework | Develop and implement | A |
| | | b(ii)(2). Insurance Risk Assessment System | Research | A |
| | | c. Develop and implement Early Warning System (EWS) for banks | Research and develop | P ³ |
| | | d. Components of Intervention and Failure Resolution Framework including processes, policies and procedures: | | |
| | | i(1). Develop and implement the final components for banks | Complete | P ⁴ |
| | | i(2). Develop and implement Least Cost Model and System | Research | A |
| | | ii(1). Assess amendments required to the IFR policies and procedures for insurance companies and takaful operators | Develop | P ⁵ |
| | | e. Develop and implement policies and regulations for banks: | | |
| | | i. Interest and dividend payable guidelines / rules | Develop and implement | P ⁶ |
| | | ii. Premium surcharge | Develop and implement | P ⁷ |
| | | iii. Research on standard of sound business and financial practices for member banks | Complete | A |
| | | f. Develop and implement policies and regulations for insurance companies and takaful operators: | | |
| | | i. Terms and conditions of membership | Develop | P ⁸ |
| | | ii. Provision of TIPS Information Regulations | Research | P ⁹ |
| | | g. Conduct simulation on: | | |
| | | i. Payout | Complete | P ¹⁰ |
| | | ii. Intervention and Failure Resolution | Complete | A |

| Corporate Objectives | | Key Performance Indicators (KPIs) / Corporate Initiatives | Target 2011 | Results Dec 2011 |
|-----------------------------------|---|---|-----------------------|------------------|
| Governance and Internal Processes | D | Robust risk assessment, monitoring and resolution capability | | |
| | | h. Develop and implement Payout system, policies and procedures: | | |
| | | i. Phase 2 – Integrate Payout Payment Management System | Develop | A |
| | | ii. Phase 3 – Develop Dynamic Deposit Database | - | F |
| | | i. Develop audit programme to ensure integrity of Payout Data, System and Processes | Develop and implement | P ¹¹ |
| | | j. Develop and implement claims management system, policies and procedures for insurance companies and takaful operators: | | |
| | | i. Phase 1a: Product Registry System | Research | A |
| | | ii. Phase 1b: Claims Management System | Research | D |
| | | iii. Phase 1c: Policy Holders Support Management System | Research | D |
| | | iv. Phase 2: Payment Management System | - | F |
| | | k. Member institutions' compliance programme | Develop | A |
| | E | Sound business and financial practices | | |
| | | 9. Reporting through: | | |
| | | a. Annual Report | Complete | A |
| | | b. Corporate Plan | Complete | A |
| | | 10. Actual vs. approved expenditures budget | ±10% variance | A ¹² |
| | | 11. Internal Control Compliance | Strong | A |
| | | 12. Internal Customer Satisfaction | 75% | A |
| | | 13. Successful completion of key initiative(s): | | |
| | | a. Financial accounting-related systems and processes upgrade and enhancement | Develop and implement | P ¹³ |
| | | b. Develop and implement funding framework for Phase 1 – Government borrowings, Phase 2 – Funding from capital market | Complete | A |
| | | c. Implement Target Fund framework for banks | Complete | A |
| | | d. Implement annual Information Technology Strategic Plan | Complete | P ¹⁴ |
| | | e. Business Continuity Plan | Review and test | A |
| | | f. Disaster Recovery Plan and infrastructure | Review and test | A |
| | | g. Corporate Information Management System: | | |
| | | i. Phase 2: Enhancements | Develop and enhance | A |
| | | ii. Phase 3: Intranet Portal Communication | Develop and implement | D |
| | | h. Corporate Information Security Infrastructure: | | |
| | | i. Phase 1(a): Information Security | Develop | D |
| | | ii. Phase 1(b): Identity Management and Digital Signature | Implement | D |
| | | iii. Phase 2: Remote Access | - | F |
| | | i. Executive Information System: | | |
| | | i. Phase 1: Research | - | F |
| | | ii. Phase 2: Corporate Dashboard | - | F |

| Corporate Objectives | | Key Performance Indicators (KPIs) / Corporate Initiatives | Target 2011 | Results Dec 2011 |
|----------------------|---|--|-----------------------|------------------|
| Learning and Growth | F | 14. Develop and implement Corporate-wide and employees' annual learning and development plan | Develop | A |
| | | 15. Successful completion of key initiative(s): | | |
| | | a. Continue to implement the Competency model | Implement | A |
| | | b. Develop and implement Knowledge Management framework and system: | | |
| | | i. Phase 1: Knowledge Management framework | Develop and implement | A |
| | | ii. Phase 2: Knowledge Management policies and processes | - | F |
| | G | 16. Employee satisfaction index (survey conducted once every two years) | 75% | A |
| | | 17. Successful completion of key initiative: | | |
| | | a. Implement employee-related programmes to promote conducive corporate environment | Complete | A |

¹ The awareness level of deposit insurance system at the end of 2011 was at 27% (2010: 21%). In addition, among those who were aware of deposit insurance, 60% of the respondents knew that their deposits were protected by the system.

² The Supervisor Validation on Return of Total Protected Policies (TPP) will be finalised in 2012.

³ The development of the Rating Prediction Model is progressing as scheduled.

⁴ The development of the final components of Intervention and Failure Resolution (IFR) activities for member banks is in progress.

⁵ This project to amend the IFR policies and procedures to include consideration for insurer members is progressing as scheduled. To date, we have commenced the development of the IFR framework and two key areas identified, namely Due Diligence and Transfer of Business.

⁶ The interest and dividend payable rules will be implemented in 2012.

⁷ The draft premium surcharge framework will be presented to the Board for approval in 2012.

⁸ The terms and conditions of membership for insurer members will be finalised in 2012.

⁹ Further research needs to be conducted for the development of the TIPS Information Regulations.

¹⁰ The trial Standard File Format (SFF) validation exercise is progressing as scheduled and targeted to be completed by mid-2013.

¹¹ The development of audit programmes for Payout Payment Management System (PPMS) and Product Registry System (PRS) is in progress and is expected to be completed in 2012.

¹² We achieved positive variances for both operating and capital expenditures.

¹³ The implementation of the Enhanced Financial Management System will take place in 2012.

¹⁴ We have completed most of the strategic and operational initiatives as set out in PIDM's Information Technology Strategic Plan except for the following corporate initiatives which have been deferred due to the unplanned upgrade of Sharepoint Portal and Microsoft Office 2007 to 2010:

- Phase 3: Intranet Portal Communication of the Corporate Information Management System; and
- Phase 1(a) and 1(b) of the Corporate Information Security Infrastructure on:
 - Information Security; and
 - Identity Management and Digital Signature.

DIVISIONAL OPERATIONS REVIEW

All of the key initiatives in 2011 were completed through the 10 divisions in PIDM. The following table provides a brief description of the respective functions of our divisions and their key activities and accomplishments in 2011, including their ongoing and new initiatives.

| DIVISION | KEY ACHIEVEMENTS IN 2011 | GOING FORWARD |
|--|--|--|
| <p>Audit and Consulting Services Division (ACS)</p> <p>ACS provides independent and objective assurance as well as consulting services, by working in partnership with Management, designed to add value to and improve the Corporation's operations.</p> | <p>Audit: Completed the 2011 audits in accordance with the Board-approved Audit Plan 2011 - 2013 which includes audits on Disaster Recovery Plan and Infrastructure; Business Continuity Management; Effectiveness of the Corporation's Physical Security, System, Practices, Policies, Procedures and Compliance with the Requirements to Safeguard Employees' Safety; Management and Quality Assurance Processes Relating to the Development and Implementation of the Corporation's Policies and Procedures; and the Financial Reporting and Disclosure for the year ended 31 December 2011. Assessed PIDM's state of internal control. More details can be found in the Statement on Internal Control on page 61 of this Annual Report. In relation to Payout, the audit procedures for Depositor Liabilities Information Management System (DLIMS) and Depositor Support Management System (DSMS) are being reviewed and enhanced. Commenced development of the audit programmes for Payout Payment Management System (PPMS) and Product Registry System (PRS).</p> <p>Effectiveness assessment: Completed the Quality Assurance Review (QAR) of the division, conducted by an appointed third party assessor, with the key objectives to assess the efficiency and effectiveness of the internal audit function; assess ACS's compliance with the Institute of Internal Auditors Standards and its Code of Ethics and identify improvement opportunities to enhance the effectiveness of the internal audit function.</p> <p>Knowledge sharing: Organised and hosted the third Internal Auditors' training with the theme "Understanding the Risks of a Financial Institution and How Internal Auditors Can Add Value in Ensuring the Effectiveness of the Deposit Insurer's Function in Assessing and Monitoring the Risks of Its Members (Financial Institutions)", which was attended by internal auditors and risk practitioners of various deposit insurance corporations and central banks from the South East Asia, Asia Pacific, Far and Middle East and African regions.</p> <p>Consulting and advisory services: Continued to support the relevant divisions in PIDM's key projects, including Intervention and Failure Resolution, Payout, Business Continuity Management and also involved in the development of key information technology systems.</p> | <p>Audit: Continue to implement the Board-approved Audit Plan using the risk-based auditing approach and to conduct the annual review on PIDM's state of internal control. In relation to Payout, ACS will continue to review and enhance the audit procedures to ensure the integrity of the Payout data, systems and processes for member banks.</p> <p>Audit policies and practices: Continue to review and enhance the ACS Charter, ACS Procedure Manual and the Internal Control Framework.</p> <p>Consulting and advisory services: Continue to provide consulting and advisory services for PIDM's key projects or Corporate Plan initiatives.</p> |

MANAGEMENT'S DISCUSSION AND ANALYSIS

REVIEW OF 2011 OPERATIONS AND ACHIEVEMENTS

| DIVISION | KEY ACHIEVEMENTS IN 2011 | GOING FORWARD |
|---|--|--|
| <p>Communications and Public Affairs Division (COMMS)</p> <p>The primary role of COMMS is to develop and communicate effective messages to the public at large and the targeted market segments through ongoing public awareness and education initiatives to enhance public understanding of DIS, TIPS and the role of PIDM in contributing to the stability of the Malaysian financial system.</p> | <p>Advertising and public relations: Successfully completed the final year initiatives of the Integrated Communications Plan (ICP) 2007 - 2011. In our efforts to enhance public awareness of PIDM, DIS and TIPS, we produced and ran three “bursts” of advertisements via television and radio commercials, print advertisements and online banners. We also featured advertisements in newspapers on the Provision of Information on Deposit Insurance Regulations 2011.</p> <p>Education programme: Successfully implemented the second year of the enhanced PIDM Project MoneySmart for students in 250 secondary schools and 50 institutions of higher learning as well as for secondary school teachers through 30 financial management seminar sessions. The MoneySmart Online Game Contest 2011 also attracted a total of approximately 8,000 participants.</p> <p>Stakeholder engagement: Conducted a total of 67 briefing sessions for various stakeholders including member institutions (MIs), Government agencies, institutions of higher learning and the general public. Held dialogue sessions with liaison officers as well as participated in exhibitions and road shows. Successfully conducted the Corporate Outreach Programme at Johor Bahru, which was also attended by representatives from Bank Negara Malaysia (BNM) and other Government agencies.</p> | <p>Advertising and public relations: Implement the initiatives of the ICP 2012 - 2016 with the focus to strengthen awareness of DIS and TIPS as well as promote confidence in the role of PIDM; actively contribute to the enhancement of financial awareness and literacy through education initiatives and programmes; and enhance engagement with MIs and relevant strategic partners.</p> <p>Education programme: Continue to review and enhance the strategy, approach and content of the programme for the implementation in secondary schools and institutions of higher learning.</p> <p>Stakeholder engagement: Continue to build and maintain relationships with various stakeholders via internal and external briefings as well as participation in exhibitions and road shows.</p> |

| DIVISION | KEY ACHIEVEMENTS IN 2011 | GOING FORWARD |
|--|--|---|
| <p>Enterprise Risk Management Division (ERM)</p> <p>ERM implements, monitors and maintains leading ERM processes and procedures within PIDM, so that PIDM can manage its diverse internal and external risk exposures effectively. ERM also supports and provides risk advisory services to all divisions and for all key projects. Another key role of the division is Business Continuity Management.</p> | <p>ERM process: Successfully integrated the ERM process into the Enterprise Risk Assessor (ERA) system.</p> <p>Board Risk Policies: Developed and implemented the remaining Board Risk Policies, namely Reputation Risk, Assessment and Monitoring Risk, Strategic and Governance Risk, Operational Risk and IFR Risk. In addition to the Board Risk Policies, completed the Corporate-wide Board Risk Report which furnishes the Board of Directors (Board) via the Audit Committee (AC) with, among others, an independent assessment on whether Management is meeting the expectations of the Board Risk Policies, and the status of key initiatives to be taken to lower the residual risk for each of the risk categories / sub-risk categories.</p> <p>Business Continuity Management: Successfully conducted the Business Continuity Plan (BCP) crisis simulation exercise at the interim Disaster Recovery Site (DRS) to prepare employees and to ensure that PIDM can continue with its critical business functions in the event of a disaster.</p> <p>Risk advisory services: Continued to support the relevant divisions in PIDM's key projects including IFR and Payout.</p> <p>More details on key achievements, the ERM Oversight Structure and how PIDM manages its significant risks are described in Section 3, pages 39 to 43.</p> | <p>ERM process: Continue to perform ongoing identification, assessment, evaluation, monitoring, reporting and communication of the internal and external risks affecting PIDM. ERM will also be reviewing and enhancing the ERM Effectiveness Assessment Framework.</p> <p>Board Risk Policies: Review and enhance the established Board Risk Policies including the Corporate-wide Board Risk Report.</p> <p>Business Continuity Management: Continue to test and enhance the BCP.</p> <p>Risk advisory services: Continue to support and provide risk advisory services to the relevant divisions in PIDM's key projects or Corporate Plan initiatives.</p> |

MANAGEMENT'S DISCUSSION AND ANALYSIS

REVIEW OF 2011 OPERATIONS AND ACHIEVEMENTS

| DIVISION | KEY ACHIEVEMENTS IN 2011 | GOING FORWARD |
|--|---|--|
| <p>Finance and Administration Division (FINAD)</p> <p>FINAD consists of Finance, Administration, Information Technology (IT) as well as Organisation and Methods Departments that focus on providing effective and efficient support services in the areas of financial management, general office administration, IT management and operational business processes, policies and controls to ensure smooth operations of PIDM.</p> | <p>Funding: In relation to implement arrangements for borrowings from the Government and funding from the capital market, we have commenced the development of the respective policies and procedures. We have also, in 2011, established a Target Fund framework for the Deposit Insurance Funds to determine the level of funds we would need to accumulate to meet our obligations in providing deposit insurance protection to depositors.</p> <p>Disaster Recovery Plan and infrastructure: Completed the development of our interim DRS. We have also completed the feasibility assessment and commenced planning on the development of our permanent DRS.</p> <p>IT strategy: Completed the majority of the strategic and operational initiatives as set out in PIDM's Information Technology Strategic Plan except for three corporate initiatives which have been deferred. Further details can be found on page 74 of this Annual Report.</p> <p>Financial management: Commenced planning and discussion on the enhancement and upgrade to the financial accounting related systems and processes.</p> <p>Organisation and methods: Reviewed and enhanced the existing policies and procedures to ensure that they remain current and relevant. In addition, the Manual for the Development of Policies and Procedures and the Authority Matrix, which summarise the authorities for the day-to-day administration of the business and affairs of the Corporation, were developed and approved by the Board.</p> | <p>Funding: Continue to develop the policies and procedures for borrowings from the Government and funding from the capital market. Continue to review and validate the Target Fund annually to ensure relevance and to reflect any changes in the assumptions or inputs. We will also review and align our premium rates for member banks in order to achieve the target fund level within a reasonable timeframe.</p> <p>Disaster Recovery Plan and infrastructure: To complete the acquisition of land for the permanent DRS as well as the specification and design in order to commence construction.</p> <p>IT strategy: Continue to implement the strategic and operational initiatives as set out in the Information Technology Strategic Plan to support the Corporation's business needs and requirements including to enhance the Risk Assessment System for member banks, develop the Risk Assessment System for insurer members, develop and implement the Enhanced Financial Management System as well as implement the information security infrastructure.</p> <p>Corporate Information Security Framework: Review and enhance the records management processes, policies and procedures. This would also include awareness and training sessions on records management as set out in the Information Classification Policy as well as other related records management policies and procedures.</p> |

| DIVISION | KEY ACHIEVEMENTS IN 2011 | GOING FORWARD |
|--|---|--|
| <p>Human Capital Division (HC)</p> <p>HC is responsible for the full spectrum of PIDM's human capital management.</p> | <p>Talent management: Ongoing development of our employees took place through a competency-based comprehensive Learning and Development programme. It included various types of training such as leadership, soft skills-related and technical skills using a blended approach of study visits, external seminars and briefings, conferences, internal training sessions and on-the-job training. In-house training sessions were organised where there were a number of employees with common Learning and Development needs. The average external and internal training days per employee in 2011 totalled 9.8 days.</p> <p>In support of continuous knowledge sharing among the employees, the Knowledge Management framework was established. The Competency model was enhanced and integrated into key human capital functions such as recruitment and selection, performance management, succession planning and leadership development. Key Performance Indicators and corporate initiatives were cascaded to all employees via a top-down approach as the basis for performance management. Succession plans for key positions were updated.</p> <p>To allow us to recruit and retain key talent, we ensured that our compensation and benefits remained fair, equitable and competitive with the market using a Hay-based system of job evaluation that is gender neutral and bias free. PIDM employees represent a diverse range of cultures and work philosophies that are in keeping with our corporate values of respect and fairness. As at 31 December 2011, the employee population was 45% male and 55% female.</p> | <p>Talent management: Continue to emphasise employees' Learning and Development needs using the Competency model to guide the identification of training needs. This provides employees with access to extensive training opportunities to ensure that they acquire the necessary knowledge and understanding of DIS, TIPS and the role of PIDM in administering the financial consumer protection systems. Following the implementation of the Knowledge Management framework, the Knowledge Management Policies and Procedures will be developed.</p> |

MANAGEMENT'S DISCUSSION AND ANALYSIS

REVIEW OF 2011 OPERATIONS AND ACHIEVEMENTS

| DIVISION | KEY ACHIEVEMENTS IN 2011 | GOING FORWARD |
|----------|--|--|
| | <p>Scholarship Programme: As part of our Corporate Social Responsibility (CSR) efforts, we continued to implement the multi-year undergraduate Scholarship Programme and awarded scholarships to 10 deserving individuals, an increase of five scholars from the previous year. This programme also includes a mentoring and coaching programme for the PIDM scholars.</p> <p>Employee relations: We conducted our 4th Employee Voice Survey using a new survey provider which allowed us to measure our level of employee engagement and compare our results with both Malaysian organisations and global high performing companies. Employee engagement is a composite measure of how employees think, feel and act, which includes having a sense of pride, recommending the Corporation, supporting its values and goals, being willing to work beyond what is required, considering to stay with the Corporation and overall satisfaction. PIDM's employee engagement score was 90%, which is 13% above the benchmark for Malaysia national norm and 5% above the global high performing companies' norm.</p> <p>We held a number of events to foster an optimal workplace culture such as Family Day and <i>Buka Puasa</i> for all employees and their family members, health and motivational talks, monthly birthday celebrations, Annual Dinner and year-end high tea to celebrate achievements.</p> <p>There is an active Safety and Health Committee which attended a two-day training session on how to be effective committee members and recommended information sessions to benefit employees such as defensive driving as well as "City Survival Training" for female employees.</p> | <p>Scholarship Programme: Continue to administer the programme for another 10 undergraduates in Malaysia.</p> <p>Employee relations: Continue to promote an optimal workplace and organise various activities to promote employee interaction and engagement as well as a workplace culture that is safe and free of discrimination and harassment.</p> <p>Automation of human capital process: Continue to develop the Human Resource Information System focusing on automating the recruitment, employee performance management, learning and development, and succession management processes.</p> |

| DIVISION | KEY ACHIEVEMENTS IN 2011 | GOING FORWARD |
|--|---|--|
| <p>Intervention and Failure Resolution Division (IFR)</p> <p>IFR is primarily responsible for intervention preparedness which involves the development of IFR-related policies and procedures including payout system, policies and procedures. The Division is also responsible for managing and conducting the IFR-related activities of PIDM, when required, in the least costly manner to the financial system.</p> | <p>IFR: Completed the documentation for 13 identified areas in relation to the conduct of IFR for DIS and the research on the Valuation Model and System. Developed a road map to assess and monitor its state of readiness to deal with troubled MIs where the key areas identified are divided into three phases focusing on internal readiness, effective coordination and cooperation with relevant Government agencies and developing a clear IFR strategy in respect of MIs. Continued to build our readiness for DIS by conducting training sessions on IFR for all employees, as well as two mini simulations and one two-and-a-half-day simulation exercise. Commenced documentation on the IFR areas for TIPS.</p> <p>Payout: Completed the integration between the Payout system modules, namely DLIMS, DSMS, PRS, PPMS and Request Management System (RMS) to facilitate an effective payout in the event of a member bank failure. Commenced data validation of the depositors' information in the Standard File Format (SFF) submitted by the member banks.</p> | <p>IFR: For DIS, to continue the development of the final components of IFR activities to enable the Corporation to carry out various IFR options effectively such as the development of a Valuation Model to allow the Corporation to facilitate the least cost analysis, the development of a database of information relating to specific MIs which would be useful to develop IFR strategy and the development of a database of competent service providers, amongst others. In support of the intervention framework and processes, IFR will continue to conduct employee training and simulation sessions to enhance its intervention readiness. In relation to TIPS, IFR will continue with the documentation of the identified IFR options.</p> <p>Payout: For DIS, to complete the data validation of the SFF submitted by the member banks and for TIPS, IFR will embark on building the framework, process and infrastructure to carry out its payout mandate to policy owners.</p> |

MANAGEMENT'S DISCUSSION AND ANALYSIS

REVIEW OF 2011 OPERATIONS AND ACHIEVEMENTS

| DIVISION | KEY ACHIEVEMENTS IN 2011 | GOING FORWARD |
|---|--|---|
| <p>Insurance, Risk Assessment and Monitoring Division (INRAM)</p> <p>INRAM provides independent, accurate and timely risk assessment and monitoring of our member institutions to enable early detection of high risk member institutions as well as efficient premium administration. The Division is also tasked with the responsibility to develop and promote Islamic deposit insurance.</p> | <p>Risk assessment and monitoring: For DIS, continued to enhance the Risk Assessment and Monitoring Framework and implemented the Differential Premium Systems (DPS) Reporting Forms (Quantitative Information) following the revised criteria for the DPS. In relation to TIPS, the First Premium and Annual Premium in Respect of Insurer Members Order 2011 was gazetted and made effective from the assessment year of 2011. We also completed the development of the Takaful and Insurance Risk Assessment Framework as well as commenced the development of the Differential Levy System (DLS) framework.</p> <p>Policies and regulations: Issued guidelines to insurer members and enhanced guidelines applicable to member banks.</p> <p>Islamic deposit insurance: Successfully organised the third seminar on Islamic Deposit Insurance held in Khartoum, Sudan which was attended by more than 60 foreign and local participants.</p> <p>Effective partnerships: Continued to maintain a strong and collaborative relationship with key stakeholders including BNM via sports events as well as member institutions. Conducted knowledge-sharing sessions with delegates from Brunei Deposit Protection Corporation, Deposit Insurance of Vietnam and Deposit Protection Fund Board, Kenya.</p> | <p>Risk assessment and monitoring: Continue to review and enhance the Risk Assessment and Monitoring Framework as well as the DPS guidelines for DIS. With regard to TIPS, develop the necessary system and infrastructure to support the risk assessment and monitoring of insurer members, develop the DLS framework and guidelines as well as the external validation programme guidelines for insurer members.</p> <p>Islamic deposit insurance: Continue to support the Islamic Deposit Insurance Group (IDIG) and to focus our efforts on leading the development of guidance notes, research papers and core principles in relation to Islamic deposit insurance operations.</p> |

| DIVISION | KEY ACHIEVEMENTS IN 2011 | GOING FORWARD |
|--|---|--|
| <p>Legal Division (LEGAL)</p> <p>LEGAL provides legal advisory support in a manner that protects the Corporation's interests. The Division also provides secretariat services and governance advisory support to the Board and is responsible for all matters relating to the proceedings and administration of Board and Board Committees.</p> | <p>Legal advisory services: Reviewed, advised on and drafted contracts for the Corporation. In relation to the Compliance Programme, we continued to organise the compliance training for key policies and procedures for employees. We also continued to certify the deposit products offered by member banks via our PRS and completed the research on PRS for insurance companies and takaful operators. In relation to PIDM's key projects including IFR, Payout, funding framework and Target Fund framework, we continued to provide legal advisory support to the relevant divisions.</p> <p>Corporate governance: Continued to maintain a strong accountability and reporting regime and effective working relationship with the Board, supporting the Board in its corporate governance work. Continued to implement the Board succession plan for new Directors as well as the new Chairman of the Board. We held several Board education sessions, in various areas such as risk assessment and monitoring, Target Fund, IFR as well as TIPS, for the Directors in 2011. See pages 44 to 60 for more details in the Statement on Governance.</p> <p>Others: We also continued to provide support to the Financial Institutions Directors' Education (FIDE) Programme and its Alumni associations (FIDE Forum). In relation to CSR, we part-sponsored the Financial Literacy Programme for deaf youth in providing them financial education and money management skills.</p> | <p>Legislation: Review the Malaysia Deposit Insurance Corporation Act (MDIC Act) 2011 for relevant and necessary amendments.</p> <p>Legal advisory services: Continue to provide support in the drafting of contracts for PIDM, certification of deposit products offered by member banks and provision of legal advisory support for key projects.</p> <p>Corporate governance: Continue to adopt and ensure compliance with best practices in governance and support the Board in achieving its annual goals and its continuing corporate governance work.</p> <p>Automation of legal processes: Continue with the development of the Legal Knowledge / Legislation Management System.</p> |

MANAGEMENT'S DISCUSSION AND ANALYSIS

REVIEW OF 2011 OPERATIONS AND ACHIEVEMENTS

| DIVISION | KEY ACHIEVEMENTS IN 2011 | GOING FORWARD |
|---|---|---|
| <p>Policy and International Division (POLICY)</p> <p>POLICY assesses and develops robust policies in relation to the mandate and operations of PIDM. The Division also leads and coordinates the activities for international relations.</p> | <p>Policies and regulations: Developed the policies relating to TIPS regulations and other relevant policies relating to DIS.</p> <p>Educated and informed stakeholders: Provided guidance and assisted COMMS to conduct briefings to MIs and the general public on the Guidelines on Disclosure of Deposit Insurance Information, Provision of Information on Deposit Insurance Regulations 2011 and TIPS.</p> <p>Effective partnerships: Continued to maintain good relationships with BNM and key stakeholders including other deposit insurers through active participation in IADI. Participated in various knowledge-sharing sessions and hosted study visits for other deposit insurers and central banks. To promote collaboration and transfer of knowledge, we executed a Memorandum Of Understanding with the Central Deposit Insurance Corporation (CDIC), Taiwan. In addition, PIDM has also joined as a member of the Asia-Pacific Economic Cooperation Financial Regulators Training Initiative (APEC – FRTI) Advisory Group for Bank Supervisors.</p> <p>International fora: On the international front, the General Manager of POLICY was elected to the IADI Executive Council and we continued to contribute actively in various IADI Subcommittees. We participated in 20 international fora, involving local and international participants, in various capacities including promoting knowledge sharing through meetings, attachments and training with our counterparts within the region, as well as providing resource persons to speak at conferences at both the local and international events.</p> | <p>Educated and informed stakeholders: Review the Provision of Information on Deposit Insurance Regulations 2011. Continue to assist COMMS to conduct briefings to MIs and the general public.</p> <p>Effective partnerships: Continue to build PIDM's credibility, reputation and capability through the development of sound and robust policies. POLICY will also continue to build strategic partnerships and maintain good relationships with both local and international key stakeholders for capacity building and knowledge sharing.</p> <p>Effectiveness assessment: As part of the Financial Sector Assessment Programme conducted by the International Monetary Fund and the World Bank, PIDM will be assessed against the IADI Core Principles for Effective Deposit Insurance Systems. We will also be hosting the Regional Workshop on Assessment of Compliance with Core Principles for Effective Deposit Insurance Systems.</p> <p>Policies and regulations: For DIS, to implement the interest and dividend payable rules and complete the development of the premium surcharge regulations as well as to implement the terms and conditions of membership for TIPS.</p> <p>International fora: We will be hosting the Regional Seminar on Crisis Management / Dealing with Problem Banks organised by the APEC Financial Regulators Training Initiative (APEC – FRTI). In addition, continue to participate and contribute actively in IADI activities including hosting the next International Workshop on Integrated Deposit Insurance Systems.</p> |

| DIVISION | KEY ACHIEVEMENTS IN 2011 | GOING FORWARD |
|---|---|--|
| <p>Strategic Planning Division (SP)</p> <p>SP is responsible for the implementation of PIDM's strategic planning process and assists the Board and Management in the setting of the Corporation's strategic direction and the development of a strategic plan.</p> | <p>Strategic planning: Facilitated and assisted the divisions to develop their respective divisional scorecards and aligned the initiatives to the corporate objectives, mission and vision. Conducted the annual Strategic Planning Workshop for senior management and employees where SP facilitated discussions of corporate and divisional KPIs and initiatives. Conducted the annual Board Strategic Planning session.</p> <p>Performance management: Continued to track and monitor PIDM's performance against the targets in the approved plan, on a quarterly basis, using the Balanced Scorecard approach. The reports are tabled to the management and Audit Committee, and circulated to the Board.</p> <p>Automation of performance management process: Commenced the development of the Corporate Performance Management System, a Balanced Scorecard reporting system to increase the efficiency and effectiveness of revising, tracking and monitoring of KPIs and targets. This will also include centralisation of progress reporting by divisions.</p> <p>Corporate publications: Developed the Corporate Plan 2012 - 2014 which highlights PIDM's strategic direction, focus, initiatives and budgets. In collaboration with COMMS and FINAD, coordinated and managed the development and publication of PIDM's Annual Report.</p> | <p>Strategic planning: Continue to adopt an integrated approach in the strategic planning process, taking into account the opportunities and risks facing PIDM, including adopting the scenario planning approach, to ensure fulfilment of our mandate, vision and mission.</p> <p>Automation of performance management process: Continue to develop and implement the Corporate Performance Management System to increase the efficiency and effectiveness of the performance management process.</p> |

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL OVERVIEW

OPERATING RESULTS

| | 2011 Actual | 2011 Budget | Variance Budget vs Actual | | 2010 Actual |
|--|------------------|----------------|------------------------------|-------------|----------------|
| | RM'000 | RM'000 | RM'000 | % | RM'000 |
| Premium revenues | 201,239 | 242,700 | (41,461) | (17) | 105,687 |
| Investment income | 21,821 | 11,000 | 10,821 | 98 | 9,314 |
| Gains from sales of available-for-sale investments | 3,715 | - | 3,715 | - | - |
| Total Revenues | 226,775 | 253,700 | (26,925) | (11) | 115,001 |
| Employee benefits | 31,037 | 44,309 | 13,272 | 30 | 26,409 |
| Public relations and advertising | 9,882 | 9,755 | (127) | (1) | 6,434 |
| Depreciation | 5,159 | 5,500 | 341 | 6 | 2,791 |
| Operating leases | 5,563 | 5,986 | 423 | 7 | 3,124 |
| Other expenses | 18,018 | 23,950 | 5,932 | 25 | 15,398 |
| Total Operating Expenditures | 69,659 | 89,500 | 19,841 | 22 | 54,156 |
| Operational Net Surplus | 157,116 | 164,200 | (7,084) | (4) | 60,845 |
| Moneys and investments received from Insurance Guarantee Scheme Funds | 922,437 | - | 922,437 | - | - |
| Net Surplus for the Year | 1,079,553 | 164,200 | 915,353 | 557 | 60,845 |
| Net unrealised gains / (losses) on available-for-sale investments | (573) | - | (573) | - | - |
| Total Comprehensive Income for the Year | 1,078,980 | 164,200 | 914,780 | 557 | 60,845 |

CAPITAL EXPENDITURES

| | 2011 Actual | 2011 Budget | Variance Budget vs Actual | | 2010 Actual |
|--|----------------|----------------|------------------------------|-----------|----------------|
| | RM'000 | RM'000 | RM'000 | % | RM'000 |
| Furniture, fittings and office refurbishment | 614 | 550 | (64) | (12) | 7,784 |
| Computer systems and office equipment | 1,374 | 6,950 | 5,576 | 80 | 5,731 |
| Motor vehicle | 6 | - | (6) | - | - |
| Total Capital Expenditures | 1,994 | 7,500 | 5,506 | 73 | 13,515 |

COMMENTARY ON 2011 FINANCIAL PERFORMANCE

For the financial year ended 2011, we recorded total revenues of RM226.8 million, an increase of RM111.8 million or 97.2% compared to the previous financial year. This significant increase compared to the previous year is primarily due to the inclusion of premiums from TIPS as well as the increase in the scope of coverage for the DIS from RM60,000 to RM250,000 per depositor per member bank.

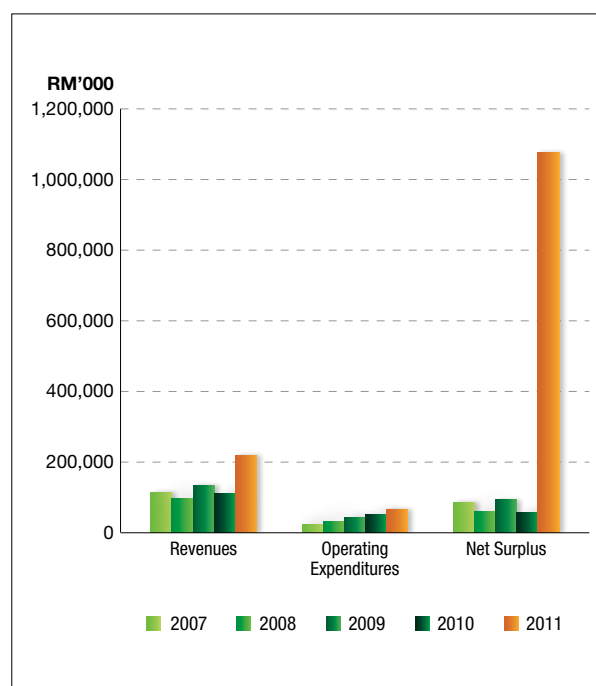
Operating expenditures for 2011 increased by 28.6% from RM54.2 million in 2010 to RM69.7 million. The increase in expenditures is directly related to our enhanced mandate of protecting policy owners of TIPS. Expenditures are expected to continue over the next few years as we continue to build and enhance the capacity and capabilities of our human capital, processes, systems and infrastructure, particularly for our operations relating to TIPS. Nevertheless, we will continue to practise prudent financial management and sound financial stewardship in achieving our objectives as stated in our Corporate Plan. For 2011, our operating expenditures were RM19.8 million or 22.2% lower than budget.

As at 31 December 2011, we contracted RM2 million for capital expenditures which represents 27% of the capital expenditures budget for 2011 of RM7.5 million.

Our net surplus totalled RM1.1 billion in 2011, an increase of RM1 billion from 2010. The net surplus for the year increased significantly as a result of the transfer of the Insurance Guarantee Scheme Funds (IGSF) previously administered by BNM amounting to RM922.4 million.

The Deposit Insurance Funds (DIFs) as at 31 December 2011 grew by 20.4% to RM518.5 million, whilst the Takaful and Insurance Benefits Protection Funds (TIPFs) stood at RM991.2 million. The DIFs and TIPFs will be used to cover any losses that may arise from providing protection to depositors as well as takaful certificate and insurance policy owners.

Chart 1: Key Financial Trends from 2007 to 2011



REVENUES

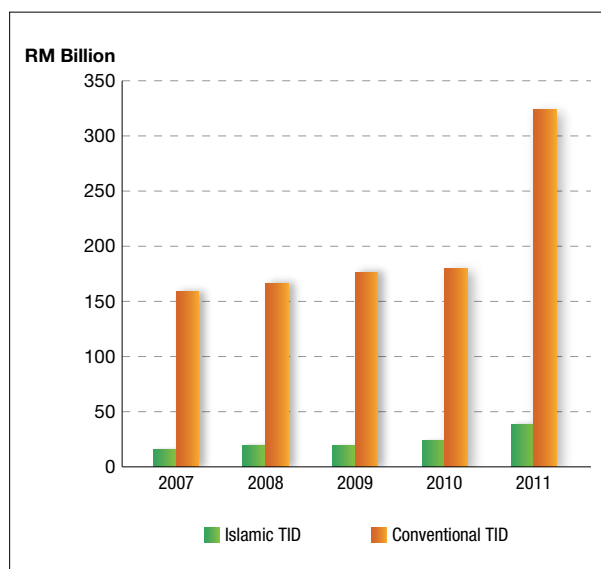
Premium Revenues – Deposit Insurance System

Annual premiums are assessed against Total Insured Deposits (TID) held by member banks. In line with the increase in the deposit insurance limit from RM60,000 to RM250,000 per depositor per member bank, as well as the inclusion of foreign currency deposits as part of insurable deposits, TID grew by 76.5% in the 2011 assessment year totalling RM366.5 billion compared to RM207.6 billion in the 2010 assessment year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL OVERVIEW

Chart 2: Trend of TID from assessment years 2007 to 2011



Member banks' premium rates are assessed based on PIDM's Differential Premium Systems (DPS). The DPS is aimed at providing incentives to member banks to adopt sound and rigorous risk management practices including maintaining strong capital positions. Under this system, member banks with lower risk profiles pay lower premiums than those with higher risk profiles.

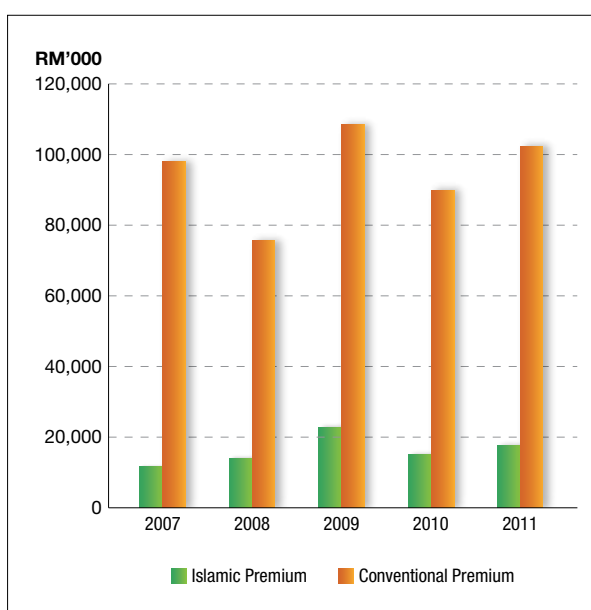
The DPS is continuously reviewed to ensure existing criteria and factors used are still current and relevant given the changes and developments in the operating and regulatory environment. In 2011, PIDM issued a revision to the guidelines on the DPS. As part of the revision, effective from the 2011 assessment year, the minimum annual premium payable by a member bank is now based on its DPS premium category as stipulated in Table 1 below. In previous years, the minimum annual premium payable by a member bank was RM250,000, regardless of the bank's DPS premium category.

Table 1: DPS Premium Categories and Minimum Annual Premiums Payable

| PREMIUM CATEGORY | ANNUAL PREMIUM RATE | MINIMUM AMOUNT OF ANNUAL PREMIUMS |
|------------------|---------------------|-----------------------------------|
| Category 1 | 0.03% | RM100,000 |
| Category 2 | 0.06% | RM200,000 |
| Category 3 | 0.12% | RM400,000 |
| Category 4 | 0.24% | RM800,000 |

In 2011, the overall DPS ratings improved due to general improvements in the performance and risk management practices of member banks. However, total premiums collected from member banks in 2011 of RM120.5 million were higher compared to RM105.7 million in the previous year, primarily due to higher TID arising from the increase in deposit insurance limit as noted earlier.

Chart 3: Trend of Premiums from 2007 to 2011



For 2012, premiums of RM115.1 million was budgeted from member banks, which is RM5.4 million or 4.5% lower than the actual premiums received in 2011. This is primarily due to the expected improvements in DPS ratings for member banks as well as expected moderate growth in the TID held by banks.

Premium revenues – Takaful and Insurance Benefits Protection System

The administration of TIPS commenced on 31 December 2010 as part of the enhanced financial consumer package following the enactment of the MDIC Act 2011. TIPS is designed to protect owners of insurance policies and takaful certificates against the loss of their eligible benefits in the unlikely event of an insurer member failure. From financial year 2011, PIDM maintains and administers an additional four separate Funds (as described in Table 2), one for each business segment within TIPS.

Table 2: TIPS Protection Funds

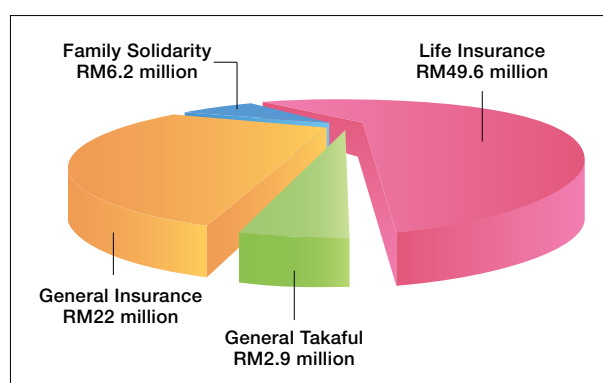
| NO. | TAKAFUL AND INSURANCE BENEFITS PROTECTION FUNDS (TIPFs) |
|-----|---|
| 1 | Family Solidarity Takaful Protection Fund |
| 2 | Life Insurance Protection Fund |
| 3 | General Takaful Protection Fund |
| 4 | General Insurance Protection Fund |

Similar to the DIS, TIPS is funded by premiums paid by takaful operators and insurance companies. In relation to first year premium rate, the insurer members were assessed based on a flat rate applied on the relevant basis as at 31 December of the preceding year, as tabulated in Table 3. The basis for premiums applied for assessment year 2011 were actuarial valuation liabilities of RM91 billion and net premiums / contributions of RM9.7 billion. PIDM is currently developing a differential levy system for the insurer members similar to the DPS for member banks and it is expected to be implemented in 2013.

Table 3: TIPS Business Segment, Premium Rates and Basis

| BUSINESS TYPES | FLAT RATE PREMIUM | PREMIUM BASIS |
|--|-------------------|--|
| Family Solidarity Takaful & Life Insurance | 0.06% | Actuarial valuation liabilities as at 31 December of preceding assessment year |
| General Takaful & General Insurance | 0.25% | Net premiums received as at 31 December of preceding assessment year |

In the 2011 financial year, premiums collected from insurer members were RM80.7 million, 1.4% or RM1.2 million lower than budget. For 2012, we have budgeted premiums for TIPS amounting to RM84.2 million.

Chart 4: Premiums from Insurer Members for 2011

Investment-Related Revenues

PIDM's investment activities are carried out in line with its Investment Policy approved by the Board of Directors as well as the approved policies relating to the management of financial risks i.e., liquidity, market and credit risks. PIDM continues to invest in short-term and medium-term Ringgit Malaysia-denominated securities issued by the Government or BNM as well as placements of excess operational funds in short-term money market instruments.

On 30 September 2011, PIDM received assets from the IGSF, which was previously administered by BNM. These assets with fair value as at 30 September 2011 of RM922.4 million were in the form of moneys and investments, and were credited to PIDM's General Insurance Protection Fund (RM921.3 million) and Life Insurance Protection Fund (RM1.1 million) respectively. The transfer of the IGSF was approved by the Minister of Finance pursuant to Section 212 of the MDIC Act. The transfer of the IGSF assets to PIDM was carried out for nil consideration and recognised in PIDM's financial statements as an exceptional item within the Statement of Comprehensive Income.

Part of the IGSF portfolio transferred to PIDM comprised investment securities that were not in line with PIDM's approved Investment Policy. As a result, a specific approval from the Board was obtained to exempt part of these investment securities from complying with the Investment Policy. The investment securities that were exempted from complying with the Investment Policy were in relation to Government Securities with long-term tenures as well as high grade Private Debt Securities of Government-Linked Companies. These investments are being held to their relevant maturities. The remaining IGSF investment securities that are not in line with the approved Investment Policy are being divested and reinvested in investment securities that are in line with the approved Investment Policy. These investment securities were classified as investments "available-for-sale" upon their transfer to PIDM.

Our investment income for 2011 was RM21.8 million (DIFs: RM12.9 million, TIPFs: RM8.9 million), 98.4% or RM10.8 million higher than budget primarily due to the investment income relating to the IGSF portfolio. The weighted average yield rates for investments were 2.63% (2010: 2.32%) and 3.25% (2010: Nil) for the DIFs and TIPFs respectively.

During the year, we also recognised in the Statement of Comprehensive Income, net gains arising from the sales of available-for-sale investments which amounted to RM3.7 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL OVERVIEW

Chart 5: Investment Income from 2007 to 2011

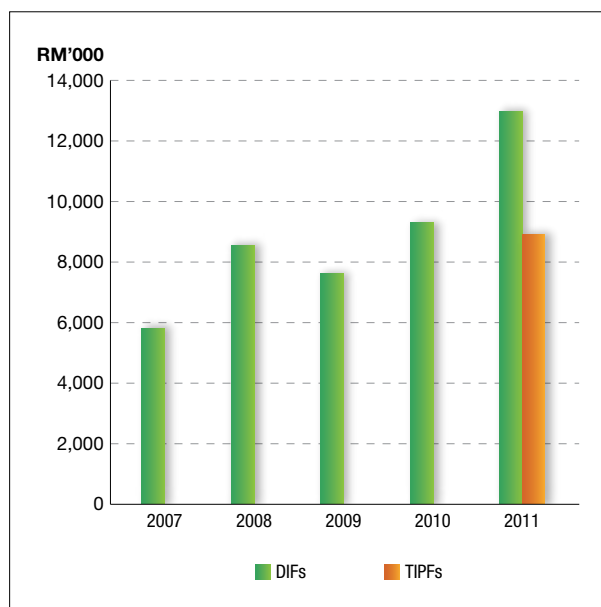
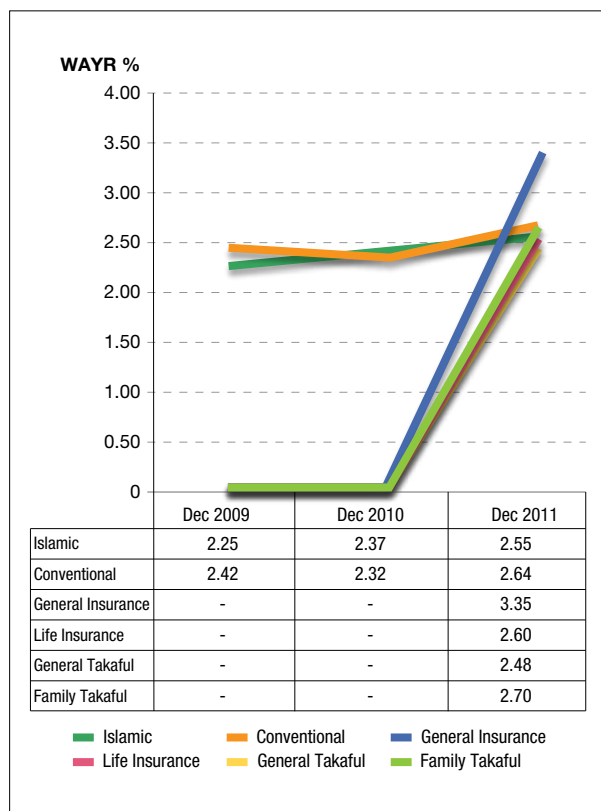


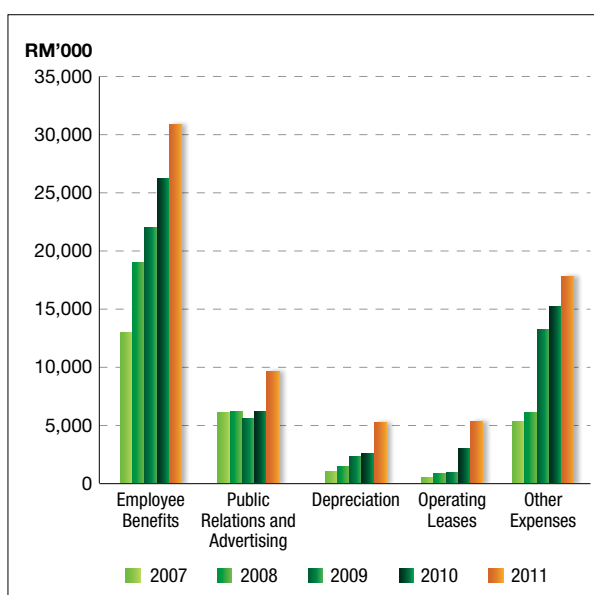
Chart 6: Trend of Weighted Average Yield Rate from 2009 to 2011



OPERATING EXPENDITURES

The following chart depicts the trend of our operating expenditures for the past five years.

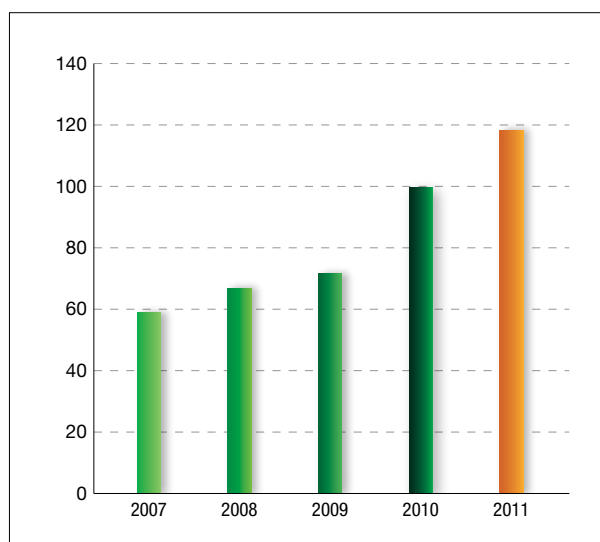
Chart 7: Trend of Operating Expenditures from 2007 to 2011



The total operating expenditures for the year totalled RM69.7 million, and was RM19.8 million or 22.2% lower than budget but was RM15.5 million or 28.6% higher compared to the previous year. The positive variance against budget is mainly due to the lower expenditures for employee-related expenses as well as engagement of consultants and legal advisors. The increasing trend of our operating expenditures from previous years is primarily due to PIDM's enhanced mandate and continued efforts to build its capacity and capabilities, particularly for the administration and operations related to TIPS.

Employee Benefits

Our key focus on human capital for the current financial year was to continue to maintain and develop our people as critical talents relevant to PIDM's mandate remain scarce. During the year, we continued to train and develop our employees to ensure they have the right skills, knowledge and experience expected of them. It is our strategy to provide competitive compensation to attract talent and retain our employees. The increasing trend in the number of employees over the years indicates our continued efforts to build capacity and capabilities to ensure operational effectiveness and readiness as well as effective succession management for organisation sustainability.

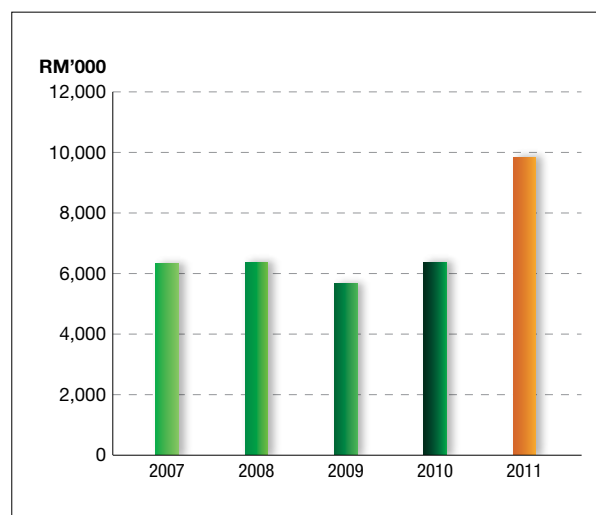
Chart 8: Employee Headcount from 2007 to 2011

The main increase in the number of employees for 2011 was in the key areas of operations, particularly for risk assessment and monitoring of insurer members. The increase was also attributed to additional resources required in other key areas to administer TIPS as well as to build capacity and capabilities to ensure operational readiness. The employee benefits expenses for 2011 only partially reflect the costs of additional resources recruited in 2011 as there were a number of new hires who commenced employment towards the third and final quarters of 2011.

For 2011, employee benefits expenses totalled RM31 million, 17.5% higher compared to the previous year. However, it is RM13.3 million or 30% lower than budget.

Public Relations and Advertising

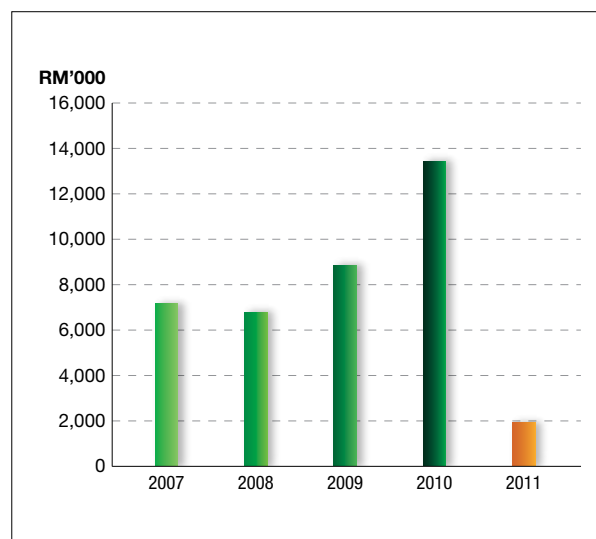
Communications and public awareness play a significant role in ensuring the effectiveness of our DIS and TIPS. The public relations and advertising budget for 2011 was still focused on PIDM's multi-year Integrated Communications Plan with additional focus on increasing the level of awareness and understanding of PIDM post the Government Deposit Guarantee which expired at the end of 2010, as well as the introduction and awareness of TIPS. Activities include developing new public information leaflets, publication of articles, conducting media briefings, road shows and interviews. As part of our ongoing initiatives to further enhance public understanding of deposit insurance as well as takaful and insurance benefits protection, we have also continued our education programmes for schools and tertiary education institutions.

Chart 9: Public Relations and Advertising Expenses from 2007 to 2011

Public relations and advertising expenses for 2011 totalled RM9.9 million and were 53.6% higher than previous year, as well as 1.3% higher than budget.

Capital Expenditures and Depreciation

We continued to build strong and effective operational infrastructure, in particular Information Technology (IT). In 2011, we continued our focus on enhancing and developing our core IT systems, including the payout system and our DRS.

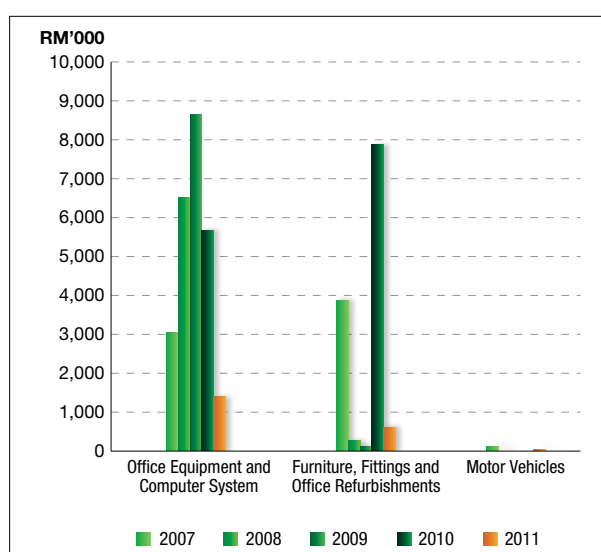
Chart 10: Trend of Capital Expenditures from 2007 to 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL OVERVIEW

As at 31 December 2011, PIDM contracted out projects worth RM2 million which represents 27% of the total capital expenditures budget for 2011 of RM7.5 million. The RM5.5 million positive variance is mainly attributed to the reprioritisation of several IT systems which will be implemented in 2012, to enable us to focus on stabilising our operations, particularly in administering TIPS as well as completing the payout system.

Chart 11: Breakdown of Major Capital Expenditures from 2007 to 2011



Depreciation expenses for the year amounted to RM5.2 million or 84.8% higher compared to the previous financial year. This is primarily due to increase in depreciable assets, including IT systems as well as furniture and fittings of our new office at Quill 7, Kuala Lumpur Sentral and our DRS.

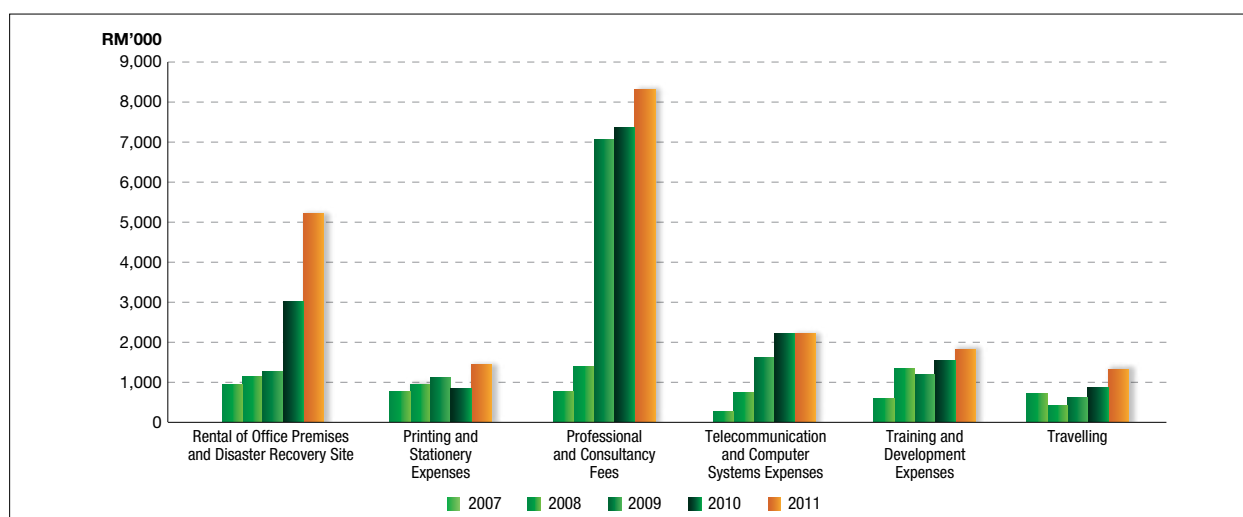
Operating Leases and Other Expenses

These categories of expenses relate to our general and administration expenses, such as rental of office premises, professional and consultancy fees, training and development expenses, travelling expenses, printing and stationery costs and telecommunications costs. The increasing trend of the general and administration costs over the years is due to the increase in our human resources, infrastructure and initiatives.

Chart 12: Trend of Operating Leases and Other Expenses from 2007 to 2011



Chart 13: Major items within Operating Leases and Other Expenses from 2007 to 2011

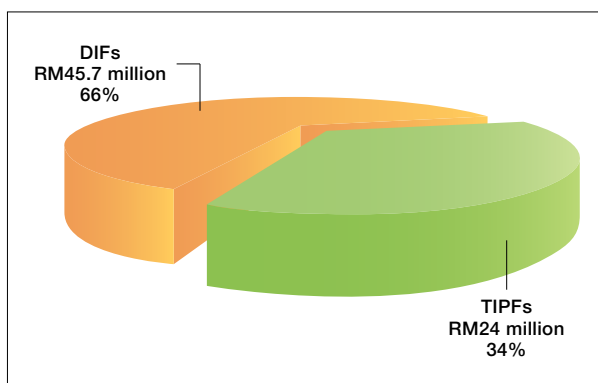


The operating leases mainly relate to rental of our office premises and rental of space for our DRS. Large increase noted in operating leases is due to full one year impact of the rental of our new office at Quill 7, KL Sentral as well as expenses related to our new rental of space for our DRS.

Other expenses increased from RM15.4 million in 2010 to RM18 million in 2011, mainly due to the engagement of consultants for the development of the Intervention and Failure Resolution (IFR) framework as well as IFR simulations. Our overall expenditures within this expense category were below budget by RM5.9 million or 24.8% primarily due to the timing of and savings from implementation of several key activities, particularly the engagement of consultants as well as lower fees on engagements of legal advisors.

Segment Information

Chart 14: Operating Expenses Charged to DIFs and TIPFs in 2011



In accordance with the MDIC Act as well as the Malaysia Deposit Insurance Corporation (Allocation of Expenses, Costs or Losses) Order 2011 (Costs Allocation Order), PIDM is to credit to and charge against, all income and expenditures to the relevant Fund or Funds. Based on the Costs Allocation Order, direct expenditures will be charged directly to the respective Fund or Funds whilst indirect expenditures will be charged either to the DIFs or the TIPFs or allocated across all the six Funds, based on premiums received. Note 2.2 (d) of the financial statements details the basis and allocation percentages used to allocate indirect expenditures to the respective Funds in accordance with the Costs Allocation Order.

From the perspective of the six Funds managed by PIDM, the share of total operating expenses of the respective Funds for 2011 is described in Chart 15.

Chart 15: Operating Expenses Charged to the Six Protection Funds in 2011

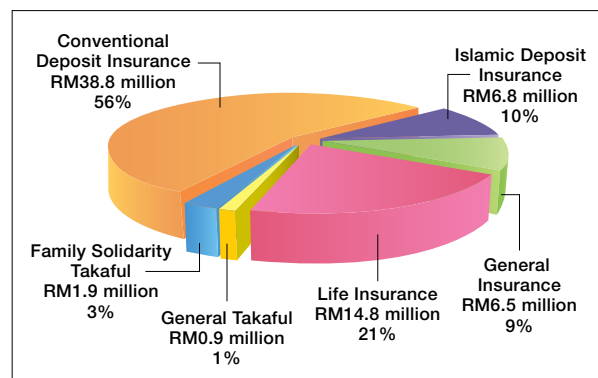
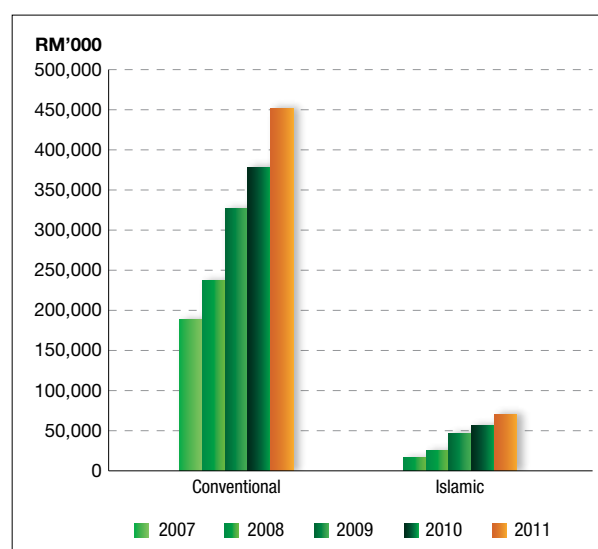


Chart 16: Movement of Conventional and Islamic DIFs from 2007 to 2011

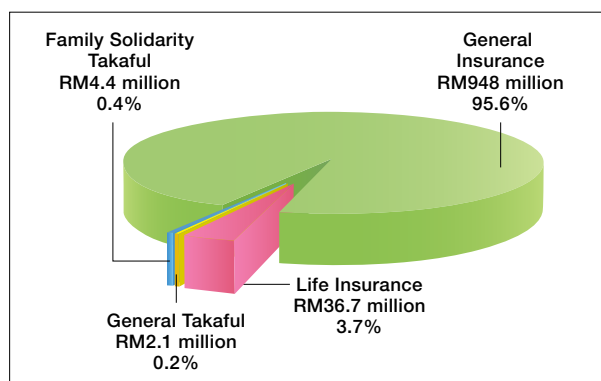


Total DIFs as at 31 December 2011 amounted to RM518.5 million, an increase of 20.4% from the previous year. The Conventional DIF increased by 20.1% to RM450 million whilst the Islamic DIF increased by 22.1% to RM68.5 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL OVERVIEW

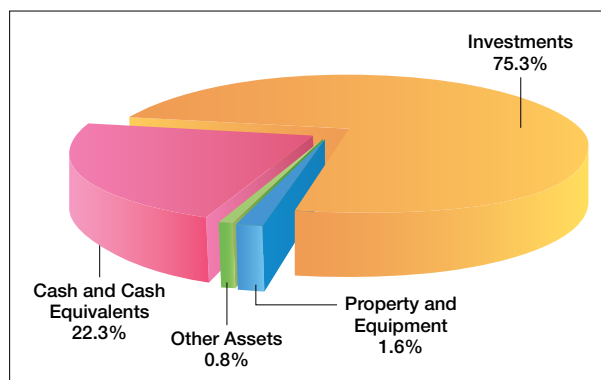
Chart 17: TIPFs balance as at 31 December 2011



The TIPFs for the financial year ended 31 December 2011 stood at RM991.2 million. The amount includes assets of the IGSF transferred to PIDM which amounted to RM922.4 million. Balances of each TIPF are stated in Chart 17 above.

HIGHLIGHTS OF THE STATEMENT OF FINANCIAL POSITION

Chart 18: Asset Composition



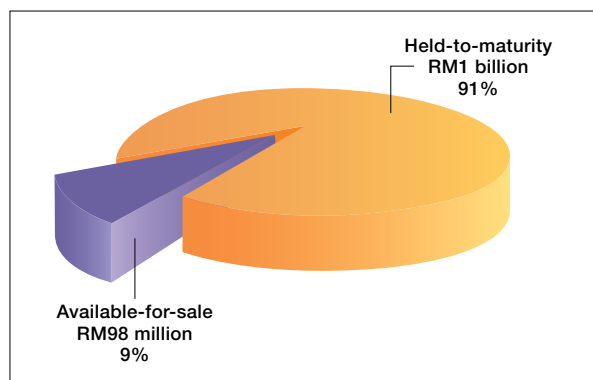
Cash, Cash Equivalents and Investments as at 31 December 2011

Our assets remain liquid with cash, cash equivalents and investments as at 31 December 2011 stood at RM1.5 billion, representing 97.6% of our total assets.

As at 31 December 2011, cash and cash equivalents for all Funds which include short-term investments of less than 90 days totalled RM339.4 million (DIFs: RM265.6 million and TIPFs: RM73.8 million). The sources and uses of cash and cash equivalents are described in the Statements of Cash Flows in Section 5 of this Annual Report.

PIDM's investments as at 31 December 2011 totalled RM1.1 billion, an increase of 405% compared to RM226.4 million in 2010. The significant increase is primarily due to investment securities received from the IGSF. Of this total, RM98 million were investments classified as available-for-sale. These investments comprised Private Debt Securities that were part of the IGSF portfolio transferred to PIDM which are being divested and to be reinvested in investments which are in line with PIDM's approved Investment Policy. The available-for-sale investments were stated in the financial statements as at 31 December 2011 at their fair value, which were determined by reference to indicative market prices as at that date, obtained from a bond pricing agency in Malaysia. The indicative market prices represent Level 2 of the hierarchy for fair value disclosure purposes, in accordance with the Financial Reporting Standards (FRS) 7 Financial Instruments: Disclosures. The remaining investments are classified as held-to-maturity investments and were stated in the financial statements at cost adjusted for amortisation of premiums or accretion of discounts.

Chart 19: Classification of Investments as at 31 December 2011



All investments (except for investment securities transferred from the IGSF) were invested in securities which are in accordance with the Board-approved Investment Policy. These investments, as at 31 December 2011, comprised Bank Negara Malaysia Notes and Malaysian Government Investment Securities with short-term tenures ranging from 113 days to 357 days. The longest tenure is up to November 2012. As for the investments from IGSF portfolio transferred to PIDM, the longest tenure for the retained investment securities is due to mature in August 2021.

Property and equipment and other assets as at 31 December 2011

As at 31 December 2011, our property and equipment amounted to RM23.8 million (2010: RM24.1 million). The key additions to property and equipment in 2011 were attributed to assets under construction particularly for the development of our payout system.

Other assets comprised deposits and prepayments, investment income receivables, other assets and other receivables amounting to RM12 million. The balance as at the end of the year was 237.3% higher than the previous year primarily due to the increase in investment income receivable arising from the investment securities of the IGSF.

Liabilities as at 31 December 2011

Total liabilities increased by RM1.2 million to RM8.4 million in 2011. Our liabilities include payables for utilities, communication services, IT systems, provision for unutilised leave as well as services rendered in respect of consultancy engagements and supply of goods.

SOURCES OF FUND AND FINANCIAL ABILITIES

Funding framework

Adequate financial resources are required for the proper operations of a robust and sound deposit insurance system as well as takaful and insurance benefits protection system. The availability of such resources is necessary to ensure a high degree of confidence that PIDM is able to address the risks to which it is exposed. As a financial consumer protection organisation, we have an inherent exposure to losses resulting from protecting deposits held by member banks as well as takaful and insurance benefits provided by insurer members. To date, there have been no events which would require PIDM to record a specific provision in the financial statements in accordance with FRS 137 Provisions, Contingent Liabilities and Contingent Assets.

As a statutory body, our sources of funding and future ability to meet liabilities and commitments as they arise are firmly established in the MDIC Act. To administer and fund our financial consumer protection programmes, the main objectives of PIDM's funding framework are to (i) ensure the availability of sufficient financial resources

to enable PIDM to fund its day-to-day operations and (ii) accumulate reserves to ensure PIDM is able to meet future obligations to depositors as well as takaful certificate and insurance policy owners. The funding framework takes into consideration PIDM's role in the financial safety net and its legislative powers relating to sources of funding, as well as clearly provides objectives for its internal and external sources of funding.

(a) **Internal funding** is developed through accumulation of net surpluses from PIDM's operations. Annual net surplus is credited into and accumulated in the respective Protection Funds as reserves to meet future obligations that may arise from providing the financial consumer protection programmes. As noted earlier, operating expenses are credited against the respective Protection Funds on the costs allocation basis as described in Note 2.2 (d) of the financial statements.

Deposit Insurance Funds

The DIFs are accumulated reserves designated to cover the net insurance losses arising from providing deposit insurance protection. In accordance with the MDIC Act, PIDM maintains separate DIFs for both Conventional and Islamic DIS. The DIFs are accumulated from annual net operating surpluses which is the surplus of the premium revenues and investment income net of operating expenses for a particular year.

In 2011, PIDM established a framework to determine the reserve levels of the DIFs that PIDM aims to accumulate over the long run to achieve its mandate. These levels (known as the Target Fund) represent the level of funds that would be sufficient to cover the net insurance losses from intervention or failure resolution activities. The Target Fund is usually described as a percentage of TID, and for PIDM, is specified as a range of target levels (lower and upper ranges).

As at 31 December 2011, the Target Fund range is between 0.6% and 0.9% of TID for both the Conventional and Islamic DIFs. Based on the level of TID as at 31 December 2010, the range is between RM2 billion and RM3 billion for Conventional DIF and between RM240 million and RM360 million for Islamic DIF.

| | FUNDS AS AT 31 DECEMBER 2011 | | TARGET FUND LEVELS | | | |
|---|---------------------------------|---------------------------|--------------------------------|-------|---------------------------|-------|
| | CONVENTIONAL RM MILLION / % | ISLAMIC RM MILLION / % | CONVENTIONAL RM MILLION / % | | ISLAMIC RM MILLION / % | |
| Deposit Insurance Fund | 450 | 68.5 | 2,000 | 3,000 | 240 | 360 |
| Percentage of Total Insured Deposits (TID)* | 0.14% | 0.17% | 0.60% | 0.90% | 0.60% | 0.90% |

* Based on level of TID as at 31 December 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL OVERVIEW

Further details on the Target Fund for DIFs are discussed below.

Takaful and Insurance Protection Funds

With the coming into operations of the new MDIC Act effective 31 December 2010, four new Funds were established for the administration of TIPS, namely the General Insurance Protection Fund, the Life Insurance Protection Fund, the General Takaful Protection Fund and the Family Solidarity Takaful Protection Fund. The Takaful and Insurance Benefits Protection Funds (collectively known as TIPFs) began to be accumulated with the insurer members paying premiums beginning assessment year 2011.

On 30 September 2011, the IGSF, previously administered by BNM, was transferred to PIDM to form part of the TIPFs pursuant to Section 212 of the MDIC Act. Of the total amount of IGSF as at 30 September 2011 which amounted to RM922.4 million, RM921.3 million was credited into the General Insurance Protection Fund whilst RM1.1 million was credited into the Life Insurance Protection Fund.

Balances of the TIPFs as at 31 December 2011 are as follows:

| | GENERAL INSURANCE RM MILLION | LIFE INSURANCE RM MILLION | GENERAL TAKAFUL RM MILLION | FAMILY SOLIDARITY TAKAFUL RM MILLION |
|-----------------|---------------------------------------|------------------------------------|-------------------------------------|--|
| Protection Fund | 948 | 36.7 | 2.1 | 4.4 |

PIDM will be developing a Target Fund framework for the TIPFs, similar to that of the DIFs, over the next few years.

(b) External funding may be raised through either borrowings from the Government, from capital markets or other sources as deemed necessary and appropriate. The MDIC Act empowers the Minister of Finance to provide government loans to PIDM to meet its obligations. Such borrowing would be based on such terms and conditions as the Minister would determine. Funding from the capital markets, namely through the issuance of Government-guaranteed debt securities is also an option when the environment or market is conducive to do so.

Hence, with internal and external funding available to PIDM, the financial ability of PIDM to meet its obligations is assured.

Target Fund for the Deposit Insurance System

As mentioned above, PIDM has established a Target Fund framework to determine the level of funds it needs to accumulate to meet its obligations in providing deposit insurance protection to depositors. PIDM aims to accumulate sufficient funds to cover the net insurance losses arising from intervention and failure resolution activities.

The determination of the Target Fund is based on the macro-economic conditions in the market which may, directly or indirectly, affect the potential default rates of member bank. The Target Fund, which is set as a range and expressed as a percentage of TID, is dependent on, among other things, the risk profile of each member bank, the expected financial exposure to PIDM in providing deposit insurance protection as well as the expected recoveries from any potential intervention and failure resolution activities. The Target Fund is not static and will be reviewed and validated annually to ensure relevance and to reflect any changes in the assumptions or inputs. Premiums assessed on member banks are also being aligned to enable the DIFs to be accumulated to achieve the Target Fund levels within a reasonable time frame. Such timeframe will be set upon consultation with key stakeholders.

In determining the range for the Target Fund, PIDM adopted both scientific approach via the use of statistical modelling as well as discretionary approach.

Modelling approach – PIDM uses the statistical modelling to assess the estimated net financial exposure to PIDM in providing deposit insurance protection. In deciding the appropriate model for PIDM, benchmarking exercise was performed by assessing the different models used by other deposit insurers and selecting a model that best reflects the way PIDM manages its risks. The model assumes two broad approaches that may be adopted in resolving a troubled member bank: (a) liquidation and (b) going-concern resolution. The statistical model determines the expected loss for PIDM using the following key input variables:

- (i) **Probability of Default (PD)** – PD measures the likelihood of a member bank going into default within a specific time horizon. In determining PDs, data from international External Credit Assessment Institutions – such as Standard & Poors, Moody's as well as Fitch were obtained. In cases of multiple ratings available, an average rating was used.

(ii) **Exposure At Default (EAD)** – EAD represents the financial exposure to PIDM in the event of default. PIDM adopted different EADs for liquidation and going-concern resolution approaches. We had used TID (at the limit of RM250,000 per depositor per member bank) as the EAD for the liquidation approach and re-capitalisation as proxy for the going-concern approach.

(iii) **Loss Given Default (LGD)** – LGD is defined as the net loss to PIDM after taking into account recoveries in any given intervention and failure resolution action related to a non-viable member bank. The LGD adopted also takes into consideration the liquidation and going-concern resolution approaches.

In estimating the Target Fund using the statistical model, PIDM used the Monte Carlo simulation approach which involves running ten million random loss scenarios to build up a statistical loss distribution. For each scenario trial, the insurance loss is determined by the input variables described above. It is from this loss distribution that we then determine the level of funds that would be sufficient to cover losses given a specified confidence level. In identifying the appropriate levels of funds required, PIDM used a confidence level of 98.75%.

Discretionary approach – In determining the Target Fund range, PIDM also took into consideration other qualitative factors such as PIDM's mandate and legislative powers, the banking industry's landscape and operating environment as well as the financial system regulatory and supervisory regime in Malaysia. These qualitative factors are either directly reflected within the statistical model or used in the determination of the Target Fund range.

Risks and sensitivity

The process of estimating the Target Fund levels is subject to uncertainty as the inputs to the model are based on sets of assumptions. The risks and sensitivity of the model underlying the Target Fund are as follows:

(a) Factors affecting Target Fund levels

As noted earlier, several key input variables are used in the modelling of the expected net insurance losses. Hence, the model is predicated upon and is sensitive to several key factors as follows:

(i) **Operating environment** – The model is based on the assumption that the environment in which member banks operate in does not deviate significantly in the foreseeable future. This includes economic conditions and the risk profile of individual member banks, banking industry's landscape as well as the regulatory and supervisory regime. Significant or drastic changes to these characteristics or other similar characteristics may result in different Target Fund levels than previously required. PIDM is of the view that current economic conditions and the risks affecting member banks are not expected to change significantly in the

foreseeable future. Nevertheless, the operating environment will be reviewed and validated against the model annually;

(ii) **Total Insured Deposits** – are indicative of the EAD used in the modelling of Target Fund levels. Accordingly, significant changes in TID will have a direct impact on the EAD, and thus the Target Fund levels; and

(iii) **Mandate and Powers** – The mandate and powers of PIDM are set out in the MDIC Act, which among others enable PIDM to intervene in and resolve a troubled institution promptly to minimise losses to the financial system. The Target Fund modelling and estimation were made based on the current mandate and powers set out in the MDIC Act. Any significant changes to the mandate and powers of PIDM may affect the modelling assumptions and thus the estimation of the Target Fund levels. However, PIDM does not expect significant changes to its mandate and powers to occur in the near future.

(b) Factors affecting Time-to-Fund

PIDM is currently reviewing its framework to determine an appropriate and reasonable Time-to-Fund to be set for its DIFs.

The Time-to-Fund refers to the timeframe (usually set as number of years) required to achieve the set Target Fund levels, given the levels of premiums to be charged to member banks and the level of net surplus to be accumulated annually. The Time-to-Fund is predicated upon and is sensitive to the following factors:

(i) **TID growth** – When the rate of growth in TID is higher than expected, the estimated Time-to-Fund would correspondingly lengthen. The reverse would also be true should TID growth rate be lower than expected;

(ii) **Investment income** – Premiums received from member banks are invested in stable, low risk fixed income investments. Accordingly, returns on investments which are different than expected will have an inverse effect on the Time-to-Fund i.e., higher interest rates than expected would result in a shorter Time-to-Fund; and

(iii) **Operating expenditures** – Moving forward, the operating expenditures of PIDM are expected to marginally increase and will begin to stabilise after all the required resources have been obtained and all key infrastructure, systems and processes have been implemented.

Moving forward, PIDM will continue to report its progress in achieving the Target Fund levels.

MANAGEMENT'S DISCUSSION AND ANALYSIS

SUMMARY OF OUR CORPORATE PLAN 2012 - 2014

In PIDM, we believe planning is essential to enable the Corporation to demonstrate resilience, adaptability and strength in different operating environments and to be operationally ready to meet its statutory mandate as the federal financial consumer protection organisation. The Corporate Plan provides a blueprint for accomplishing our priorities for the next three years and presents the strategic direction that focuses the Corporation's work. It also describes the means that will be employed in pursuit of the goals and outcomes that the Corporation wishes to achieve as well as identifies factors outside PIDM's control that could potentially affect the achievement of our Plan.

Aligning our planned initiatives to our strategic direction and corporate objectives, we continued to adopt an integrated approach in developing our three-year rolling Corporate Plan whereby we identify and assess the challenges and significant risks facing PIDM using the ERM framework. As in previous years, we adopted the scenario planning approach with the aim of responding effectively in the unlikely event of an intervention in a troubled member institution which may derail our approved Plan. The following is a summary of our Plan and it should be read in conjunction with our Corporate Plan 2012 - 2014, which is available on our website at www.pidm.gov.my.

OUR STRATEGY

Given our expanded mandate to administer an integrated financial consumer protection system, the next few years will be just as challenging for PIDM. In this Plan, we have defined our strategic direction, corporate objectives and key initiatives for the next three years to meet these challenges. For the planning period 2012 - 2014, the strategic direction is anchored on initiatives to:

- enhance the organisation's capacity and capability by focusing on employee competencies;
- strengthen the Corporation's operational readiness; and
- promote public awareness and education.

We will also continue to build and put in place the necessary policies, processes, systems and infrastructure for TIPS operations while enhancing and strengthening our people's experience and expertise.

OUR AREAS OF FOCUS

The following areas will be the focus of our work in the 2012 - 2014 planning period.

To enhance the organisation's capacity and capability by focusing on employee competencies

People are our greatest asset and thus, we aim to enhance the capability of the Corporation by enabling our people to develop their skills, knowledge and professionalism. The Human Capital Strategic Plan focuses on attracting, developing and retaining talented people who can fulfil PIDM's mandate. The plan focuses on long-term sustainability and the need for the Corporation to build its workforce, and to retain and deepen the expertise that resides in our employees. Learning and development will continue to be emphasised and the Competency model will guide the identification of training needs, whereby employees will have access to extensive training opportunities to ensure that they acquire the necessary knowledge and understanding of DIS, TIPS and the role of PIDM in administering the financial consumer protection systems. In addition, the plan will also continue to foster an optimal workplace culture and environment, as well as competitive compensation to hire and retain talent.

To strengthen the Corporation's operational readiness

A key part of PIDM's responsibilities is to be ready to respond to troubled MIs so that financial consumers can be protected, while allowing for the orderly resolution of troubled MIs. To that end, PIDM will continue to focus on enhancing the key aspects of readiness which includes assessing and monitoring the risks affecting MIs as well as expanding our intervention and failure resolution capacity. Improving the Corporation's infrastructure and operations is also vital to ensure that the Corporation is operationally ready and has the capabilities to promptly deal with troubled MIs.

- **Risk Assessment and Monitoring:** It is crucial for PIDM to promptly identify and respond to potential risks affecting the MIs. The Corporation continuously monitors the economic and financial environment, as well as conducts comprehensive reviews of the risk profile and financial performance of individual MIs and of MIs as an industry. The key focus currently is to develop the necessary system and infrastructure to support the risk assessment and monitoring of insurer members, develop the DLS framework and guidelines

as well as the external validation programme guidelines for insurer members. We will also continue to review and enhance the risk assessment framework and the DPS guidelines for member banks. To strategically position the Corporation as a leader in the field of Islamic deposit insurance, the Corporation will continue to focus its efforts on leading the development of guidance notes, research papers and core principles in relation to Islamic deposit insurance operations.

- Intervention and Failure Resolution:** In fulfilling our mandate in an effective and least cost manner to the financial system, PIDM needs to be in a state of readiness to intervene early in the affairs of a troubled MI. The Corporation must also be well coordinated with the other financial safety net players and its key stakeholders. We have developed a road map, focusing on internal readiness, effective coordination and cooperation with relevant Government agencies and developing a clear IFR strategy in respect of MIs, to assess and monitor our state of readiness to deal with troubled MIs. For DIS, we will continue to develop the final components of IFR activities to enable the Corporation to effectively carry out various IFR options. The Corporation will also focus on enhancing its ability to conduct a prompt and accurate payout. In relation to TIPS, the focus is to develop the policies and procedures (P&Ps) on various IFR options such as Due Diligence, Transfer of Business, Bridge Institution and Restructuring. The Corporation will also embark on building the framework, processes and infrastructure for carrying out its payout mandate related to policy owners. Additionally, in support of its intervention framework and processes, the Corporation ensures continuous employee training and undertakes simulation sessions to enhance its intervention readiness.

- Improving Infrastructure and Operations:** The Information Technology Strategic Plan provides information technology capabilities to the functional areas in support of the achievement of the vision, mission and corporate objectives as well as contributing to our capacity to intervene promptly in a troubled MI. To support the Corporation's operational readiness, it is essential for the IT infrastructure to remain current in an evolving technological environment and to stay in line with industry best practices. Additionally, the collaboration of processes and systems is vital in creating an integrated and secure information sharing platform.

In ensuring the Corporation is equipped with the necessary infrastructure to continue with its critical business functions in the event of a disaster, PIDM's Business Continuity Management programme will focus on building a permanent DRS, which is also envisaged as a full alternative site that can be used

for other operational functions such as a venue for training, off-site meetings, a second office as well as an off-site storage facility. In the interim, annual tests will be performed at the Corporation's interim DRS, which was fully operational in September 2011, to ensure that the Business Continuity Management Plan remains current and relevant.

To promote public awareness and education

Public awareness of PIDM, DIS and TIPS remains a priority in promoting confidence in PIDM and the nation's financial system. This in turn contributes to financial stability. The Integrated Communications Plan (ICP) 2012 - 2016 is driven by three strategic thrusts underpinning its communications strategy and initiatives, namely to strengthen awareness of DIS and TIPS and to promote confidence in the role of PIDM; to actively contribute to the enhancement of financial awareness and literacy through education initiatives and programmes; and to enhance engagement with MIs and relevant strategic partners. To this end, the Corporation will continue to disseminate information in a direct, clear and simple manner as well as to strengthen its brand presence and awareness of DIS and TIPS. As the financial consumer protection organisation, the Corporation will also continue to educate the general public on DIS, TIPS and the role of PIDM, and at the same time, to educate students about the importance of savings and prudent financial management. The Corporation will also continue to engage and collaborate with key stakeholders via various related awareness activities including holding briefings, training sessions and seminars for MI employees and the general public.

Details of the key initiatives in support of our corporate objectives are described in our Corporate Scorecard 2012 - 2014 as depicted in the Appendix.

SUPPORTING FINANCIAL PLAN

The Financial Plan 2012 has been developed to support the achievement of the 2012 initiatives as well as the management of our day-to-day operations. Premium revenues are budgeted at RM199.3 million, of which RM115.1 million is expected from member banks and RM84.2 million from insurer members. Combined with budgeted investment income of RM49.4 million, PIDM's total revenues are expected to amount to RM248.7 million for 2012. Total operating expenditures are budgeted at RM95 million whilst capital expenditures are budgeted at RM22.2 million. At the end of 2012, we expect a net surplus from operations of RM153.7 million, which will increase the total Protection Funds administered by PIDM to RM1,655.8 million comprising RM611.1 million for the Deposit Insurance Funds and RM1,044.7 million for the Takaful and Insurance Benefits Protection Funds.

MANAGEMENT'S DISCUSSION AND ANALYSIS

SUMMARY OF OUR CORPORATE PLAN 2012 - 2014

GOING FORWARD

Progressing to our seventh year of operations, we have made exceptional progress and gained further recognition of our efforts, accomplishments and contributions, both locally and internationally, as evident from receiving the “2011 Deposit Insurance Organisation of the Year” Award, presented by the IADI. Going forward, we will strive to achieve our key initiatives as set forth in our Corporate Plan by focusing our efforts and resources on strengthening the state of readiness of the Corporation in contributing to public confidence in the stability of the financial system.



Section 5

FINANCIAL STATEMENTS



FINANCIAL STATEMENTS

DIRECTORS' REPORT

The Directors hereby submit their report and the audited financial statements of Perbadanan Insurans Deposit Malaysia (PIDM) for the financial year ended 31 December 2011.

PRINCIPAL ACTIVITIES

PIDM is a statutory body established under the Malaysia Deposit Insurance Corporation Act (MDIC Act) 2005. With effect from 31 December 2010, the MDIC Act 2005 was replaced by the Malaysia Deposit Insurance Corporation Act (MDIC Act) 2011. The provisions of the MDIC Act 2011 on the preparation of financial statements do not differ from those in the MDIC Act 2005.

The principal responsibilities of PIDM are to administer a Deposit Insurance System (DIS) and a Takaful and Insurance Benefits Protection System (TIPS). The DIS provides protection against the loss of part or all of deposits for which a member bank is liable whereas TIPS provides protection against the loss of part or all of takaful or insurance benefits for which an insurer member is liable. In addition, PIDM provides incentives for sound risk management as well as promotes and contributes to the stability of the financial system. PIDM is also the resolution authority for all member institutions and thus has wide intervention and failure resolution powers.

The MDIC Act 2011 provides for separate coverage for Islamic and conventional deposits as well as for protected benefits in relation to general insurance, life insurance, general takaful and family solidarity takaful. To ensure proper governance and compliance with Shariah requirements, PIDM maintains and administers two separate Funds for Islamic and conventional deposits known as Deposit Insurance Funds (DIFs) as well as four separate Funds for each business segments within the TIPS known as Takaful and Insurance Benefits Protection Funds (TIPFs).

FINANCIAL RESULTS

| | 2011 RM'000 | 2010 RM'000 |
|---|------------------|----------------|
| Net surplus for the financial year: | | |
| Deposit Insurance Funds | 87,774 | 60,845 |
| Takaful and Insurance Benefits Protection Funds | 991,779 | - |
| Total net surplus | 1,079,553 | 60,845 |

| | 2011 RM'000 | 2010 RM'000 |
|--------------------------------------|----------------|----------------|
| Deposit Insurance Funds: | | |
| Conventional Deposit Insurance Fund | 450,003 | 374,645 |
| Islamic Deposit Insurance Fund | 68,504 | 56,088 |
| Total Deposit Insurance Funds | 518,507 | 430,733 |

| | 2011 RM'000 | 2010 RM'000 |
|--|----------------|----------------|
| Takaful and Insurance Benefits Protection Funds: | | |
| General Insurance Protection Fund | 948,034 | - |
| Life Insurance Protection Fund | 36,670 | - |
| General Takaful Protection Fund | 2,091 | - |
| Family Solidarity Takaful Protection Fund | 4,411 | - |
| Total Takaful and Insurance Benefits Protection Funds | 991,206 | - |

DIRECTORS

The names of the Directors of PIDM in office during the financial year ended 31 December 2011 were:

- Tan Sri Dato' Abdul Aziz Haji Taha (Chairman – retired on 14 August 2011)
- Tan Sri Datuk Dr. Abdul Samad Haji Alias (Chairman – appointed on 15 August 2011)
- Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz
- Tan Sri Dato' Sri Dr. Wan Abdul Aziz Wan Abdullah
- Dato' Halipah Esa
- Mr George Anthony David Dass
- Mr Lim Tian Huat
- Mr Alex Foong Soo Hah (appointed on 15 August 2011)

Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz and Tan Sri Dato' Sri Dr. Wan Abdul Aziz Wan Abdullah are ex officio directors by virtue of their office, in accordance with subsection 11(2) of the MDIC Act 2011. Members of the Board of Directors of PIDM other than ex officio members are appointed by the Minister of Finance in accordance with subsection 11(2) of the MDIC Act 2011.

Subsequent to the financial year ended and up to the date of this report, two new directors were appointed as follows:

- Datuk Dr. Rahamat Bivi Yusoff
(appointed on 1 January 2012)
- Encik Mohamad Abdul Halim Ahmad
(appointed on 1 January 2012)

DIRECTORS' BENEFITS

During the financial year and as at the date of this report, no Director of PIDM has received or become entitled to receive a benefit (other than Directors' remuneration disclosed in the financial statements) by reason of a contract made by PIDM with the Director or with a firm of which the Director is a member or with a company in which the Director has a substantial financial interest.

RESERVES AND PROVISIONS

Apart from the net surpluses that are credited into the respective DIFs and TIPFs as well as unrealised gains and losses on available-for-sale investments which are recognised in Other Reserves, there were no other transfers to or from reserves and provisions during the financial year.

BAD AND DOUBTFUL DEBTS

Directors have satisfied themselves that there are no known bad debts to be written off or doubtful debts to be provided for or are they aware of any circumstances that would require such action, as of the date of this report.

VALUATION METHODS

As at the date of this report, the Directors are not aware of any circumstances which have arisen that would render adherence to the existing methods of valuation of assets or liabilities in PIDM's accounts misleading or inappropriate.

CHANGE OF CIRCUMSTANCES

As at the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of PIDM which would render any amount stated in the financial statements misleading.

ITEMS OF AN UNUSUAL NATURE

Apart from the item specifically disclosed in the financial statements, the results of the operations of PIDM for the financial year were not, in the opinion of the Directors, substantially affected by any item, transaction or event of a material and unusual nature.

There has not arisen in the interval between the end of the financial year and the date of this report, any item, transaction or event of a material and unusual nature, likely to substantially affect the results of the operations of PIDM for the current financial year in respect of which this report is made.

As at the date of this report, there does not exist any charge on the assets of PIDM which has arisen since the end of the financial year that secures the liabilities of any other person.

GENERAL AND LIFE INSURANCE GUARANTEE SCHEME FUNDS

Pursuant to Section 212 of the MDIC Act 2011 and as approved by the Minister of Finance, all assets in the Insurance Guarantee Scheme Funds (IGSF) previously administered by Bank Negara Malaysia, was transferred to PIDM on 30 September 2011. The moneys and investments from the IGSF with fair value as at 30 September 2011 of RM922 million was transferred to PIDM for nil consideration and credited correspondingly to PIDM's General Insurance Protection Fund (RM921 million) and Life Insurance Protection Fund (RM1 million).

CONTINGENT LIABILITIES

Under the MDIC Act, PIDM has an inherent exposure to losses resulting from insuring deposits under the Deposit Insurance System as well as insurance policies and takaful certificates under the Takaful and Insurance Benefits Protection System. However, this inherent exposure cannot be accurately ascertained or estimated with any acceptable degree of reliability. During the year, there have been no events which would require PIDM to record a specific provision in its financial statements in accordance with FRS 137 Provisions, Contingent Liabilities and Contingent Assets.

As part of its mandate, PIDM undertakes risk assessment and monitoring of all member institutions and works closely with the supervisory authority to ensure that our concerns about the business and affairs of member institutions are addressed promptly. However, PIDM necessarily relies on the supervisory authority to take prompt corrective action to mitigate the possibility of a member institution failure. For member banks, PIDM reinforces financial discipline through its differential premium system which provides strong incentives for member banks to adopt sound and rigorous risk management practices including the maintenance of strong capital positions. PIDM is currently developing similar differential premium system for the insurer members to be implemented by 2013.

If a member institution is deemed non-viable by the supervisory authority, PIDM is mandated and has the necessary powers to intervene and resolve the member institution in a manner that minimises loss to the financial system.

While provisions are not recorded unless a specific event occurs, PIDM continues to build reserves in its Protection Funds through the accumulation of annual net surpluses arising from its operations. Accumulated surpluses are held in each Fund to cover losses when respective obligations arise. Accumulated surpluses in one Fund cannot be used

FINANCIAL STATEMENTS

DIRECTORS' REPORT

to cover obligations of another Fund. As discussed in Note 8 to the financial statement, PIDM has established the Target Fund framework for the DIFs. PIDM will also be developing a Target Fund framework for the TIPFs, similar to that of the DIFs, over the next few years.

If the relevant Fund was to ever be insufficient to meet obligations, PIDM, as a statutory body, has the authority to borrow from the Government or issue public debt securities to raise funds, as well as to assess and collect higher premiums in relation to the relevant Fund with the approval of the Minister of Finance.

RESPONSIBILITY FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

The Directors, in providing the opinion on the financial statements, relied on representations by Management on the processes and the system of internal controls as well as the internal and external audit functions designed to ensure that:

- i) the financial statements have been prepared in accordance with the provisions of the MDIC Act 2011 and the applicable Financial Reporting Standards (FRS) so as to give a true and fair view of the financial position of PIDM as at 31 December 2011, the results of its operations and its cash flows for the year ended on that date. The FRS are the Malaysian Accounting Standards Board Approved Accounting Standards in Malaysia for Entities Other Than Private Entities; and
- ii) the Islamic Deposit Insurance Fund as well as the Takaful Protection Funds are maintained and administered in accordance with Shariah requirements and is in compliance with the MDIC Act 2011.

AUDITORS

In accordance with the MDIC Act 2011, the accounts of PIDM are audited by the Auditor General of Malaysia.

Signed on behalf of the Board in accordance with a resolution of the Directors



Tan Sri Datuk Dr. Abdul Samad bin Haji Alias
Chairman of the Board of Directors



Mr. Lim Tian Huat
Chairman of the Audit Committee

Kuala Lumpur
28 February 2012

FINANCIAL STATEMENTS

STATEMENT BY DIRECTORS

We, Tan Sri Datuk Dr Abdul Samad bin Haji Alias and Mr Lim Tian Huat, being two of the Directors of Perbadanan Insurans Deposit Malaysia (PIDM), do hereby state that, in the opinion of the Directors, the financial statements have been prepared and presented in accordance with the provisions of the Malaysia Deposit Insurance Corporation Act (MDIC Act) 2011 as well as applicable Financial Reporting Standards, which are the Malaysian Accounting Standards Board Approved Accounting Standards in Malaysia for Entities Other Than Private Entities, so as to give a true and fair view of the state of affairs of PIDM as at 31 December 2011, the results of its operations and its cash flows for the year ended on that date. The Directors are also of the opinion that the Islamic Deposit Insurance Fund as well as the Takaful Protection Funds are maintained and administered in accordance with Shariah requirements, as set out in the MDIC Act.

Signed on behalf of the Board in accordance with a resolution of the Directors



Tan Sri Datuk Dr. Abdul Samad bin Haji Alias
Chairman of the Board of Directors



Mr. Lim Tian Huat
Chairman of the Audit Committee

Kuala Lumpur
28 February 2012

FINANCIAL STATEMENTS

STATUTORY DECLARATION BY MANAGEMENT IN RELATION TO THE RESPONSIBILITY FOR FINANCIAL REPORTING

The preparation of the financial statements of Perbadanan Insurans Deposit Malaysia (PIDM) and the information relating to the financial statements are the responsibility of Management. The financial statements have been prepared in accordance with the provisions of the Malaysia Deposit Insurance Corporation Act 2011 (MDIC Act) and applicable Financial Reporting Standards, which are the Malaysian Accounting Standards Board Approved Accounting Standards in Malaysia for Entities Other Than Private Entities, so as to give a true and fair view of the financial position of PIDM as at 31 December 2011, the results of its operations and its cash flows for the year ended on that date. The Islamic Deposit Insurance Fund as well as the Takaful Protection Funds are maintained and administered in accordance with Shariah requirements, and is in compliance with the MDIC Act.

In discharging its responsibility for the integrity and fairness of the financial statements, Management maintains financial and management control systems and practices as well as an internal audit function designed to provide reasonable assurance that transactions are duly authorised, assets are safeguarded and proper records are maintained in accordance with the MDIC Act as well as the Statutory Bodies (Accounts and Annual Reports) Act 1980.

These financial statements have been duly audited by the Auditor General of Malaysia and the results of the audit have been duly noted by Management. In carrying out the audit, the auditors have access to all documents and records of PIDM. The auditors also have free access to the Audit Committee of the Board, which oversees Management's responsibilities for maintaining adequate control systems and the quality of financial reporting and which recommends the financial statements to the Board of Directors.

The financial statements have been considered and approved by the Board of Directors and a resolution was adopted on 28 February 2012.

We, Jean Pierre Sabourin and Wan Ahmad Ikram bin Wan Ahmad Lotfi, being the two officers primarily responsible for the financial management of PIDM, do solemnly and sincerely declare that the financial statements, to the best of our knowledge and belief, are correct, and we make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act 1960.

Subscribed and solemnly declared by the abovenamed at Kuala Lumpur on 28 February 2012



Jean Pierre Sabourin
Chief Executive Officer



Wan Ahmad Ikram bin Wan Ahmad Lotfi
Chief Financial Officer and General Manager,
Finance and Administration

Before me,

Commissioner of Oaths





**CERTIFICATE OF THE AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF THE
PERBADANAN INSURANS DEPOSIT MALAYSIA
FOR THE YEAR ENDED 31 DECEMBER 2011**

I have audited the financial statements of the Perbadanan Insurans Deposit Malaysia for the year ended 31 December 2011. These financial statements are the responsibility of the management. My responsibility is to audit and to express an opinion on these financial statements.

The audit has been carried out in accordance with the Audit Act 1957 and in conformity with approved standards on auditing. Those standards require an audit be planned and performed to obtain reasonable assurance that the financial statements are free of material misstatement or omission. The audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessment of the accounting principles used, significant estimates made by the management as well as evaluating the overall presentation of the financial statements. I believe that the audit provides a reasonable basis for my opinion.

In my opinion, the financial statements give a true and fair view of the financial position of the Perbadanan Insurans Deposit Malaysia as at 31 December 2011 and of the results of its operations and its cash flows for the year ended in accordance with the approved accounting standards.

A handwritten signature in black ink, appearing to be 'A' followed by a long horizontal stroke.

(TAN SRIDATO' SETIA HAJI AMBRIN BIN BUANG)

**AUDITOR GENERAL
MALAYSIA**

**PUTRAJAYA
8 MARCH 2012**



FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER

| | Note | 2011 RM'000 | 2010 RM'000 |
|---|------|------------------|----------------|
| ASSETS | | | |
| Cash and cash equivalents | 3 | 339,363 | 184,015 |
| Investments | | | |
| <i>Available-for-sale investments</i> | 4a | 98,037 | - |
| <i>Held-to-maturity investments</i> | 4b | 1,045,023 | 226,368 |
| Other assets | 5 | 11,976 | 3,551 |
| Property and equipment | 6 | 23,750 | 24,059 |
| Total Assets | | 1,518,149 | 437,993 |
| LIABILITIES | | | |
| Payables | 7 | 8,436 | 7,260 |
| Total Liabilities | | 8,436 | 7,260 |
| FUNDS AND RESERVES | | | |
| Deposit Insurance Funds | | | |
| <i>Accumulated surpluses</i> | 8a | 518,507 | 430,733 |
| <i>Other reserves</i> | | - | - |
| Takaful and Insurance Benefits Protection Funds | | | |
| <i>Accumulated surpluses</i> | 8b | 991,779 | - |
| <i>Other reserves</i> | 8b | (573) | - |
| Total Funds and Reserves | | 1,509,713 | 430,733 |
| Total Liabilities, Funds and Reserves | | 1,518,149 | 437,993 |

The accompanying notes form an integral part of the financial statements.

FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER

| | Note | 2011 RM'000 | 2010 RM'000 |
|--|------|------------------|----------------|
| Premium revenues | 9 | 201,239 | 105,687 |
| Investment income from cash and investment securities | 10 | 21,821 | 9,314 |
| Gains / (losses) from sales of available-for-sale investments | 11a | 3,715 | - |
| Total revenues | | 226,775 | 115,001 |
| Employee benefits | 12 | 31,037 | 26,409 |
| Public relations and advertising | | 9,882 | 6,434 |
| Depreciation | 6 | 5,159 | 2,791 |
| Operating leases | | 5,563 | 3,124 |
| Other expenses | 13 | 18,018 | 15,398 |
| Total expenses | | 69,659 | 54,156 |
| Operational net surplus | | 157,116 | 60,845 |
| Exceptional item: | | | |
| Moneys and investments received from Insurance Guarantee Scheme Funds | 19 | 922,437 | - |
| Net surplus for the year | | 1,079,553 | 60,845 |
| Other comprehensive income | | | |
| Net unrealised gains / (losses) on available-for-sale investments | 11b | (573) | - |
| Total comprehensive income for the year | | 1,078,980 | 60,845 |

The accompanying notes form an integral part of the financial statements.

FINANCIAL STATEMENTS

STATEMENT OF CHANGES IN FUNDS AND RESERVES FOR THE YEAR ENDED 31 DECEMBER

Deposit Insurance Funds

| | | Conventional Deposit Insurance Fund | | Islamic Deposit Insurance Fund | | Total funds and reserves |
|--|------|--|-----------------------------|------------------------------------|-----------------------------|--------------------------------|
| | Note | Accumulated surpluses RM'000 | Other reserves RM'000 | Accumulated surpluses RM'000 | Other reserves RM'000 | RM'000 |
| As at 1 January 2010 | 8a | 320,894 | - | 48,994 | - | 369,888 |
| Total comprehensive income for the year | | 53,751 | - | 7,094 | - | 60,845 |
| As at 31 December 2010 | 8a | 374,645 | - | 56,088 | - | 430,733 |
| As at 1 January 2011 | 8a | 374,645 | - | 56,088 | - | 430,733 |
| Total comprehensive income for the year | | 75,358 | - | 12,416 | - | 87,774 |
| As at 31 December 2011 | 8a | 450,003 | - | 68,504 | - | 518,507 |

The accompanying notes form an integral part of the financial statements.

FINANCIAL STATEMENTS

STATEMENT OF CHANGES IN FUNDS AND RESERVES FOR THE YEAR ENDED 31 DECEMBER (continued)

Takaful and Insurance Benefits Protection Funds

| | Note | General Insurance Protection Fund | | Life Insurance Protection Fund | | General Takaful Protection Fund | | Family Solidarity Takaful Protection Fund | | Total funds and reserves RM'000 |
|--|------|--------------------------------------|-----------------------------|------------------------------------|-----------------------------|------------------------------------|-----------------------------|--|-----------------------------|---------------------------------------|
| | | Accumulated surpluses RM'000 | Other reserves RM'000 | Accumulated surpluses RM'000 | Other reserves RM'000 | Accumulated surpluses RM'000 | Other reserves RM'000 | Accumulated surpluses RM'000 | Other reserves RM'000 | |
| As at 1 January 2010 | 8b | - | - | - | - | - | - | - | - | - |
| Total comprehensive income for the year | | - | - | - | - | - | - | - | - | - |
| As at 31 December 2010 | 8b | - | - | - | - | - | - | - | - | - |
| As at 1 January 2011 | 8b | - | - | - | - | - | - | - | - | - |
| Total comprehensive income for the year | | 948,607 | (573) | 36,670 | - | 2,091 | - | 4,411 | - | 991,206 |
| As at 31 December 2011 | 8b | 948,607 | (573) | 36,670 | - | 2,091 | - | 4,411 | - | 991,206 |

The accompanying notes form an integral part of the financial statements.

FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER

| | Note | 2011 RM'000 | 2010 RM'000 |
|---|------|----------------|----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Premiums received from member institutions | | 201,239 | 105,687 |
| Payments in the course of operations to suppliers and employees | | (61,167) | (53,167) |
| Receipts of investment income | | 19,532 | 7,532 |
| Net cash flows from operating activities | | 159,604 | 60,052 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Proceeds from sale of investment securities | | 905,486 | 528,800 |
| Purchase of investment securities | | (940,597) | (549,013) |
| Receipts from Insurance Guarantee Scheme Funds | | 37,153 | - |
| Purchase of property and equipment | | (6,298) | (13,001) |
| Net cash flows used in investing activities | | (4,256) | (33,214) |
| Net increase in cash and cash equivalents | | 155,348 | 26,838 |
| Cash and cash equivalents at beginning of year | | 184,015 | 157,177 |
| Cash and cash equivalents at end of year | 3 | 339,363 | 184,015 |

The accompanying notes form an integral part of the financial statements.

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011

1. PRINCIPAL ACTIVITIES

Perbadanan Insurans Deposit Malaysia (PIDM) is a statutory body established under the Malaysia Deposit Insurance Corporation Act (MDIC Act) 2005. With effect from 31 December 2010, the MDIC Act 2005 was replaced by the Malaysia Deposit Insurance Corporation Act (MDIC Act) 2011. The provisions of the MDIC Act 2011 on the preparation of financial statements do not differ from those in the MDIC Act 2005.

The principal responsibilities of PIDM are to administer a Deposit Insurance System (DIS) and a Takaful and Insurance Benefits Protection System (TIPS). DIS provides protection against the loss of part or all of deposits for which a member bank is liable whereas TIPS provides protection against the loss of part or all of takaful or insurance benefits for which an insurer member is liable. In addition, PIDM provides incentives for sound risk management as well as promotes and contributes to the stability of the financial system. PIDM is also the resolution authority for all member institutions and thus has wide intervention and failure resolution powers.

The MDIC Act 2011 provides for separate coverage for Islamic and conventional deposits as well as for protected benefits in relation to general insurance, life insurance, general takaful and family solidarity takaful. To ensure proper governance and compliance with Shariah requirements, PIDM maintains and administers two separate Funds for Islamic and conventional deposits known as Deposit Insurance Funds (DIFs) as well as four separate Funds for each business segments within the TIPS known as Takaful and Insurance Benefits Protection Funds (TIPFs).

The office address of PIDM is at Level 12, Quill 7, No. 9, Jalan Stesen Sentral, Kuala Lumpur Sentral, 50470 Kuala Lumpur.

The financial statements were approved by the Board of Directors through a resolution adopted on 28 February 2012.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of accounting

The financial statements have been prepared under the historical cost convention, except for available-for-sale investments, which have all been measured at fair value. As a matter of policy,

the financial statements are prepared in compliance with the MDIC Act 2011 and in accordance with applicable Financial Reporting Standards (FRS), which are the Malaysian Accounting Standards Board (MASB)'s Approved Accounting Standards in Malaysia for Entities Other Than Private Entities.

The financial statements incorporate those activities relating to the administration of both the DIFs and TIPFs of PIDM. The Islamic Protection Funds are maintained and administered in accordance with Shariah requirements and in compliance with the MDIC Act 2011.

The financial statements are presented in Ringgit Malaysia (RM) and all values are rounded to the nearest thousand (RM'000), except when otherwise indicated.

On 19 November 2011, the MASB issued a new MASB approved accounting framework, the Malaysia Financial Reporting Standards (MFRS Framework).

PIDM will be required to prepare financial statements using the MFRS Framework in its financial statements for the year ending 31 December 2012.

The Directors and Management are of the opinion that the financial performance and financial position as disclosed in these financial statements for the year ended 31 December 2011 would not be significantly different if prepared under the MFRS Framework.

2.2 Summary of significant accounting policies

(a) Financial instruments

Financial instruments are recognised in the Statement of Financial Position when PIDM becomes a party to the contractual provisions of the instruments.

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held on demand with banks and short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011

in value. The Statement of Cash Flows is prepared using the direct method. This includes short term investments with maturities of less than 90 days.

(ii) Available-for-sale investments

Available-for-sale investments consist of private debt securities which are intended to be sold or divested in response to the requirement of internal policies. These securities are measured at fair value after initial measurement. Any unrealised gains and losses after applying amortised cost method are recognised directly in Other Reserves except for impairment losses. When the securities are sold, any cumulative unrealised gains or losses previously recognised in Other Reserves are recognised as gains or losses from sales of investments in the Statement of Comprehensive Income. Interest or returns earned whilst holding these investments, including any amortisation of premiums and accretion of discounts, which are calculated using effective interest or yield method are recognised as investment income in the Statement of Comprehensive Income. Any losses as result of impairment of these investments are recognised as losses in the Statement of Comprehensive Income and removed from the Other Reserves.

(iii) Held-to-maturity investments

Investments classified as held-to-maturity comprise primarily of marketable Malaysian Government Securities and Bank Negara Malaysia investment securities. PIDM invests in short-term and medium term Ringgit Malaysia denominated securities which are intended to be held to maturity and are not traded. These securities with fixed or determinable payments and fixed maturity are stated at cost adjusted for amortisation of premiums or accretion of discounts, calculated on an effective yield basis, from the date of purchase to the maturity date, less any impairment losses recognised. Interest or returns earned whilst holding these investments, including amortisation of premiums and

accretion of discounts which are calculated using effective interest or yield method, and impairment losses are recognised as profit or loss in the Statement of Comprehensive Income.

(iv) Receivables and other assets

Receivables and other assets are stated at anticipated net realisable values. Bad debts are written off when identified. An estimate, if any, is made for doubtful debts based on a review of all outstanding amounts as at Statement of Financial Position date.

(v) Payables

Payables are stated at cost which is the fair value of the consideration to be paid in the future for goods and services rendered.

(vi) Fair Value of Financial Instruments

FRS 7 Financial Instrument: Disclosures, requires that all financial instruments measured at fair value be categorised into one of the three hierarchy levels described below for disclosure purposes. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

Level 1 - inputs are unadjusted quoted prices of identical instruments in active markets.

Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - inputs for the asset or liability that are not based on observable market data.

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value.

Investments and cash equivalents are valued at indicative market prices as provided by a bond pricing agency and where applicable, Bank Negara Malaysia, hence consequentially fall under Level 2 of the hierarchy for fair value disclosure purposes. Other than investments and cash equivalents, no active or liquid market exists in which PIDM's financial assets and liabilities could be traded. Where no market exists for financial instruments, fair value estimates are based on judgements regarding current and future economic events, the risk characteristics of the instruments, and other relevant factors. There were no transfers between levels during the current or previous years.

(b) Impairment of non-financial assets

At each Statement of Financial Position date, PIDM reviews the carrying amounts of its assets, other than financial assets, to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated to determine the amount of impairment loss.

For goodwill, intangible assets that have an indefinite useful life or that are not yet available for use, the recoverable amount is estimated at each Statement of Financial Position date or more frequently when indicators of impairment are identified.

For the purpose of impairment testing of these assets, the recoverable amount is determined on an individual asset basis. An asset's recoverable amount is the higher of an asset's fair value less costs to dispose and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

An impairment loss is recognised in the Statement of Comprehensive Income in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for, as the revaluation decreases to the extent that the impairment loss does not exceed the amount held in the revaluation reserve for the same asset.

An impairment loss for assets other than goodwill is reversed if, and only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised.

The carrying amount of an asset other than goodwill is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset other than goodwill is recognised in the Statement of Comprehensive Income unless the asset is carried at revalued amount, in which case such reversal is treated as a revaluation increase. Impairment loss on goodwill is not reversed in subsequent periods.

(c) Property and equipment, and depreciation

All items of property and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to PIDM and the cost of the item can be measured reliably. The carrying amount of parts or components of an asset that are replaced is derecognised. All other repairs and maintenance are charged to the Statement of Comprehensive Income during the financial period in which they are incurred.

Subsequent to recognition, property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided for on a straight-line basis to reduce the cost of each asset to its residual value over the estimated useful life, at the following annual rates:

| | |
|---------------------------------------|-------|
| Furniture and fittings | 20% |
| Motor vehicles | 20% |
| Office refurbishment | 20% |
| Office equipment and computer systems | 33.3% |

The residual values, useful life and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property and equipment. An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, and the net carrying amount is recognised in the Statement of Comprehensive Income. The unutilised portion of the revaluation surplus on that item is recognised directly to Revaluation Reserves within the Funds and Reserves.

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011

(d) Recognition of income and expenditures

All income and operating expenditures pertaining to DIS and TIPS are recognised on an accrual basis. The MDIC Act 2011 empowers PIDM to credit all direct operating income to, and charge all expenditures against the relevant Fund or Funds. Expenditures that cannot be charged directly to the relevant Fund or Funds will be allocated based on the requirements of the Malaysia Deposit Insurance Corporation (Allocation of Expenses, Costs or Losses) Order 2011. The expenditures that cannot be charged directly to a specific Fund or Funds can be categorised into the following two categories:

- (i) *Expenditures that can be attributed to either the DIS or TIPS but are common or indirect expenditures for the respective protection systems.* For the 2011 financial year, expenditures of this category were allocated to the respective systems based on the proportion of premiums collected for the respective systems during the financial year ended 31 December 2011. The allocation rates used during the year are as follows:

| YEAR | DIS | | TIPS | | | |
|------|--------------|---------|-------------------|----------------|-----------------|---------------------------|
| | CONVENTIONAL | ISLAMIC | GENERAL INSURANCE | LIFE INSURANCE | GENERAL TAKAFUL | FAMILY SOLIDARITY TAKAFUL |
| 2011 | 85.4% | 14.6% | 27.2% | 61.5% | 3.6% | 7.7% |
| | 100% | | 100% | | | |
| 2010 | 82.8% | 17.2% | - | - | - | - |
| | 100% | | - | | | |

For subsequent assessment years following the year of 2011, the allocation will be based on the proportion of premiums collected for the respective systems in the preceding year.

- (ii) *Expenditures which are common or indirect costs of administering both DIS and TIPS.* Expenditures which could not be specifically attributed to either DIS or TIPS, are allocated based on the proportion of premiums collected for the respective Funds in DIS and TIPS. For the 2011 financial year, these expenditures were allocated to the respective Funds based on the proportion of premiums collected for each of the Funds during the financial year ended 31 December 2011. The apportionment basis used is as follows:

| YEAR | TOTAL | DIS | | TIPS | | | |
|------|-------|--------------|---------|-------------------|----------------|-----------------|---------------------------|
| | | CONVENTIONAL | ISLAMIC | GENERAL INSURANCE | LIFE INSURANCE | GENERAL TAKAFUL | FAMILY SOLIDARITY TAKAFUL |
| 2011 | 100% | 51.1% | 8.7% | 10.9% | 24.7% | 1.5% | 3.1% |
| 2010 | 100% | 82.8% | 17.2% | - | - | - | - |

For subsequent assessment years following the year of 2011, the allocation will be based on the proportion of premiums collected for the respective Funds in DIS and TIPS in the preceding year.

Premium revenues are recognised in a financial period in respect of risks assumed during that particular financial period. Member institutions pay annual premiums for the risk coverage period which coincides with PIDM's financial period.

Investment income including income from placements in money market repurchase agreements (REPO) is recognised on a time proportion basis that reflects the effective yield on the asset.

(e) Employee benefits

(i) Short-term benefits

Wages, salaries, bonuses, social security contributions and other benefits such as medical coverage benefits and allowances are recognised as an expense in the year in which the associated services are rendered by employees of PIDM. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensation. Short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which PIDM pays fixed contributions into a separate entity or fund. PIDM will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee services in the current or preceding financial years. Such contributions are recognised as an expense in the Statement of Comprehensive Income as incurred. As required by law, PIDM makes contributions to the statutory national pension scheme, the Employees Provident Fund as well as the Social Security Organisation.

(f) Foreign currencies

(i) Functional and presentation currency

The financial statements of PIDM are presented in Ringgit Malaysia (RM), which is the currency of the primary economic environment in which PIDM operates (functional currency).

(ii) Foreign currency transactions

In preparing the financial statements of PIDM, transactions in foreign currencies other than PIDM's functional currency are recorded in the functional currencies using the exchange rates prevailing at the dates of the transactions. At each Statement of Financial Position date, monetary items denominated in foreign currencies are translated at the rates prevailing on the Statement of Financial Position date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

Exchange differences arising from the settlement of monetary items, and on the translation of monetary items, are included in the Statement of Comprehensive Income for the period. Exchange differences arising from the translation of non-monetary items carried at fair value are included in the Statement of Comprehensive Income for the period except for the differences arising from the translation of non-monetary items

in respect of which gains and losses are recognised directly in the Funds and Reserves. Exchange differences arising from such non-monetary items are also recognised directly in the Funds and Reserves.

2.3 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as noted below.

PIDM had adopted the following applicable amended FRS mandatory for annual financial periods beginning on or after 1 January 2011:

- Amendments to FRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*; and
- Other improvements to applicable FRS issued in 2010, including amendments to FRS 101 *Presentation of Financial Statements*, FRS 121 *The Effects of Changes in Foreign Exchange Rates*, FRS 132 *Financial Instruments: Presentation* and FRS 139 *Financial Instruments: Recognition and Measurement*.

Amendments and improvements to the following FRS are currently not relevant to PIDM's operations:

- FRS 1 *First-time Adoption of Financial Reporting Standards*;
- FRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*;
- FRS 3 *Business Combinations*;
- FRS 128 *Investment in Associates*;
- FRS 131 *Interests in Joint Ventures*; and
- FRS 134 *Interim Financial Reporting*.

The adoption of the above amendments and improvements to FRS did not have any effect on the financial performance or position of PIDM. These changes also does not result in significant changes in accounting policies of PIDM except for FRS 7, of which the effect of the change is described in Note 2.2 (a) (vi). Amendments to FRS 7 have also been applied to the comparatives, where applicable, and the new disclosures are included throughout PIDM's financial statements for the year ended 31 December 2011.

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011

3. CASH AND CASH EQUIVALENTS

| | 2011 | | |
|---|-----------------|----------------|-----------------|
| | Total RM'000 | DIFs RM'000 | TIPFs RM'000 |
| Deposits with Bank Negara Malaysia | 24,243 | 157 | 24,086 |
| Cash on hand and at bank | 27,230 | 21,483 | 5,747 |
| Short-term investments: | | | |
| Malaysian Government Securities and Investments | 82,539 | 82,539 | - |
| Bank Negara Malaysia Bills and Negotiable Notes | 201,088 | 157,225 | 43,863 |
| | 283,627 | 239,764 | 43,863 |
| Add: Accretion of discounts net of amortisation of premium | 4,263 | 4,129 | 134 |
| | 287,890 | 243,893 | 43,997 |
| Total cash and cash equivalents | 339,363 | 265,533 | 73,830 |
| Market values of short-term investments held as at 31 December 2011: | | | |
| Malaysian Government Securities and Investments | 83,989 | 83,989 | - |
| Bank Negara Malaysia Bills and Negotiable Notes | 203,603 | 159,601 | 44,002 |
| Total market value of short-term investments | 287,592 | 243,590 | 44,002 |

3. CASH AND CASH EQUIVALENTS (continued)

| | 2010 | | |
|---|-----------------|----------------|-----------------|
| | Total RM'000 | DIFs RM'000 | TIPFs RM'000 |
| Deposits with Bank Negara Malaysia | 835 | 835 | - |
| Cash on hand and at bank | 7,759 | 7,759 | - |
| Short-term investments: | | | |
| Malaysian Government Securities and Investments | 34,284 | 34,284 | - |
| Bank Negara Malaysia Bills and Negotiable Notes | 139,022 | 139,022 | - |
| | 173,306 | 173,306 | - |
| Add: Accretion of discounts net of amortisation of premium | 2,115 | 2,115 | - |
| | 175,421 | 175,421 | - |
| Total cash and cash equivalents | 184,015 | 184,015 | - |
| Market values of short-term investments held as at 31 December 2010: | | | |
| Malaysian Government Securities and Investments | 34,161 | 34,161 | - |
| Bank Negara Malaysia Bills and Negotiable Notes | 138,201 | 138,201 | - |
| Total market value of short-term investments | 172,362 | 172,362 | - |

Short-term investments that have a term to maturity of less than 90 days are categorised as cash equivalents. These short-term investments are intended to be held to its maturities and therefore stated at cost adjusted for amortisation of premiums and accretion of discounts.

The market value of these short-term investments was based on indicative market prices that represent Level 2 of the hierarchy for fair value disclosure purposes, in accordance with FRS 7 Financial Instruments: Disclosures.

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011

4. INVESTMENTS

a. Available-for-sale investments

| | 2011 | | |
|---|-----------------|----------------|-----------------|
| | Total RM'000 | DIFs RM'000 | TIPFs RM'000 |
| Private Debt Securities | 98,037 | - | 98,037 |
| Total available-for-sale investments | 98,037 | - | 98,037 |

| | 2010 | | |
|--------------------------------------|-----------------|----------------|-----------------|
| | Total RM'000 | DIFs RM'000 | TIPFs RM'000 |
| Private Debt Securities | - | - | - |
| Total available-for-sale investments | - | - | - |

Available-for-sale investments are measured and recognised in the Statement of Financial Position at fair value. Fair value is determined by reference to indicative market prices as at the end of the financial year obtained from a bond pricing agency. The indicative market prices represent Level 2 of the hierarchy for fair value disclosure purposes, in accordance with FRS 7 Financial Instruments: Disclosures.

4. INVESTMENTS (continued)

b. Held-to-maturity to investments

| | 2011 | | |
|--|------------------|----------------|-----------------|
| | Total RM'000 | DIFs RM'000 | TIPFs RM'000 |
| Malaysian Government Securities and Investments | 255,767 | 161,965 | 93,802 |
| Bank Negara Malaysia Bills and Negotiable Notes | 174,276 | 68,240 | 106,036 |
| Private Debt Securities | 612,860 | - | 612,860 |
| | 1,042,903 | 230,205 | 812,698 |
| Add: Accretion of discounts net of amortisation of premium | 2,120 | 1,780 | 340 |
| Total held-to-maturity investments | 1,045,023 | 231,985 | 813,038 |
| Market values of investments held as at 31 December 2011: | | | |
| Malaysian Government Securities and Investments | 257,782 | 163,512 | 94,270 |
| Bank Negara Malaysia Bills and Negotiable Notes | 175,136 | 68,519 | 106,617 |
| Private Debt Securities | 614,681 | - | 614,681 |
| Total market value of investments | 1,047,599 | 232,031 | 815,568 |

| | 2010 | | |
|--|-----------------|----------------|-----------------|
| | Total RM'000 | DIFs RM'000 | TIPFs RM'000 |
| Malaysian Government Securities and Investments | 124,275 | 124,275 | - |
| Bank Negara Malaysia Bills and Negotiable Notes | 100,044 | 100,044 | - |
| Private Debt Securities | - | - | - |
| | 224,319 | 224,319 | - |
| Add: Accretion of discounts net of amortisation of premium | 2,049 | 2,049 | - |
| Total held-to-maturity investments | 226,368 | 226,368 | - |
| Market values of investments held as at 31 December 2011: | | | |
| Malaysian Government Securities and Investments | 124,303 | 124,303 | - |
| Bank Negara Malaysia Bills and Negotiable Notes | 100,008 | 100,008 | - |
| Private Debt Securities | - | - | - |
| Total market value of investments | 224,311 | 224,311 | - |

Investments are denominated in Ringgit Malaysia.

The market value of investments in both the DIFs as well as the TIPFs as disclosed above are indicative of their fair value as at the end of the financial year and are determined by reference to indicative market prices obtained from a bond pricing agency, and where relevant, from Bank Negara Malaysia. The indicative market prices falls under Level 2 of the hierarchy for fair value disclosure purposes, in accordance with FRS 7 Financial Instruments: Disclosures.

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011

5. OTHER ASSETS

| | 2011 | | |
|-------------------------------|-----------------|----------------|-----------------|
| | Total RM'000 | DIFs RM'000 | TIPFs RM'000 |
| Deposits and prepayments | 3,197 | 2,815 | 382 |
| Investment income receivables | 8,060 | 12 | 8,048 |
| Other receivables | 689 | 632 | 57 |
| Other assets | 30 | 30 | - |
| Total other assets | 11,976 | 3,489 | 8,487 |

| | 2010 | | |
|-------------------------------|-----------------|----------------|-----------------|
| | Total RM'000 | DIFs RM'000 | TIPFs RM'000 |
| Deposits and prepayments | 3,090 | 3,090 | - |
| Investment income receivables | 337 | 337 | - |
| Other receivables | 94 | 94 | - |
| Other assets | 30 | 30 | - |
| Total other assets | 3,551 | 3,551 | - |

6. PROPERTY AND EQUIPMENT

| | 2011 | | | | | |
|---|---|----------------------------------|--------------------------|---------------------------------|--------------------------------------|-----------------|
| | Office equipment and computer systems RM'000 | Furniture and fittings RM'000 | Motor vehicles RM'000 | Office refurbishments RM'000 | Assets under construction* RM'000 | Total RM'000 |
| Cost | | | | | | |
| Balance as at 1 January 2011 | 9,096 | 3,034 | 412 | 9,728 | 9,424 | 31,694 |
| Additions | 327 | - | 6 | 319 | 4,228 | 4,880 |
| Reclassifications | 3,146 | - | - | 276 | (3,452) | (30) |
| Retirements | - | - | - | - | - | - |
| Balance as at 31 December 2011 | 12,569 | 3,034 | 418 | 10,323 | 10,200 | 36,544 |
| Accumulated depreciation | | | | | | |
| Balance as at 1 January 2011 | 3,730 | 1,346 | 305 | 2,254 | - | 7,635 |
| Charge for the year | 2,599 | 520 | 60 | 1,950 | - | 5,129 |
| Reclassifications | 30 | - | - | - | - | 30 |
| Retirements | - | - | - | - | - | - |
| Balance as at 31 December 2011 | 6,359 | 1,866 | 365 | 4,204 | - | 12,794 |
| Net carrying amount as at 31 December 2011 | 6,210 | 1,168 | 53 | 6,119 | 10,200 | 23,750 |

* Assets under construction amounting to RM10,201,828 (2010: RM9,424,553) consists of the Payout System of RM8,475,028, hardware and software upgrades of RM178,070, the Corporate Performance Management System of RM529,455, and the Product Registry System of RM1,019,275.

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011

6. PROPERTY AND EQUIPMENT (continued)

| | 2010 | | | | | |
|--|---|--|-----------------------------|------------------------------------|---|-----------------|
| | Office equipment and computer systems RM'000 | Furniture and fittings RM'000 | Motor vehicles RM'000 | Office refurbishments RM'000 | Assets under construction* RM'000 | Total RM'000 |
| Cost | | | | | | |
| Balance as at 1 January 2010 | 4,609 | 1,728 | 412 | 3,250 | 8,546 | 18,545 |
| Additions | 1,568 | - | - | - | 11,947 | 13,515 |
| Reclassifications | 3,285 | 1,306 | - | 6,478 | (11,069) | - |
| Retirements | (366) | - | - | - | - | (366) |
| Balance as at 31 December 2010 | 9,096 | 3,034 | 412 | 9,728 | 9,424 | 31,694 |
| Accumulated depreciation | | | | | | |
| Balance as at 1 January 2010 | 2,607 | 989 | 223 | 1,391 | - | 5,210 |
| Charge for the year | 1,489 | 357 | 82 | 863 | - | 2,791 |
| Reclassifications | - | - | - | - | - | - |
| Retirements | (366) | - | - | - | - | (366) |
| Balance as at 31 December 2010 | 3,730 | 1,346 | 305 | 2,254 | - | 7,635 |
| Net carrying amount as at 31 December 2010 | 5,366 | 1,688 | 107 | 7,474 | 9,424 | 24,059 |

* Assets under construction amounting to RM9,424,553 (2009: RM8,546,563) consist of the Payout System of RM8,476,685, hardware for the data centre and disaster recovery centre of RM798,643, the financial management system enhancement of RM83,600 and the Product Registry System of RM65,625.

6. PROPERTY AND EQUIPMENT (continued)

a. Deposit Insurance Funds

| | 2011 | | | | | |
|---|---|--|-----------------------------|------------------------------------|--|-----------------|
| | Office equipment and computer systems RM'000 | Furniture and fittings RM'000 | Motor vehicles RM'000 | Office refurbishments RM'000 | Assets under construction RM'000 | Total RM'000 |
| Cost | | | | | | |
| Balance as at 1 January 2011 | 9,096 | 3,034 | 412 | 9,728 | 9,424 | 31,694 |
| Additions | 196 | - | 4 | 191 | 3,833 | 4,224 |
| Reclassifications | 3,146 | - | - | 165 | (3,341) | (30) |
| Retirements | - | - | - | - | - | - |
| Balance as at 31 December 2011 | 12,438 | 3,034 | 416 | 10,084 | 9,916 | 35,888 |
| Accumulated depreciation | | | | | | |
| Balance as at 1 January 2011 | 3,730 | 1,346 | 305 | 2,254 | - | 7,635 |
| Charge for the year | 2,599 | 520 | 60 | 1,948 | - | 5,127 |
| Reclassifications | 30 | - | - | - | - | 30 |
| Retirements | - | - | - | - | - | - |
| Balance as at 31 December 2011 | 6,359 | 1,866 | 365 | 4,202 | - | 12,792 |
| Net carrying amount as at 31 December 2011 | 6,079 | 1,168 | 51 | 5,882 | 9,916 | 23,096 |

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011

6. PROPERTY AND EQUIPMENT (continued)

a. Deposit Insurance Funds (continued)

| | 2010 | | | | | |
|--|---|--|-----------------------------|------------------------------------|--|-----------------|
| | Office equipment and computer systems RM'000 | Furniture and fittings RM'000 | Motor vehicles RM'000 | Office refurbishments RM'000 | Assets under construction RM'000 | Total RM'000 |
| Cost | | | | | | |
| Balance as at 1 January 2010 | 4,609 | 1,728 | 412 | 3,250 | 8,546 | 18,545 |
| Additions | 1,568 | - | - | - | 11,947 | 13,515 |
| Reclassifications | 3,285 | 1,306 | - | 6,478 | (11,069) | - |
| Retirements | (366) | - | - | - | - | (366) |
| Balance as at 31 December 2010 | 9,096 | 3,034 | 412 | 9,728 | 9,424 | 31,694 |
| Accumulated depreciation | | | | | | |
| Balance as at 1 January 2010 | 2,607 | 989 | 223 | 1,391 | - | 5,210 |
| Charge for the year | 1,489 | 357 | 82 | 863 | - | 2,791 |
| Reclassifications | - | - | - | - | - | - |
| Retirements | (366) | - | - | - | - | (366) |
| Balance as at 31 December 2010 | 3,730 | 1,346 | 305 | 2,254 | - | 7,635 |
| Net carrying amount as at 31 December 2010 | 5,366 | 1,688 | 107 | 7,474 | 9,424 | 24,059 |

6. PROPERTY AND EQUIPMENT (continued)

b. Takaful and Insurance Benefits Protection Funds

| | 2011 | | | | | |
|---|---|--|-----------------------------|------------------------------------|--|-----------------|
| | Office equipment and computer systems RM'000 | Furniture and fittings RM'000 | Motor vehicles RM'000 | Office refurbishments RM'000 | Assets under construction RM'000 | Total RM'000 |
| Cost | | | | | | |
| Balance as at 1 January 2011 | - | - | - | - | - | - |
| Additions | 131 | - | 2 | 128 | 395 | 656 |
| Reclassifications | - | - | - | 111 | (111) | - |
| Retirements | - | - | - | - | - | - |
| Balance as at 31 December 2011 | 131 | - | 2 | 239 | 284 | 656 |
| Accumulated depreciation | | | | | | |
| Balance as at 1 January 2011 | - | - | - | - | - | - |
| Charge for the year | - | - | - | 2 | - | 2 |
| Reclassifications | - | - | - | - | - | - |
| Retirements | - | - | - | - | - | - |
| Balance as at 31 December 2011 | - | - | - | 2 | - | 2 |
| Net carrying amount as at 31 December 2011 | 131 | - | 2 | 237 | 284 | 654 |

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011

6. PROPERTY AND EQUIPMENT (continued)

b. Takaful and Insurance Benefits Protection Funds (continued)

| | 2010 | | | | | |
|--|---|--|-----------------------------|------------------------------------|--|-----------------|
| | Office equipment and computer systems RM'000 | Furniture and fittings RM'000 | Motor vehicles RM'000 | Office refurbishments RM'000 | Assets under construction RM'000 | Total RM'000 |
| Cost | | | | | | |
| Balance as at 1 January 2010 | - | - | - | - | - | - |
| Additions | - | - | - | - | - | - |
| Reclassifications | - | - | - | - | - | - |
| Retirements | - | - | - | - | - | - |
| Balance as at 31 December 2010 | - | - | - | - | - | - |
| Accumulated depreciation | | | | | | |
| Balance as at 1 January 2010 | - | - | - | - | - | - |
| Charge for the year | - | - | - | - | - | - |
| Reclassifications | - | - | - | - | - | - |
| Retirements | - | - | - | - | - | - |
| Balance as at 31 December 2010 | - | - | - | - | - | - |
| Net carrying amount as at 31 December 2010 | - | - | - | - | - | - |

7. PAYABLES

| | 2011 | | |
|------------------------------------|-----------------|----------------|-----------------|
| | Total RM'000 | DIFs RM'000 | TIPFs RM'000 |
| Amount due to Bank Negara Malaysia | 192 | - | 192 |
| Other payables | 7,477 | 5,121 | 2,356 |
| Sundry creditors | 36 | 23 | 13 |
| Provision for unutilised leave | 731 | 452 | 279 |
| Total payables | 8,436 | 5,596 | 2,840 |

| | 2010 | | |
|------------------------------------|-----------------|----------------|-----------------|
| | Total RM'000 | DIFs RM'000 | TIPFs RM'000 |
| Amount due to Bank Negara Malaysia | 421 | 421 | - |
| Other payables | 6,134 | 6,134 | - |
| Sundry creditors | 33 | 33 | - |
| Provision for unutilised leave | 672 | 672 | - |
| Total payables | 7,260 | 7,260 | - |

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011

8. PROTECTION FUNDS

a. Deposit Insurance Funds:

Accumulated surpluses

| | 2011 | | |
|---------------------------|-----------------|--|---|
| | Total RM'000 | Conventional Deposit Insurance RM'000 | Islamic Deposit Insurance RM'000 |
| Balance as at 1 January | 430,733 | 374,645 | 56,088 |
| Net surplus | 87,774 | 75,358 | 12,416 |
| Balance as at 31 December | 518,507 | 450,003 | 68,504 |

| | 2010 | | |
|---------------------------|-----------------|--|---|
| | Total RM'000 | Conventional Deposit Insurance RM'000 | Islamic Deposit Insurance RM'000 |
| Balance as at 1 January | 369,888 | 320,894 | 48,994 |
| Net surplus | 60,845 | 53,751 | 7,094 |
| Balance as at 31 December | 430,733 | 374,645 | 56,088 |

The Deposit Insurance Funds (DIFs) are accumulated reserves held to meet future obligations arising from providing deposit insurance protection. In accordance with the MDIC Act 2011, PIDM maintains separate DIFs for both Conventional and Islamic Deposit Insurance Systems. The DIFs are accumulated from annual net operating surpluses.

In 2011, PIDM had established a framework to determine the levels of the DIFs that PIDM aims to build as reserves over the long-run to meet its future obligations. This level (known as the Target Fund) represents the level of funds that would be sufficient to cover the net insurance losses from intervention or failure resolution activities. The Target Fund is usually described as a percentage of Total Insured Deposits (TID), and for PIDM, is specified as a range of target levels (lower and upper ranges).

As at 31 December 2011, the Target Fund range has been set between 0.6% to 0.9% of TID for both the Conventional and Islamic DIFs. Based on the level of TID as at 31 December 2010, the range in RM absolute terms is between RM2 billion to RM3 billion for the Conventional DIF and between RM240 million to RM360 million for the Islamic DIF. Currently the level of funds for both Conventional and Islamic DIFs as a percentage of TID are 0.14% and 0.17% respectively.

PIDM is currently reviewing its framework to determine the appropriate timeframe to achieve its Target Fund levels.

8. PROTECTION FUNDS (continued)

b. Takaful and Insurance Benefits Protection Funds:

i. Accumulated surpluses

| | 2011 | | | | |
|---------------------------|-----------------|--------------------------------|-----------------------------|------------------------------|---|
| | Total RM'000 | General Insurance RM'000 | Life Insurance RM'000 | General Takaful RM'000 | Family Solidarity Takaful RM'000 |
| Balance as at 1 January | - | - | - | - | - |
| Net surplus | 991,779 | 948,607 | 36,670 | 2,091 | 4,411 |
| Balance as at 31 December | 991,779 | 948,607 | 36,670 | 2,091 | 4,411 |

With the coming into force of the MDIC Act 2011 effective 31 December 2010, four new Funds were established for the administration of the Takaful and Insurance Benefits Protection System, namely the General Insurance Protection Fund, the Life Insurance Protection Fund, the General Takaful Protection Fund and the Family Solidarity Takaful Protection Fund [cumulatively known as the Takaful and Insurance Benefits Protection Funds (TIPFs)]. Insurer members began paying premiums from assessment year 2011 and the resulting surplus from operations has been credited to the respective Funds.

On 30 September 2011, the Insurance Guarantee Scheme Funds (IGSF), previously administered by Bank Negara Malaysia, was transferred to PIDM to form part of the TIPFs pursuant to Section 212 of the MDIC Act 2011. Of the total amount of IGSF as at 30 September 2011 with fair value amounting to RM922 million, RM921 million was credited into the General Insurance Protection Fund whilst RM1 million was credited into the Life Insurance Protection Fund.

ii. Other reserves

| | 2011 | | | | |
|--|-----------------|--------------------------------|-----------------------------|------------------------------|---|
| | Total RM'000 | General Insurance RM'000 | Life Insurance RM'000 | General Takaful RM'000 | Family Solidarity Takaful RM'000 |
| Balance as at 1 January | - | - | - | - | - |
| Net unrealised gains on available-for-sale investments arising during the year | 3,142 | 3,142 | - | - | - |
| Less: Net realised gains from sales of available-for-sale investments transferred to Statement of Comprehensive Income | (3,715) | (3,715) | - | - | - |
| Balance as at 31 December | (573) | (573) | - | - | - |

The composition of net unrealised losses on available-for-sale investments as at 31 December 2011 is described in Note 11b.

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011

9. PREMIUM REVENUES

a. Premium revenues from member banks

| | 2011 | | |
|---|-----------------|--|---|
| | Total RM'000 | Conventional Deposit Insurance RM'000 | Islamic Deposit Insurance RM'000 |
| First premiums | 750 | 750 | - |
| Annual premiums | 119,759 | 102,256 | 17,503 |
| Total premium revenues from member banks | 120,509 | 103,006 | 17,503 |

For 2011 financial year, premiums were levied in accordance with the Malaysia Deposit Insurance Corporation (Annual Premium and First Premium in Respect of Deposit-Taking Members) Order 2011 (Premium Order 2011), which took effect from the assessment year of 2011.

i. Rate for annual premium under the Differential Premium Systems (DPS)

Where the premium category in which a member bank is classified for an assessment year is as specified in column (1), the rate for the annual premium payable by such member bank would be the corresponding premium rate specified in column (2) as follows:

| PREMIUM CATEGORY [COLUMN (1)] | PREMIUM RATE [COLUMN (2)] |
|-------------------------------|---------------------------|
| 1 | 0.03% |
| 2 | 0.06% |
| 3 | 0.12% |
| 4 | 0.24% |

Where a member bank is classified in different premium categories with respect to its Islamic insured deposits and its conventional insured deposits, the two different annual premium rates will apply with regard to the Islamic insured deposits and the conventional insured deposits respectively.

The annual premiums payable by a member bank are subject to minimum premiums based on their DPS premium category as follows:

| PREMIUM CATEGORY | MINIMUM PREMIUM AMOUNT (RM) |
|------------------|-----------------------------|
| 1 | 100,000 |
| 2 | 200,000 |
| 3 | 400,000 |
| 4 | 800,000 |

9. PREMIUM REVENUES (continued)

a. Premium revenues from member banks (continued)

ii. Rate for first premium

In respect of a new member bank [as defined in Regulation 2 of the Malaysia Deposit Insurance Corporation (in respect of Deposit-Taking members) Regulations 2011] holding Islamic insured deposits or conventional insured deposits, the rate for the first premium for such new member bank shall be the same as the premium rate for premium category 1.

| | 2010 | | |
|--|-----------------|--|---|
| | Total RM'000 | Conventional Deposit Insurance RM'000 | Islamic Deposit Insurance RM'000 |
| First premiums | 250 | 250 | - |
| Annual premiums | 105,437 | 90,405 | 15,032 |
| Total premium revenues from member banks | 105,687 | 90,655 | 15,032 |

For 2010 financial year, premiums were levied in accordance with the Malaysia Deposit Insurance Corporation (Annual Premium and First Premium) Order 2008 (Premium Order 2008). The provisions of the Premium Order 2008 are similar to the Premium Order 2011, except for the provisions relating to minimum premium payable. The Premium Order 2008 provides that minimum premium payable for the first premium and annual premium is RM250,000.

b. Premium revenues from insurer members

| | 2011 | | | | |
|---|-----------------|--------------------------------|-----------------------------|------------------------------|---|
| | Total RM'000 | General Insurance RM'000 | Life Insurance RM'000 | General Takaful RM'000 | Family Solidarity Takaful RM'000 |
| First premiums | 80,730 | 21,973 | 49,656 | 2,930 | 6,171 |
| Annual premiums | - | - | - | - | - |
| Total premium revenues from insurer members | 80,730 | 21,973 | 49,656 | 2,930 | 6,171 |

Under the Malaysia Deposit Insurance Corporation (First Premium and Annual Premium in Respect of Insurer Members) Order 2011, in relation to first year premium rate, the insurer members were assessed based on a flat rate applied on the relevant basis during the preceding year, as follows:

| BUSINESS SEGMENT | PREMIUM RATE |
|--|--|
| General Insurance / General Takaful | 0.25% of the total net premiums received |
| Life Insurance / Family Solidarity Takaful | 0.06% of actuarial valuation of life insurance liabilities / family solidarity takaful liabilities |

The first premium payable by each insurer member is subject to a minimum of RM250,000.

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011

10. INVESTMENT INCOME

| | 2011 | | |
|--|-----------------|----------------|-----------------|
| | Total RM'000 | DIFs RM'000 | TIPFs RM'000 |
| Malaysian Government Securities and Investments | 6,499 | 6,167 | 332 |
| Bank Negara Malaysia Bills and Negotiable Notes | 7,777 | 6,617 | 1,160 |
| Private Debt Securities | 7,376 | - | 7,376 |
| Placements in Money Market Repurchase Agreements | 169 | 134 | 35 |
| Total investment income | 21,821 | 12,918 | 8,903 |

| | 2010 | | |
|--|-----------------|----------------|-----------------|
| | Total RM'000 | DIFs RM'000 | TIPFs RM'000 |
| Malaysian Government Securities and Investments | 6,004 | 6,004 | - |
| Bank Negara Malaysia Bills and Negotiable Notes | 3,210 | 3,210 | - |
| Private Debt Securities | - | - | - |
| Placements in Money Market Repurchase Agreements | 100 | 100 | - |
| Total investment income | 9,314 | 9,314 | - |

The weighted average yield rates for investment securities that were effective during the financial year were 2.63% (2010: 2.32%) and 3.25% (2010: Nil) for the DIFs and TIPFs respectively.

11. GAINS OR (LOSSES) RELATING TO AVAILABLE-FOR-SALE INVESTMENTS

a. Realised gains or (losses)

| | 2011 | | |
|--|-----------------|----------------|-----------------|
| | Total RM'000 | DIFs RM'000 | TIPFs RM'000 |
| Gains / (losses) from sales of available-for-sale investments | 3,715 | - | 3,715 |
| Net gains / (losses) from sales of available-for-sale investments | 3,715 | - | 3,715 |

Included in the 'gains / (losses) from sales of available-for-sale investments' is RM3.7 million, transferred from Other Reserves to realised gains / (losses) in the Statements of Comprehensive Income arising from sales of available-for-sale investments.

b. Unrealised gains or (losses) recognised in Other Reserves

| | 2011 | | |
|---|-----------------|----------------|-----------------|
| | Total RM'000 | DIFs RM'000 | TIPFs RM'000 |
| Unrealised gains / (losses) recognised in Other Reserves as at the end of the year comprised: | | | |
| Unrealised gains on available-for-sale investments | 48 | - | 48 |
| Unrealised losses on available-for-sale investments | (621) | - | (621) |
| Net unrealised gains / (losses) on available-for-sale investments | (573) | - | (573) |

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011

12. EMPLOYEE BENEFIT EXPENSES

| | 2011 | | |
|--|-----------------|----------------|-----------------|
| | Total RM'000 | DIFs RM'000 | TIPFs RM'000 |
| Wages and Salaries | 25,755 | 14,816 | 10,939 |
| Contributions to defined contribution plan | 3,169 | 1,843 | 1,326 |
| Provision for unutilised leave | 75 | (204) | 279 |
| Other benefits | 2,038 | 1,334 | 704 |
| Total employee benefit expenses | 31,037 | 17,789 | 13,248 |

| | 2010 | | |
|--|-----------------|----------------|-----------------|
| | Total RM'000 | DIFs RM'000 | TIPFs RM'000 |
| Wages and Salaries | 21,940 | 21,940 | - |
| Contributions to defined contribution plan | 2,645 | 2,645 | - |
| Provision for unutilised leave | 92 | 92 | - |
| Other benefits | 1,732 | 1,732 | - |
| Total employee benefit expenses | 26,409 | 26,409 | - |

The number of employees at the end of the financial year totalled one hundred eighteen (118) (2010: 99).

13. OTHER EXPENSES

| | 2011 | | |
|--|-----------------|----------------|-----------------|
| | Total RM'000 | DIFs RM'000 | TIPFs RM'000 |
| Audit fees | 36 | 22 | 14 |
| Directors' fees and remuneration* | 469 | 274 | 195 |
| Parking space rental | 431 | 270 | 161 |
| Pre-establishment expenses for TIPS | - | - | - |
| Printing and stationery | 1,407 | 863 | 544 |
| Professional and consultancy fees | 8,392 | 6,999 | 1,393 |
| Subscriptions and memberships | 447 | 346 | 101 |
| Training and development | 1,852 | 1,135 | 717 |
| Travelling | 1,231 | 740 | 491 |
| Telecommunication and computer systems | 2,112 | 1,416 | 696 |
| Website development and maintenance | 46 | 28 | 18 |
| Miscellaneous | 1,595 | 1,001 | 594 |
| Total other expenses | 18,018 | 13,094 | 4,924 |

| | 2010 | | |
|--|-----------------|----------------|-----------------|
| | Total RM'000 | DIFs RM'000 | TIPFs RM'000 |
| Audit fees | 32 | 32 | - |
| Directors' fees and remuneration* | 362 | 362 | - |
| Parking space rental | 345 | 345 | - |
| Pre-establishment expenses for TIPS | 535 | 535 | - |
| Printing and stationery | 834 | 834 | - |
| Professional and consultancy fees | 7,445 | 7,445 | - |
| Subscriptions and memberships | 340 | 340 | - |
| Training and development | 1,544 | 1,544 | - |
| Travelling | 860 | 860 | - |
| Telecommunication and computer systems | 2,094 | 2,094 | - |
| Website development and maintenance | 25 | 25 | - |
| Miscellaneous | 982 | 982 | - |
| Total other expenses | 15,398 | 15,398 | - |

* Directors are paid on a fee and allowance structure as approved by the Minister of Finance.

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011

14. TAXATION

PIDM is exempted from income tax at the statutory level.

15. OPERATING LEASES

PIDM has entered into a non-cancellable tenancy contract for the use of office space at Levels 12, 13, 15 and 16, Quill 7, Kuala Lumpur Sentral. The tenancy is for 3 years (First Term) beginning 1 September 2010 at a fixed rental rate with the option to renew for another 2 years (Second Term) at the same fixed rental rate. Thereafter, PIDM has the option to renew for another 3 years (Third Term) plus a further 2 years (Fourth Term), both at a prevailing market rental rate subject to a minimum adjustment of 10% and a maximum of 20% over the monthly rental of the Second Term. There is no purchase option clause included in the contract. There are also no restrictions placed upon PIDM by entering into this tenancy contract.

PIDM had sub-leased its office space at Level 19, 1 Sentral, Kuala Lumpur Sentral to a third party at a comparable market rate. The contract entered for the sub-lease arrangement is non-cancellable and is for the remaining period which coincides with the lease contract entered by PIDM with the landlord for 5 years beginning 18 April 2007. The rental income collected from the sub-lease arrangement fully sets off PIDM's obligations under the lease until its expiry.

PIDM has entered into a non-cancellable tenancy contract for the use of space for PIDM's disaster recovery centre. The tenancy is for 2 years (First Term) beginning 1 April 2011 at a fixed rental rate. Thereafter, PIDM has the option to renew for another 2 years (Second Term) plus a further 2 years (Third Term), both at a rate to be agreed upon between PIDM and the landlord. There is no purchase option clause included in the contract.

PIDM has also entered into leases for various office equipment under non-cancellable operating lease contracts. These leases have lease terms of up to 5 years and include a provision for an automatic renewal if PIDM does not serve termination notice three months before expiration of the primary term. There are no purchase options or escalation clauses included in the contracts.

Future aggregate minimum lease payments under the non-cancellable operating leases contracted as at the Statement of Financial Position date but not recognised as liabilities are as follows:

| | 2011 RM'000 | 2010 RM'000 |
|--|----------------|----------------|
| Future minimum lease payments: | | |
| Not later than 1 year | 5,602 | 5,876 |
| Later than 1 year and not later than 5 years | 13,290 | 18,377 |
| Total operating lease commitments | 18,892 | 24,253 |

16. CAPITAL COMMITMENTS

| | 2011 RM'000 | 2010 RM'000 |
|----------------------------------|----------------|----------------|
| Approved and contracted for: | | |
| Property and equipment | 313 | 3,169 |
| Total capital commitments | 313 | 3,169 |

17. RELATED PARTY DISCLOSURES

a. Transactions with related parties

During the financial year, there were no transactions with any party related to any Directors or officers of PIDM.

b. Remuneration of key management personnel

| | 2011 RM'000 | 2010 RM'000 |
|---|------------------------|----------------|
| Short-term benefits | 9,587 | 10,080 |
| Post employment benefits: | | |
| Contributions to defined contribution plan | 764 | 836 |
| Total remuneration of key management personnel | 10,351 | 10,916 |

The remuneration of key management personnel includes the remuneration of the Chief Executive Officer and all members of the Executive Management Committee, being those persons having the authority and responsibility for planning, directing and controlling the activities of PIDM.

However, the above does not include Directors whose remuneration is disclosed separately in Note 13. Remuneration of key management personnel is also included in the employee benefits disclosure in Note 12.

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011

18. SEGMENT INFORMATION

Fund reporting

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

| | Note | Total RM'000 | Conventional Deposit Insurance RM'000 | Islamic Deposit Insurance RM'000 | General Insurance RM'000 | Life Insurance RM'000 | General Takaful RM'000 | Family Solidarity Takaful RM'000 |
|--|------|------------------|--|---|--------------------------------|-----------------------------|------------------------------|---|
| ASSETS | | | | | | | | |
| Cash and cash equivalents | 3 | 339,363 | 231,145 | 34,388 | 58,671 | 8,466 | 2,150 | 4,543 |
| Investments | | | | | | | | |
| <i>Available-for-sale investments</i> | 4a | 98,037 | - | - | 98,037 | - | - | - |
| <i>Held-to-maturity investments</i> | 4b | 1,045,023 | 201,352 | 30,633 | 783,760 | 29,278 | - | - |
| Other assets | 5 | 11,976 | 2,814 | 675 | 8,164 | 272 | 17 | 34 |
| Property and equipment | 6 | 23,750 | 19,501 | 3,595 | 178 | 402 | 24 | 50 |
| Total Assets | | 1,518,149 | 454,812 | 69,291 | 948,810 | 38,418 | 2,191 | 4,627 |
| LIABILITIES | | | | | | | | |
| Payables | 7 | 8,436 | 4,809 | 787 | 776 | 1,748 | 100 | 216 |
| Total Liabilities | | 8,436 | 4,809 | 787 | 776 | 1,748 | 100 | 216 |
| FUNDS AND RESERVES | | | | | | | | |
| Accumulated surpluses | 8 | 1,510,286 | 450,003 | 68,504 | 948,607 | 36,670 | 2,091 | 4,411 |
| Other reserves | 8 | (573) | - | - | (573) | - | - | - |
| Total Funds and Reserves | | 1,509,713 | 450,003 | 68,504 | 948,034 | 36,670 | 2,091 | 4,411 |
| Total Liabilities, Funds and Reserves | | 1,518,149 | 454,812 | 69,291 | 948,810 | 38,418 | 2,191 | 4,627 |

18. SEGMENT INFORMATION (continued)

Fund reporting (continued)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2010

| | Note | Total RM'000 | Conventional Deposit Insurance RM'000 | Islamic Deposit Insurance RM'000 | General Insurance RM'000 | Life Insurance RM'000 | General Takaful RM'000 | Family Solidarity Takaful RM'000 |
|---------------------------------------|------|-----------------|--|---|--------------------------------|-----------------------------|------------------------------|---|
| ASSETS | | | | | | | | |
| Cash and cash equivalents | 3 | 184,015 | 153,200 | 30,815 | - | - | - | - |
| Investments | | | | | | | | |
| <i>Available-for-sale investments</i> | 4a | - | - | - | - | - | - | - |
| <i>Held-to-maturity investments</i> | 4b | 226,368 | 204,222 | 22,146 | - | - | - | - |
| Other assets | 5 | 3,551 | 3,017 | 534 | - | - | - | - |
| Property and equipment | 6 | 24,059 | 20,275 | 3,784 | - | - | - | - |
| Total Assets | | 437,993 | 380,714 | 57,279 | - | - | - | - |
| LIABILITIES | | | | | | | | |
| Payables | 7 | 7,260 | 6,069 | 1,191 | - | - | - | - |
| Total Liabilities | | 7,260 | 6,069 | 1,191 | - | - | - | - |
| FUNDS AND RESERVES | | | | | | | | |
| Accumulated surpluses | 8 | 430,733 | 374,645 | 56,088 | - | - | - | - |
| Other reserves | 8 | - | - | - | - | - | - | - |
| Total Funds and Reserves | | 430,733 | 374,645 | 56,088 | - | - | - | - |
| Total Liabilities, Funds and Reserves | | 437,993 | 380,714 | 57,279 | - | - | - | - |

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011

18. SEGMENT INFORMATION (continued)

Fund reporting (continued)

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011

| | Note | Total RM'000 | Conventional Deposit Insurance RM'000 | Islamic Deposit Insurance RM'000 | General Insurance RM'000 | Life Insurance RM'000 | General Takaful RM'000 | Family Solidarity Takaful RM'000 |
|---|------|------------------|--|---|--------------------------------|-----------------------------|------------------------------|---|
| Premium revenues | 9 | 201,239 | 103,006 | 17,503 | 21,973 | 49,656 | 2,930 | 6,171 |
| Investment income from cash and investment securities | 10 | 21,821 | 11,195 | 1,723 | 8,052 | 719 | 42 | 90 |
| Gains / (losses) from sales of available-for-sale investments | 11a | 3,715 | - | - | 3,715 | - | - | - |
| Total revenues | | 226,775 | 114,201 | 19,226 | 33,740 | 50,375 | 2,972 | 6,261 |
| Employee benefits | 12 | 31,037 | 15,094 | 2,695 | 3,518 | 8,209 | 492 | 1,029 |
| Public relations and advertising | | 9,882 | 5,058 | 850 | 1,082 | 2,444 | 144 | 304 |
| Depreciation | 6 | 5,159 | 4,377 | 780 | - | 2 | - | - |
| Operating leases | | 5,563 | 3,203 | 502 | 509 | 1,141 | 67 | 141 |
| Other expenses | 13 | 18,018 | 11,111 | 1,983 | 1,345 | 3,025 | 178 | 376 |
| Total expenses | | 69,659 | 38,843 | 6,810 | 6,454 | 14,821 | 881 | 1,850 |
| Operational net surplus | | 157,116 | 75,358 | 12,416 | 27,286 | 35,554 | 2,091 | 4,411 |
| Moneys and investments received from Insurance Guarantee Scheme Funds | 19 | 922,437 | - | - | 921,321 | 1,116 | - | - |
| Net surplus for the year | | 1,079,553 | 75,358 | 12,416 | 948,607 | 36,670 | 2,091 | 4,411 |
| Other comprehensive income | | | | | | | | |
| Net unrealised gains / (losses) on available-for-sale investments | 11b | (573) | - | - | (573) | - | - | - |
| Total comprehensive income for the year | | 1,078,980 | 75,358 | 12,416 | 948,034 | 36,670 | 2,091 | 4,411 |

18. SEGMENT INFORMATION (continued)

Fund reporting (continued)

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2010

| | Note | Total RM'000 | Conventional Deposit Insurance RM'000 | Islamic Deposit Insurance RM'000 | General Insurance RM'000 | Life Insurance RM'000 | General Takaful RM'000 | Family Solidarity Takaful RM'000 |
|---|------|-----------------|--|---|--------------------------------|-----------------------------|------------------------------|---|
| Premium revenues | 9 | 105,687 | 90,655 | 15,032 | - | - | - | - |
| Investment income from cash and investment securities | 10 | 9,314 | 8,078 | 1,236 | - | - | - | - |
| Gains / (losses) from sales of available-for-sale investments | 11a | - | - | - | - | - | - | - |
| Total revenues | | 115,001 | 98,733 | 16,268 | - | - | - | - |
| Employee benefits | 12 | 26,409 | 21,881 | 4,528 | - | - | - | - |
| Public relations and advertising | | 6,434 | 5,320 | 1,114 | - | - | - | - |
| Depreciation | 6 | 2,791 | 2,433 | 358 | - | - | - | - |
| Operating leases | | 3,124 | 2,588 | 536 | - | - | - | - |
| Other expenses | 13 | 15,398 | 12,760 | 2,638 | - | - | - | - |
| Total expenses | | 54,156 | 44,982 | 9,174 | - | - | - | - |
| Operational net surplus | | 60,845 | 53,751 | 7,094 | - | - | - | - |
| Moneys and investments received from Insurance Guarantee Scheme Funds | 19 | - | - | - | - | - | - | - |
| Net surplus for the year | | 60,845 | 53,751 | 7,094 | - | - | - | - |
| Other comprehensive income | | | | | | | | |
| Net unrealised gains / (losses) on available-for-sale investments | 11b | - | - | - | - | - | - | - |
| Total comprehensive income for the year | | 60,845 | 53,751 | 7,094 | - | - | - | - |

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011

18. SEGMENT INFORMATION (continued)

Fund reporting (continued)

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2011

| | Note | Total RM'000 | Conventional Deposit Insurance RM'000 | Islamic Deposit Insurance RM'000 | General Insurance RM'000 | Life Insurance RM'000 | General Takaful RM'000 | Family Solidarity Takaful RM'000 |
|--|------|-----------------|--|---|--------------------------------|-----------------------------|------------------------------|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | | | | |
| Premiums received from member institutions | | 201,239 | 103,006 | 17,503 | 21,973 | 49,656 | 2,930 | 6,171 |
| Payments in the course of operations to suppliers and employees | | (61,167) | (35,567) | (5,480) | (5,080) | (12,816) | (784) | (1,440) |
| Receipts of investment income | | 19,532 | 9,985 | 1,536 | 7,534 | 354 | 40 | 83 |
| Net cash flows from operating activities | | 159,604 | 77,424 | 13,559 | 24,427 | 37,194 | 2,186 | 4,814 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | | | | |
| Proceeds from sale of investment securities | | 905,486 | 530,214 | 88,500 | 207,716 | 55,576 | 7,561 | 15,919 |
| Purchase of investment securities | | (940,597) | (525,787) | (97,750) | (209,603) | (83,985) | (7,560) | (15,912) |
| Receipts from Insurance Guarantee Scheme Funds | | 37,153 | - | - | 36,541 | 612 | - | - |
| Purchase of property and equipment | | (6,298) | (3,906) | (736) | (410) | (931) | (37) | (278) |
| Net cash flows used in investing activities | | (4,256) | 521 | (9,986) | 34,244 | (28,728) | (36) | (271) |
| Net increase in cash and cash equivalents | | 155,348 | 77,945 | 3,573 | 58,671 | 8,466 | 2,150 | 4,543 |
| Cash and cash equivalents at beginning of year | | 184,015 | 153,200 | 30,815 | - | - | - | - |
| Cash and cash equivalents at end of year | 3 | 339,363 | 231,145 | 34,388 | 58,671 | 8,466 | 2,150 | 4,543 |

18. SEGMENT INFORMATION (continued)

Fund reporting (continued)

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2010

| | Note | Total RM'000 | Conventional Deposit Insurance RM'000 | Islamic Deposit Insurance RM'000 | General Insurance RM'000 | Life Insurance RM'000 | General Takaful RM'000 | Family Solidarity Takaful RM'000 |
|---|------|-----------------|--|---|--------------------------------|-----------------------------|------------------------------|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | | | | |
| Premiums received from member institutions | | 105,687 | 90,655 | 15,032 | - | - | - | - |
| Payments in the course of operations to suppliers and employees | | (53,167) | (44,119) | (9,048) | - | - | - | - |
| Receipts of investment income | | 7,532 | 6,683 | 849 | - | - | - | - |
| Net cash flows from operating activities | | 60,052 | 53,219 | 6,833 | - | - | - | - |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | | | | |
| Proceeds from sale of investment securities | | 528,800 | 455,622 | 73,178 | - | - | - | - |
| Purchase of investment securities | | (549,013) | (478,757) | (70,256) | - | - | - | - |
| Receipts from Insurance Guarantee Scheme Funds | | - | - | - | - | - | - | - |
| Purchase of property and equipment | | (13,001) | (10,770) | (2,231) | - | - | - | - |
| Net cash flows used in investing activities | | (33,214) | (33,905) | 691 | - | - | - | - |
| Net increase in cash and cash equivalents | | 26,838 | 19,314 | 7,524 | - | - | - | - |
| Cash and cash equivalents at beginning of year | | 157,177 | 133,886 | 23,291 | - | - | - | - |
| Cash and cash equivalents at end of year | 3 | 184,015 | 153,200 | 30,815 | - | - | - | - |

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011

19. GENERAL AND LIFE INSURANCE GUARANTEE SCHEME FUNDS

Pursuant to Section 212 of the MDIC Act 2011, and as approved by the Minister of Finance, all assets in the Insurance Guarantee Scheme Funds (IGSF) previously administered by Bank Negara Malaysia, were transferred to PIDM on 30 September 2011. The moneys and investments from the IGSF with fair value as at 30 September 2011 of RM922 million was transferred to PIDM for nil consideration and credited correspondingly to PIDM's General Insurance Protection Fund (RM921 million) and Life Insurance Protection Fund (RM1 million).

20. FINANCIAL INSTRUMENTS

PIDM's financial risk management policy seeks to ensure that adequate financial resources are available for PIDM's activities whilst managing PIDM's currency, interest rate and rate of return, liquidity, market and credit risks. PIDM operates within guidelines that are approved by the Board of Directors and PIDM's Investment Policy is to only invest in short-term and medium-term Ringgit Malaysia denominated Government and Bank Negara Malaysia securities of varying maturities. In relation to the day-to-day operational cash management, PIDM may place excess funds in money market or overnight placements with its banker(s). No investments are made with member banks since PIDM is the insurer of their deposits.

Part of the IGSF portfolio (refer Note 19) transferred to PIDM comprise investment securities that were not in accordance with PIDM's approved Investment Policy. A specific approval from the Board of Directors was obtained in order to exempt some of these investment securities from complying with the Investment Policy. The investment securities that have been exempted from complying with the Investment Policy consist of Government securities with long-term tenures and Private Debt Securities issued by Government-Linked Companies and are intended to be held to its relevant maturities. The remaining investment securities that are not in line with the Investment Policy are being divested and reinvested in investments which are in accordance with the Investment Policy.

a. Foreign currency risk

PIDM currently has minimal exposure to currency risk as most of its transactions were transacted in Ringgit Malaysia denominated currency.

b. Interest rate risk and rate of return risk

PIDM's interest rate and rate of return risks will arise principally from differences in maturities of its financial assets and liabilities.

The financial assets are made up primarily of investment assets held in Malaysian Government Securities and Investments as well as Bank Negara Malaysia Bills and Negotiable Notes. The interest rate risk in this respect arises from fluctuations in market interest rate which may affect the market value and reinvestment decisions of these financial assets. The rate of return risk is the potential impact of market factors affecting the return on assets which consequently, may affect the market value and reinvestment decisions of these financial assets. To mitigate these risks, PIDM currently only invests in short-term and medium-term securities which minimises the impact of any fluctuations in market interest rate or rate of return on the market value of these securities.

PIDM currently does not carry any liabilities which are exposed to interest rate risk.

20. FINANCIAL INSTRUMENTS (continued)

b. Interest rate risk and rate of return risk (continued)

The following tables set out the carrying amounts, the Weighted Average Yield Rates (WAYR) as at the Statement of Financial Position date and the remaining maturities of PIDM's financial instruments that are exposed to interest rate risk and rate of return risk.

| Conventional Deposit Insurance Fund | Note | WAYR % | Within 3 months RM'000 | 4 - 12 months RM'000 | 13 - 36 months RM'000 | 37 - 60 months RM'000 | 61 - 120 months RM'000 | Total RM'000 |
|---------------------------------------|------|--------|------------------------|----------------------|-----------------------|-----------------------|------------------------|--------------|
| 31 December 2011 | | | | | | | | |
| Fixed rate | | | | | | | | |
| Cash and cash equivalent | 3 | 2.95 | 231,145 | - | - | - | - | 231,145 |
| Investments | 4 | 2.90 | - | 201,352 | - | - | - | 201,352 |
| 31 December 2010 | | | | | | | | |
| Fixed rate | | | | | | | | |
| Cash and cash equivalent | 3 | 2.55 | 153,200 | - | - | - | - | 153,200 |
| Investments | 4 | 2.78 | - | 204,222 | - | - | - | 204,222 |
| Islamic Deposit Insurance Fund | | | | | | | | |
| 31 December 2011 | | | | | | | | |
| Fixed rate | | | | | | | | |
| Cash and cash equivalent | 3 | 2.81 | 34,388 | - | - | - | - | 34,388 |
| Investments | 4 | 2.91 | - | 30,633 | - | - | - | 30,633 |
| 31 December 2010 | | | | | | | | |
| Fixed rate | | | | | | | | |
| Cash and cash equivalent | 3 | 2.63 | 30,815 | - | - | - | - | 30,815 |
| Investments | 4 | 2.76 | - | 22,146 | - | - | - | 22,146 |

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011

20. FINANCIAL INSTRUMENTS (continued)

b. Interest rate risk and rate of return risk (continued)

| General Insurance Protection Fund | Note | WAYR % | Within 3 months RM'000 | 4 - 12 months RM'000 | 13 - 36 months RM'000 | 37 - 60 months RM'000 | 61 - 120 months RM'000 | Total RM'000 |
|---------------------------------------|------|--------|------------------------|----------------------|-----------------------|-----------------------|------------------------|--------------|
| 31 December 2011 | | | | | | | | |
| Fixed rate | | | | | | | | |
| Cash and cash equivalent | 3 | 2.94 | 58,671 | - | - | - | - | 58,671 |
| Investments | 4 | 6.33 | - | 309,123 | 177,926 | 247,479 | 147,269 | 881,797 |
| 31 December 2010 | | | | | | | | |
| Fixed rate | | | | | | | | |
| Cash and cash equivalent | 3 | - | - | - | - | - | - | - |
| Investments | 4 | - | - | - | - | - | - | - |
| Life Insurance Protection Fund | | | | | | | | |
| 31 December 2011 | | | | | | | | |
| Fixed rate | | | | | | | | |
| Cash and cash equivalent | 3 | 2.64 | 8,466 | - | - | - | - | 8,466 |
| Investments | 4 | 2.92 | - | 29,278 | - | - | - | 29,278 |
| 31 December 2010 | | | | | | | | |
| Fixed rate | | | | | | | | |
| Cash and cash equivalent | 3 | - | - | - | - | - | - | - |
| Investments | 4 | - | - | - | - | - | - | - |

20. FINANCIAL INSTRUMENTS (continued)

b. Interest rate risk and rate of return risk (continued)

| General Takaful Protection Fund | | | WAYR | Within 3 | 4 - 12 | 13 - 36 | 37 - 60 | 61 - 120 | Total |
|--|------|------|--------|----------|--------|---------|---------|----------|--------|
| | Note | % | months | months | months | months | months | months | RM'000 |
| | | | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| 31 December 2011 | | | | | | | | | |
| Fixed rate | | | | | | | | | |
| Cash and cash equivalent | 3 | 2.41 | 2,150 | - | - | - | - | - | 2,150 |
| Investments | 4 | - | - | - | - | - | - | - | - |
| 31 December 2010 | | | | | | | | | |
| Fixed rate | | | | | | | | | |
| Cash and cash equivalent | 3 | - | - | - | - | - | - | - | - |
| Investments | 4 | - | - | - | - | - | - | - | - |
| Family Solidarity Takaful Protection Fund | | | | | | | | | |
| 31 December 2011 | | | | | | | | | |
| Fixed rate | | | | | | | | | |
| Cash and cash equivalent | 3 | 2.83 | 4,543 | - | - | - | - | - | 4,543 |
| Investments | 4 | - | - | - | - | - | - | - | - |
| 31 December 2010 | | | | | | | | | |
| Fixed rate | | | | | | | | | |
| Cash and cash equivalent | 3 | - | - | - | - | - | - | - | - |
| Investments | 4 | - | - | - | - | - | - | - | - |

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011

20. FINANCIAL INSTRUMENTS (continued)

b. Interest rate risk and rate of return risk (continued)

Based on PIDM's investment portfolio as at 31 December 2011, the following table shows how net surplus would have been affected by a 50 basis point increase or decrease in weighted average yield rates.

| | Net Surplus | |
|--------------------------|----------------|----------------|
| | 2011 RM'000 | 2010 RM'000 |
| 50 basis points increase | 3,976 | 3,030 |
| 50 basis points decrease | (3,976) | (3,030) |

c. Liquidity risk

PIDM's liquidity risk relates to the capability of PIDM to meet its obligations as they come due, without incurring unacceptable losses. This may be caused by the inability to liquidate assets as they come due or to obtain funding to meet its liquidity needs. A significant amount of funds available for investment were invested in short-term securities. PIDM continuously endeavours to manage the maturity profiles of these securities in order to ensure that sufficient funds are available at all times, to meet the day-to-day working capital requirements or to bring any financial risk exposures within the approved exposure limits. The values of these investments by the maturity profiles are represented in Note 20 (b).

PIDM also has a funding framework to deal with funding requirements relating to intervention or failure resolution activities. The main objective of the framework is to ensure that PIDM has adequate financial resources required for the proper operations of a robust and sound Deposit Insurance System as well as Takaful and Insurance Benefits Protection System. The funding framework takes into consideration PIDM's role in the financial safety net and its legislative powers relating to sources of funding as well as clear objectives for its internal and external sources of funding.

- i. **Internal funding** is developed through accumulation of net operating surpluses. The annual net surplus is credited into the respective Protection Funds as reserves and is accumulated to meet future obligations that may arise from providing the financial consumer protection programmes.
- ii. **External funding** may be raised through either borrowings from the Government, from capital markets or other sources as deemed necessary and appropriate. External funding sources will be used to meet any additional liquidity requirements that may arise. The MDIC Act empowers PIDM to borrow or raise funds to meet its obligations. PIDM may borrow from the Government with the approval of the Minister of Finance on such terms and conditions as the Minister determines.

d. Market risk

PIDM's market risk relates to the risk of loss resulting from adverse changes in the value of its asset holdings arising from movements in market rates or prices. Market risk in PIDM includes investment-related risks. The market risk exposure of PIDM may vary during normal operations or as a result of intervention and failure resolution activities. Under normal operations, PIDM invests in short-term and medium-term securities which are intended to be held to maturity. As such, PIDM's current exposure to market risk in the context of these investments is minimal.

e. Credit risk

PIDM invests primarily in Malaysian Government Securities and Investments, Bank Negara Malaysia Bills and Negotiable Notes, which are generally considered as low risk assets. PIDM does not expect the counterparties to default and as such, considers the credit risk on these investment assets as being minimal.

Besides the Government investment securities and Bank Negara Malaysia notes, PIDM also has investments in Private Debt Securities (PDS) which were part of the investment assets transferred from the IGSF (refer Note 19) during the year. Of these securities, PIDM only maintains PDS that are issued by Government-Linked Companies with a minimum rating of AA+. As these PDS potentially exposes PIDM to credit risk of default, PIDM continuously monitors the credit standing of the issuers of the PDS for any potential downgrade in the credit ratings. The credit risk specified herein is only applicable to the PDS transferred from the IGSF.

f. Fair values

Generally, the carrying values of financial assets and liabilities of the DIFs and TIPFs approximate their fair value, except for the investments in Malaysian Government Securities and Investments; and Bank Negara Malaysia Bills and Negotiable Notes as well as fair value of investment in PDS whereby the fair value may be represented by the market value of these securities as noted in Notes 3 and 4.

21. CURRENCY

All amounts are stated in Ringgit Malaysia.

22. CONTINGENT LIABILITIES

Exposure to losses

Under the MDIC Act, PIDM has an inherent exposure to losses resulting from insuring deposits under the Deposit Insurance System as well as insurance policies and takaful certificate under the Takaful and Insurance Benefits Protection System. However, this inherent exposure cannot be accurately ascertained or estimated with any acceptable degree of reliability. During the year, there have been no events which would require PIDM to record a specific provision in its financial statements in accordance with FRS 137 Provisions, Contingent Liabilities and Contingent Assets.

As part of its mandate, PIDM undertakes risk assessment and monitoring of all member institutions and works closely with the supervisory authority to ensure that our concerns about the business and affairs of member institutions are addressed promptly. However, PIDM necessarily relies on the supervisory authority to take prompt corrective action to mitigate the possibility of a member institution failure. For member banks, PIDM reinforces financial discipline through its differential premium system which provides strong incentives for member banks to adopt sound and rigorous risk management practices including the maintenance of strong capital positions. PIDM is currently developing a similar differential premium system for the insurer members to be implemented by 2013.

If a member institution is deemed non-viable by the supervisory authority, PIDM is mandated and has the necessary powers to intervene and resolve the member institution in a manner that minimises loss to the financial system.

While provisions are not recorded unless a specific event occurs, PIDM continues to build reserves in its Protection Funds through the accumulation of annual net operating surpluses arising from its operations. Accumulated surpluses are held in each Fund to cover losses when respective obligations arise. Accumulated surpluses in one Fund cannot be used to cover obligations of another Fund. As discussed in Note 8, PIDM has established the Target Fund framework for DIFs. PIDM will also be developing a Target Fund framework for TIPFs, similar to that of DIF, over the next few years.

If the relevant Fund was to ever be insufficient to meet obligations, PIDM, as a statutory body, has the authority to borrow from the Government or issue public debt securities to raise funds, as well as to assess and collect higher premiums in relation to the relevant Fund with the approval of the Minister of Finance.

Section 6

OVERVIEW OF MEMBERSHIP



OVERVIEW OF MEMBERSHIP

In 2011, the number of the Corporation's member institutions more than doubled. Membership rose to 88 institutions from merely 42 in 2010, largely due to the entry of insurer members.

Despite a very difficult global economic backdrop, 2011 turned out to be another good year for member institutions in terms of their overall financial performance. Underpinning the strength was a resilient domestic economy supported by strong and proactive prudential supervision and regulation. More importantly, there were no significant shifts in the risk profiles of the member institutions.

Member banks continued to maintain strong overall risk profiles, largely due to strong asset quality, robust loan growth and low levels of impaired loans. Their capital remained strong and adequate to support assets growth, given strong asset quality. Earnings performance continued to improve and there are no impending liquidity concerns among the member banks collectively.

Insurer members demonstrated a similar trend, with steady growth in assets and premiums. More importantly, they maintained sufficient capital buffers well above the supervisory target levels. The insurer members also maintained well-diversified investment portfolios with holdings mainly in low-risk domestic assets.



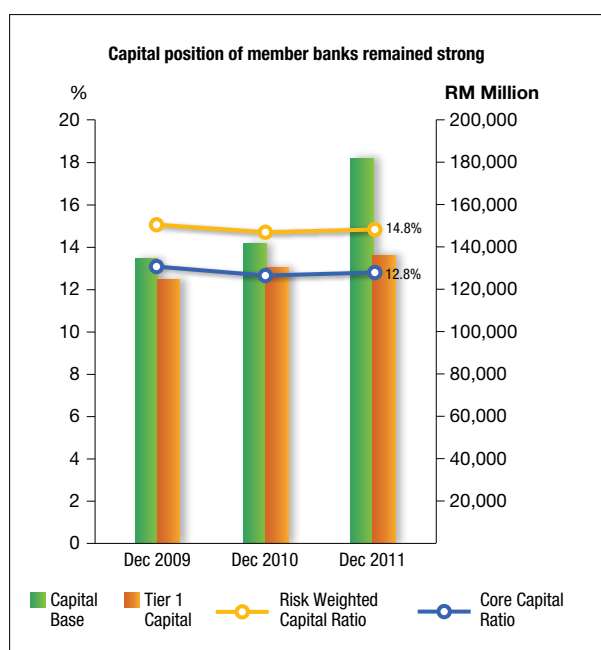
OVERVIEW OF MEMBERSHIP

MEMBER BANKS

Strong Capital to Support Growth

Collectively, member banks' loan assets grew by a strong 13.6% in 2011. This translated into a 7.9% rise in the total risk-weighted assets (RWA) year-on-year. Despite this, the capitalisation of the members remained solid, staying well above the minimum regulatory requirement of 8%. The risk-weighted capital ratio (RWCR) and the core capital ratio (CCR) stood at 14.8% (end-December 2010: 14.4%) and 12.8% (end-December 2010: 12.6%) as at December 2011, respectively. Similarly, the leverage ratio remained at a respectable level of 12.5 times of total assets (end-December 2010: 11.1 times) during the same period. At the current levels of capital, member banks have a buffer of RM72.7 billion above the minimum regulatory limit.

Chart 1: Capital Position

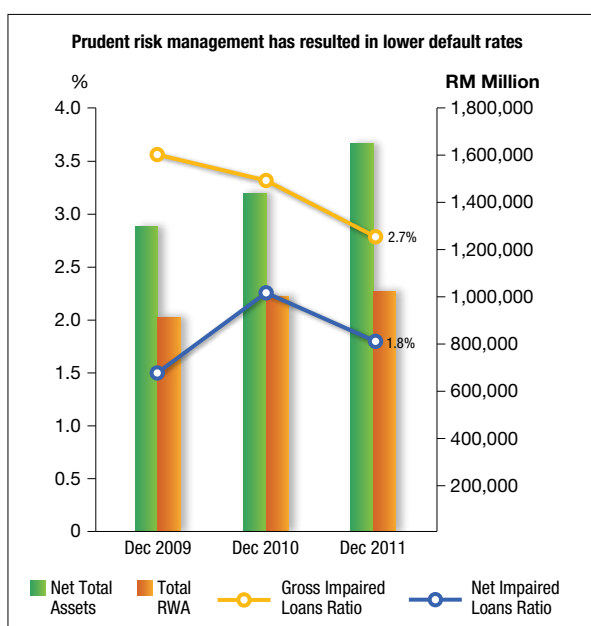


Asset Quality Remains Resilient

The overall asset quality of member banks continued to improve, with a lower impairment reading. Absolute impairment fell by RM2.5 billion or 8.5% in 2011 compared to a rise of 2.9% in 2010. The gross impaired loans ratio improved to a historical low of 2.7% and net impaired loans ratio stood at 1.8% as at end-December 2011.

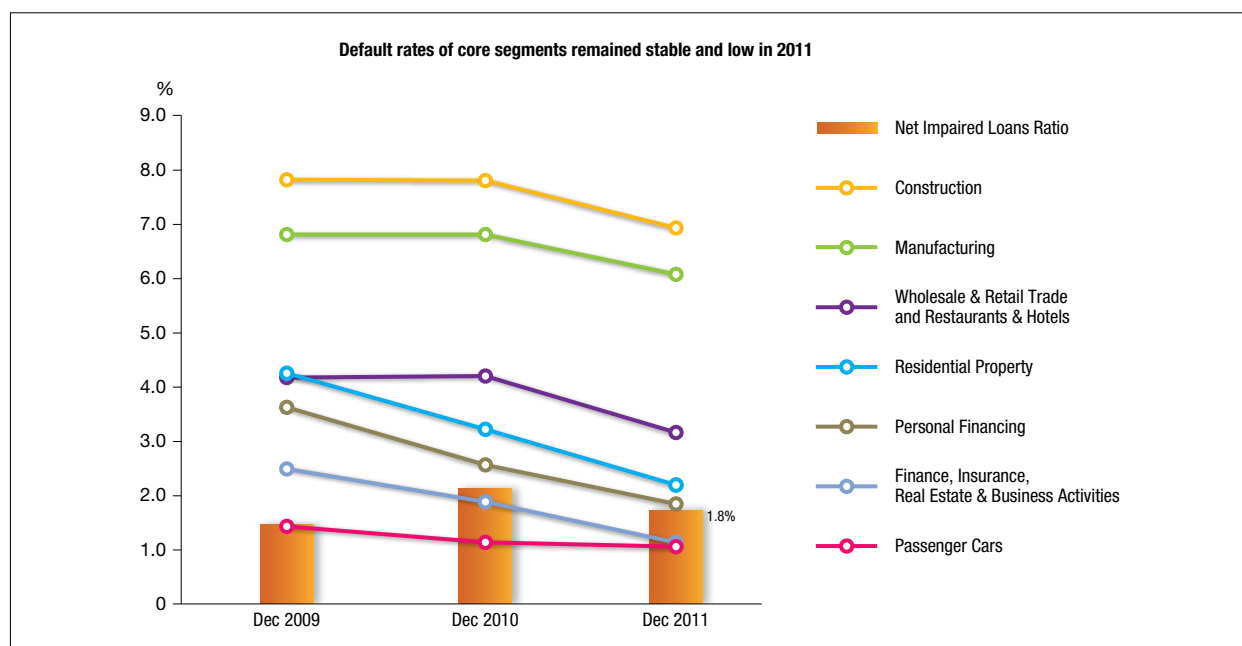
Household sector financing remained the main growth driver, representing 55.5% of total loans extended by the member banks collectively as at end-December 2011. The demand for loans in the household segment posted a solid year-on-year growth of 13.4% (2010: 13.1%), mainly driven by residential property. While the delinquency and default rates of household loans remained consistently low (ranging between 1.2% and 2.4%), the concerns lie with the high household debt levels in relation to Gross Domestic Product (GDP). Bank Negara Malaysia (BNM) has introduced pre-emptive measures to inculcate a more prudent risk culture and more responsible lending practices by member banks.

Chart 2: Trend for Impairments



Despite increased lending, the default rates in the core loan segments remained low. Even with the healthy overall asset quality, we will remain vigilant, focusing, in particular, on excessive growth and lending in concentrated segments.

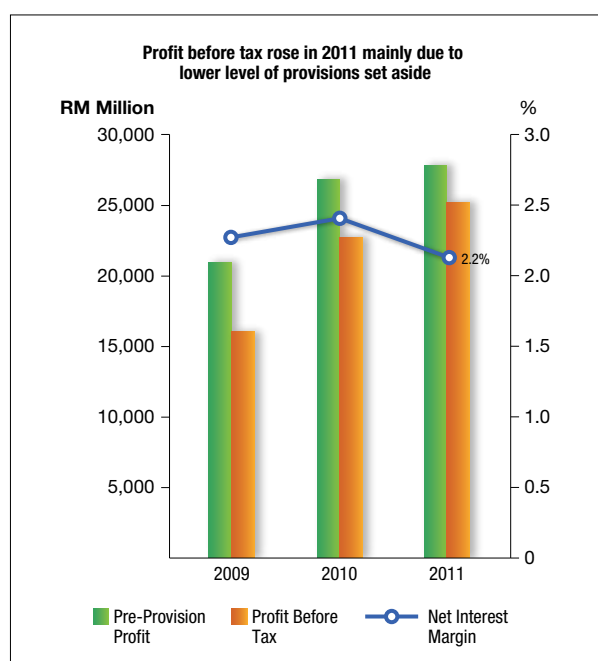
Chart 3: Default Rates of Selected Segments



Improved Earnings Performance

The earnings performance of member banks improved further in 2011, with robust loan growth and the record low level of impaired loans offsetting lower net interest margins. The profit before tax (PBT) of member banks for 2011 rose to RM25.1 billion compared to RM22.3 billion in 2010. The return on assets (ROA) was maintained at 1.6% in 2011 similar to the previous year. Meanwhile, net interest margins continued to decrease to 2.2% in 2011 from 2.4% recorded in the previous year.

Chart 4: Trends in Profitability



Ample Liquidity and Funding

With ample liquidity prevailing in the market, there are no immediate liquidity concerns in the banking sector. In fact, the growth in customer deposits was higher in 2011 (annual growth of 14.4% compared to 7.4% in 2010). Notwithstanding the strong loan growth, the loans to deposit ratio (LD ratio) remained at a comfortable level of 79.3% as at end-December 2011, a shade better than the 79.8% reported in the previous year. At this level, the LD ratio can comfortably support future loans expansion without putting pressure on interest rates. Meanwhile, we will continue to monitor the composition of deposits, particularly for any trends in adverse concentrations. Overall depositor composition in member banks has not changed much and has remained well diversified since 2008. As at December 2011, customer deposits were mainly from individuals (36.2%), domestic business enterprises (37.4%) and, to a lesser extent, the Government (6.4%).

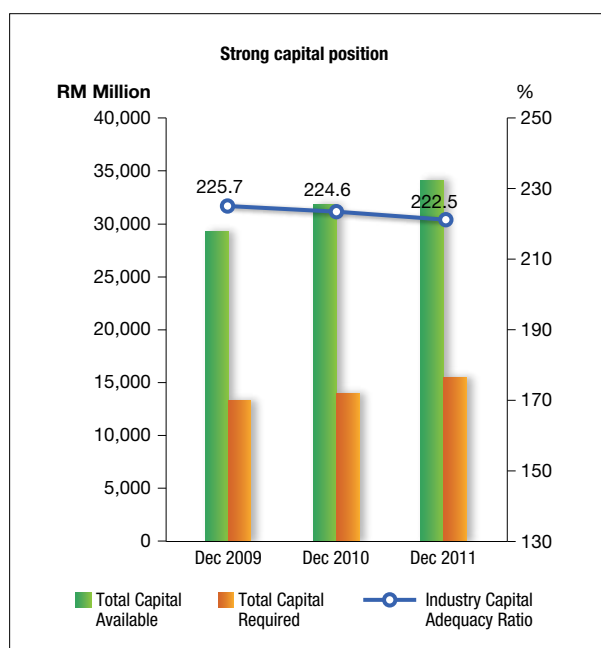
OVERVIEW OF MEMBERSHIP

INSURER MEMBERS

Strong Capital to Support Growth

The insurer members' capital position remained stable and strong, well above the supervisory target level of 130%. In their efforts to strengthen the capital position, insurer members continued to manage their exposure to high-risk businesses, restructure their investment mix, expedite claims settlement and increase reinsurance ceding. The strong capital buffer provides better platform for the insurer members to continue its growth trends and absorb any future unexpected losses. Despite the strong capital, insurer members have to be vigilant to maintain the capital buffer to support the increasing trends in the capital requirements for the businesses that they underwrite.

Chart 5: Capital Adequacy Ratio and its Major Components



Satisfactory Assets Growth

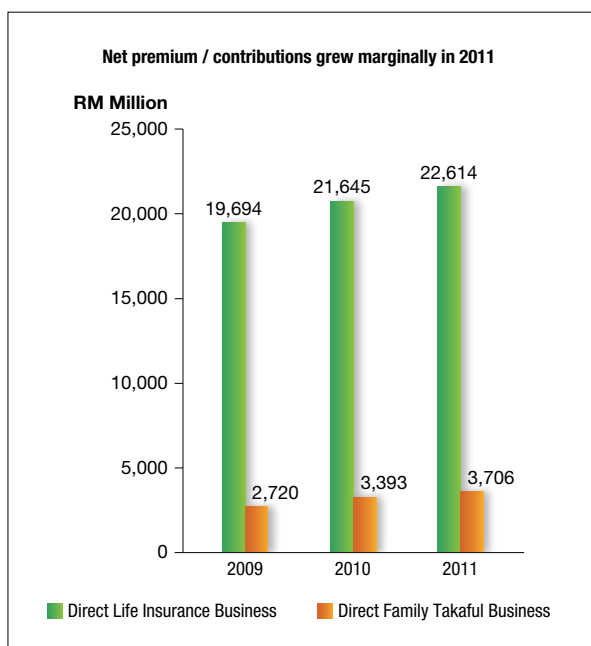
Growth in conventional and takaful businesses coupled with surplus of income over outgo recorded during the year supported the expansion of insurers and takaful operators' total assets. Total assets of direct life and general insurance businesses have expanded by 7.4% and 8.6% respectively, largely from cash and deposits. Family and general takaful operators registered substantial growth of 15.8% and 15.7% in assets, respectively, primarily from investments. Of the total assets, investments remained the largest component (72.2%) while exposure to equities and real estate was kept minimal at 14.8% and 1.2%, respectively, as at end-December 2011.

Steady Business Growth

Premium growth for life insurance and family takaful businesses was capped by cautious sentiments and a weaker investment climate. Net premiums / contributions for life insurance and family takaful businesses grew marginally by 4.6% and 9.2% respectively in 2011. In respect of new business premiums / contributions, despite the reduction in endowment policies, medical and health products continued to post strong growth. We foresee that the growth will continue, supported by BNM's plan in its Financial Sector Blueprint 2011 - 2020.

Going forward, we expect insurer members to remain resilient and continue to increase their share on less risky businesses, in order to preserve capital and maintain the steady growth in premium. In addition, we envisage that the family takaful business will continue to grow at a faster pace than conventional business, mainly due to an untapped market.

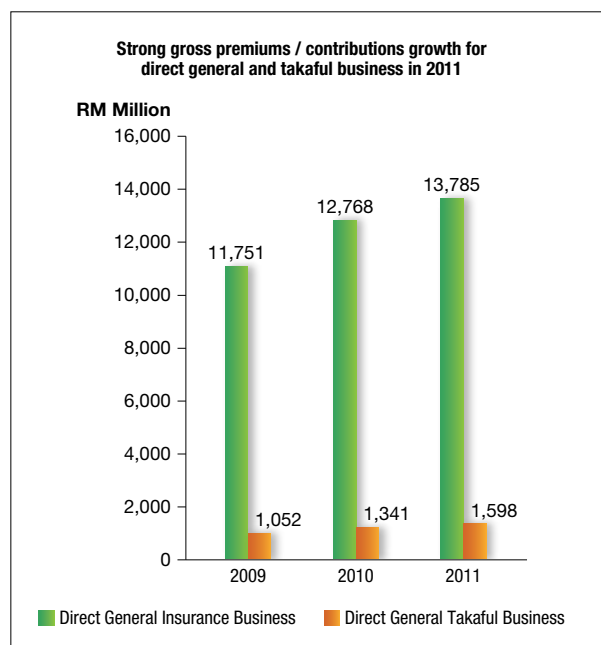
Chart 6: Life Insurance and Family Takaful Business – Net Premiums / Contributions



Meanwhile, the premium growth for general insurance and takaful businesses remained strong. Gross premiums / contributions for direct general insurance and takaful businesses in 2011 grew by 7.9% and 19.2% respectively. The growth in direct general insurance business was primarily from medical and health as well as offshore oil-related business. As for the general takaful business, the growth was largely contributed by contractors' all risks and engineering as well as marine cargo business.

In terms of business composition, the motor business continued to dominate both the general insurance and takaful businesses at 46.2% and 54.9% respectively. Going forward, the implementation of the new motor cover framework will bode well for the insurer members as it provides more opportunity for them to appropriately price the motor premium.

Chart 7: General Insurance and Takaful Business – Gross Premiums / Contributions



Stable Earnings Performance

The excess of income over outgo for life insurance business declined from RM12.6 billion in 2010 to RM10.97 billion in 2011, reflecting the growing maturity of the industry as more policies are maturing or increases in death benefit claims in addition to slower growth in net premium income and higher net unrealised loss from equities. Volatility in the equity market and relatively high risk charges have prompted insurer members to be conservative and invest more in less risky assets, i.e. fixed deposits and good quality debt securities. Meanwhile, for family takaful business, their excess of income over outgo was higher by 13.9% at RM1.6 billion in 2011 in line with the good business growth.

The overall performance of direct general insurance and takaful businesses remained stable with operating margin ratio of 18.6% and 20.9% respectively in 2011. For direct general insurance business, underscored by the general improvement in the net claims incurred ratio from 62.8% in 2010 to 61% in 2011, the underwriting margin ratio improved to 9.4% in 2011 (2010: 7.4%). The improvement is in line with BNM's concerted efforts to instill prudent underwriting and claim management practices amongst insurer members. However, we will monitor the adverse trend in the underwriting margin ratio for general takaful business which has a high correlation with the higher claims ratio. The growth in the less profitable business such as motor may contribute to the deterioration in net claims incurred ratio and underwriting margin ratio to 63.9% (2010: 56.7%) and 7.1% (2010: 12%) in 2011 respectively.

OUTLOOK AND CONCLUSION

Despite the strong performance in 2011, much uncertainty remains. In this regard, 2012 is expected to be challenging for member institutions. Given the challenging economic environment and the tightening of consumer lending, some moderation in loan and premium growth is expected.

However, opportunities may still arise as the Malaysian Government continues to support economic growth through initiatives such as the implementation of the Malaysia Economic Transformation Programme and the Financial Sector Blueprint 2011 - 2020. In addition, there are concerted efforts globally to introduce new regulatory requirements to ensure continued, sustainable and responsible business and growth and enhanced risk management practices. Our member institutions are well placed to capitalise on these initiatives with prudent risk management measures and plans.

While we do not anticipate any significant issues in the coming year that would affect the viability of the industry in the immediate term, we would, however, remain vigilant.

Section 7

ARTICLE



PIDM

Perbadanan Insurans Deposit
Protecting Your Insurance And Deposit

AHLI PIDM
MEMBER OF PIDM

PIDM 的成員
PIDM-மின் உறுப்பிக் கழகம்
www.pidm.gov.my
Toll-free: 1-800-88-1266



Perbadanan Insurans Deposit Malaysia
Malaysia Deposit Insurance Corporation

INTRODUCTION

Since its establishment in 2005, PIDM has not dealt with any failed members. Nonetheless, as the protection and resolution authority for our member institutions, we have dedicated much effort and resources towards building PIDM's operational readiness to deal with intervention and failure resolutions to meet our statutory mandate. Operational readiness is integral to building public confidence in a financial consumer protection system and effective funding is one of the key aspects of such readiness. PIDM's focus in this area is in line with the "Core Principles for Effective Deposit Insurance Systems" issued in June 2009 by the Basel Committee on Banking Supervision and the International Association of Deposit Insurers (IADI). An extract of the explanations and supporting guidance to Principle 11 on Funding reads as follows:

"Sound funding arrangements are critical to the effectiveness of a deposit insurance system. Ex-ante funding can help lessen the reliance of the deposit insurance system on public funds during periods of financial stress and crisis. For countries utilising an ex-ante target fund ratio or range, the method chosen should be sufficient to reduce the probability of the fund's insolvency to an acceptable minimum."

PIDM utilises an ex-ante funding system where it assesses premiums annually on its member banks based on their Total Insured Deposits (TID) as at 31 December the previous year. For its deposit insurance system, PIDM maintains two separate Funds, one for Islamic Deposit Insurance and another for Conventional Deposit Insurance. The separation of Funds is to reflect clearly the segregation between the Islamic and conventional banking systems, which run parallel within the Malaysian financial system, in line with legislative provisions as well as in compliance with Shariah requirements.

FUNDING FRAMEWORK FOR THE DEPOSIT INSURANCE SYSTEM

PIDM's funding framework details our funding objectives, its sources of funds as well as their utilisation. As common with most deposit insurers, PIDM's funding objectives are aligned to its mandate.

PIDM's funding objectives are to cover our day-to-day operating expenditures and to build reserves to meet our future obligations to depositors.

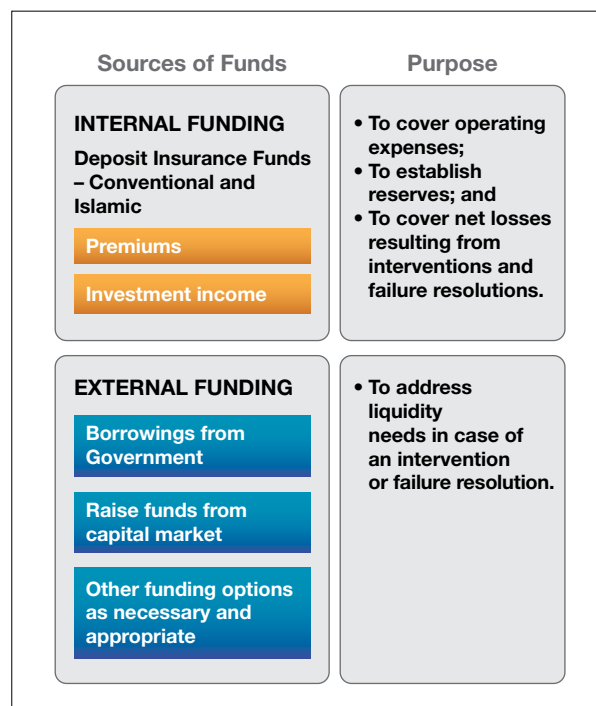


Diagram 1: PIDM's Funding Framework for the Deposit Insurance System

PIDM's funding framework was structured based on several key considerations. Firstly, its role in the financial safety net. PIDM's statutory objects require it to promote and maintain public confidence in the stability of the financial system and to do so in a manner to minimise costs to the financial system. Secondly, PIDM has legislative provisions empowering the Minister of Finance to approve borrowings from the Government or enabling PIDM to raise funds as deemed appropriate, including from the capital market. In this regard, PIDM need not build excessively large reserves for liquidity purposes but would build a Fund size that is adequate to cover net deposit insurance losses, supported by external liquidity funding sources.

As noted above, PIDM's funding framework makes a clear distinction between the objectives of internal and external funding. PIDM's external funding is to meet the liquidity needs of intervention and failure resolutions while its internal funding is to cover operating expenses as well as *net losses* arising from intervention and failure resolutions.

ARTICLE

TARGET FUND FOR THE DEPOSIT INSURANCE SYSTEM

Regarding borrowings, PIDM is putting in place appropriate arrangement and documentation to facilitate borrowings from the Government, which will be the first or primary source of external liquidity funding. This is to ensure that PIDM is able to raise funds quickly if the need arises to deal with a troubled member institution. Funding from the capital market, namely through the issuance of Government-guaranteed debt securities, is also an option when the environment or market is conducive to do so. Premiums assessed ex-post an intervention or failure resolution as well as proceeds from recoveries on assets of a failed member would be used to repay all borrowings and debts.

TARGET FUND: GENERAL CONCEPT

The term Target Fund or target reserve ratio generally refers to the level of internal funds that a deposit insurer aims to maintain to be able to fulfil its obligations and mandate. The IADI Guidance Paper on Funding of Deposit Insurance Systems, issued by IADI on 6 May 2009 (page 17), emphasised the importance of determining an optimal size of a deposit insurance fund, in that:

"The target level should be adequate to at least cover the potential losses of the insurer under normal circumstances. A large number of factors need to be taken into account including: the composition of member banks (number, size, lines of business), the liabilities of members and the exposure of the insurer to them, the probability of failures and the characteristics of losses that the insurer can expect."

There is no one-size-fits-all regarding Target Fund for deposit insurers. The Target Fund (which is commonly stated as a percentage of insured deposits) varies from one jurisdiction to another depending on each deposit insurer's mandate, operating environment as well as supervisory and regulatory regime. For example, a deposit insurer with a restricted mandate of reimbursing depositors when a bank has failed (also known as a "pay-box" deposit insurer) would need to maintain sufficient levels of funds to meet its obligations to reimburse depositors. If a pay-box deposit insurer does not have external funding capabilities or support, it would need to maintain higher levels of internal funds to meet the liquidity requirements of a payout. On the other hand, a deposit insurer that has the powers to intervene early in a troubled bank would be able to reduce its losses, thus able to maintain lower levels of funds than it would have otherwise. The composition of the member banks as well as the effectiveness of the supervisory and regulatory regime would also have a bearing on the level of funds a deposit insurer needs to maintain.

Different approaches and methodologies adopted in determining the Target Fund levels also contribute to the variation in the Target Fund between various jurisdictions. The methodologies range from the discretionary approach, which relies on discretionary judgement (e.g. fund levels sufficient to cover exposure to insured deposits for all small banks and two of the medium-sized banks), to the more sophisticated approach using statistical modelling to estimate exposure to losses (e.g. "value-at-risk" modelling commonly used by banks to assess credit risks).

| COUNTRY | TARGET FUND LEVEL | COUNTRY | TARGET FUND LEVEL |
|-------------|--|---------------|-----------------------------------|
| Hong Kong | 0.25% of insured deposits | United States | 2.00% of insured deposits |
| Indonesia | 2.50% of insurable deposits | Canada | 0.40% - 0.50% of insured deposits |
| Kazakhstan | 5.00% of insurable deposits | Colombia | 4.50% of insured deposits |
| Korea | Banks, financial investment companies, non-life insurance companies: 0.825% - 1.1% of insured deposits | Jordan | 3.00% of insured base |
| Philippines | P75.5bn (Target for 2010 – reviewed annually) | Argentina | 0.50% of insured base |
| Singapore | 0.30% of insured deposits | Jamaica | 5.00% of insured base |
| Taiwan | 2.00% of covered deposits | Brazil | 2.00% of insured base |

Table 1: Comparison of Target Fund levels for selected countries as at 31 December 2011

TARGET FUND FOR DEPOSIT INSURANCE SYSTEM: THE MALAYSIAN CONTEXT

In establishing the Target Fund for its Deposit Insurance System, PIDM was guided by the following four guiding principles:

| GUIDING PRINCIPLES |
|--|
| <p>First Principle: The Target Fund should be established to address periodic failures and not systemic failures. The deposit insurance system in Malaysia was designed to contribute to the stability of the financial system through promoting sound risk management within member banks and carrying out timely intervention and failure resolution activities. It is, however, not designed to deal with systemic failures, which would need to be addressed through the collective efforts of all the financial safety net players including the Government.</p> |
| <p>Second Principle: The Target Fund should be large enough to cover net insurance losses in most of the loss situations that PIDM may face. External funding arrangements will be used to support liquidity requirements in the event of an intervention. The ultimate costs or net loss to a deposit insurer in the event of an intervention and failure resolution is the overall costs of the resolution less recoveries on assets from the failed or troubled member bank. However, the liquidity needs for intervention and failure resolutions, in particular in the event of a payout to depositors, would be significantly higher than the net insurance loss. Setting a Target Fund to meet the liquidity needs would require a significantly huge amount of funds, which is not justifiable given the size of exposure of the insured deposits. In addressing this, the MDIC Act empowers the Minister of Finance to provide Government funds to PIDM in the form of borrowings. PIDM also has the authority under the MDIC Act to raise funds as deemed appropriate, including from the capital market.</p> |
| <p>Third Principle: The level of the Target Fund should reflect pragmatic resolution approaches in order to establish achievable target levels. An optimal Target Fund size should be sufficient to build confidence but not to the extent of significantly affecting the profitability of member banks. Strong capitalisation levels are the first line of defence for a robust financial system. Member banks should build capital buffers rather than PIDM holding excessive pools of low-yielding liquid assets. In order to establish a Target Fund that is not excessive, PIDM took into consideration its various resolution powers as well as its capability to intervene early in a troubled member to minimise losses to the financial system.</p> |
| <p>Fourth Principle: The Target Fund size should be specified as a “range” rather than an absolute amount. The Target Fund is an estimate of future insurance losses that may be incurred. This estimate would change as the components or variables within the model vary. Changes to the economic environment and the industry landscape as well as deposits growth level could affect the Target Fund level. Having a range of amounts for the Target Fund would enable it to remain relevant despite changes to the variables, thus not having to change the Fund size too frequently.</p> |

In developing its Target Fund framework, PIDM assessed and benchmarked models used by other deposit insurers, and selected the approach and model that best reflect the way PIDM manages its risk.

PIDM's Target Fund framework was developed using the statistical modelling approach, whilst having considered qualitative factors including PIDM's legislative powers, the operating environment as well as the regulatory and supervisory regime that have implications to PIDM's exposure to losses. These qualitative factors are either directly reflected within the statistical model or used in the determination of the Target Fund range.

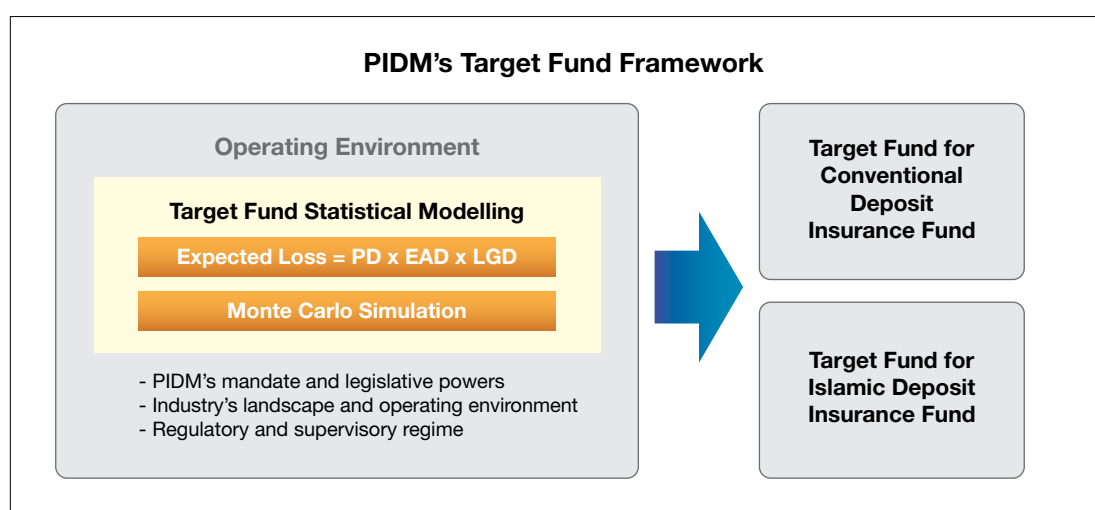


Diagram 2: PIDM's Target Fund Framework for the Deposit Insurance System

ARTICLE

TARGET FUND FOR THE DEPOSIT INSURANCE SYSTEM

The statistical modelling assumes two broad approaches that may be adopted in resolving a troubled member bank: (a) liquidation and (b) going-concern resolution. The statistical model determines the expected loss for PIDM using the following key input variables:

| KEY VARIABLES AND DEFINITION | SUMMARY OF APPROACH ADOPTED |
|--|--|
| 1. Probability of Default (PD): PD measures the likelihood of a member bank going into default within a specific time horizon. | In determining PDs, data from External Credit Assessment Institutions such as Standard & Poors, Moody's and Fitch, etc. were obtained. In the case of multiple ratings for a particular member bank, an averaging method is used. These data are also benchmarked against the internal rating data from PIDM's Risk Assessment System. |
| 2. Exposure at Default (EAD): EAD is the financial exposure to PIDM in the event of default. | PIDM adopted different EADs for liquidation and going-concern resolution approaches. PIDM used TID for the liquidation approach and re-capitalisation as proxy for the going-concern approach. |
| 3. Loss Given Default (LGD): LGD is defined as the <i>net loss</i> to PIDM after taking into account recoveries in any given intervention and failure resolution action related to a non-viable member bank. | The determination of LGD takes into consideration both the liquidation and going-concern resolution approaches. |

In estimating the Target Fund using the statistical model, PIDM used the Monte Carlo simulation approach, which involved running 10 million random loss scenarios to build up a statistical loss distribution. For each scenario trial, the net loss was determined by the input variables described above. From this loss distribution, PIDM then determined the level of funds that would be sufficient to cover losses given a specified confidence level. In identifying the appropriate levels of funds required, PIDM used a confidence interval of approximately 1.25% (or 98.75% confidence level). In other words, there is a 98.75% probability that the specified levels of funds would be sufficient to cover the net insurance losses in providing deposit insurance protection.

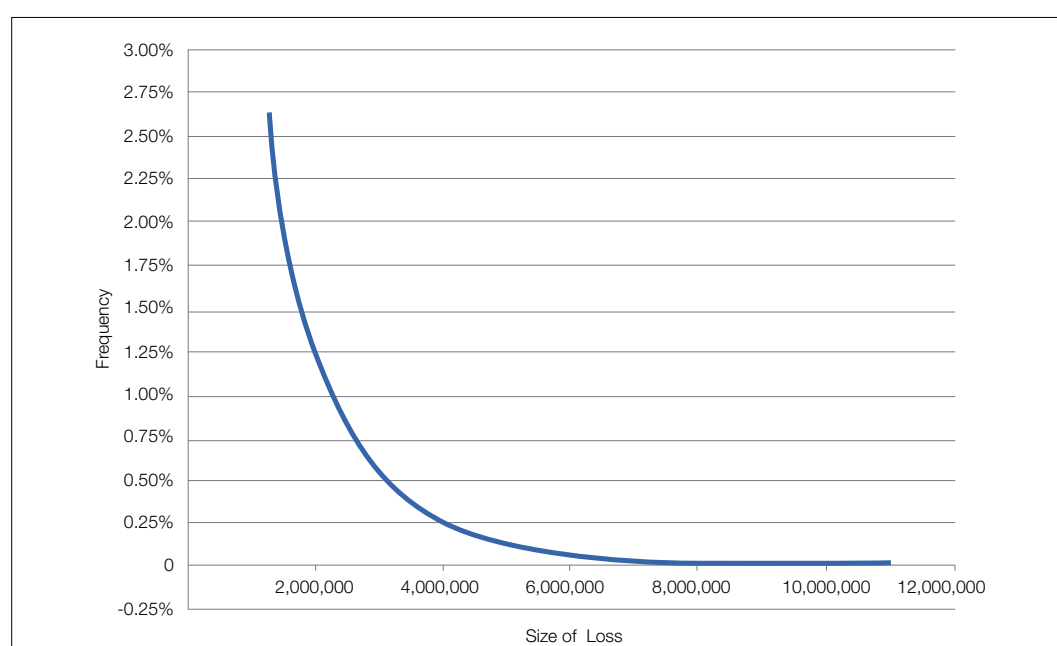


Diagram 3: Example of a Loss Distribution Curve

From the modelling results and after taking into consideration the qualitative factors mentioned previously, PIDM set the Target Fund range at **0.6% to 0.9%** of TID, for both the Conventional and Islamic Deposit Insurance Funds (DIFs). Based on the TID levels as at 31 December 2010, the Target Fund range in absolute Ringgit Malaysia amounts are as noted below.

| TARGET FUND LEVELS | CONVENTIONAL DIF | ISLAMIC DIF |
|------------------------|------------------|---------------|
| 60 basis points (0.6%) | RM1.96 billion | RM239 million |
| 90 basis points (0.9%) | RM2.94 billion | RM359 million |

Table 2: Target Fund Levels based on TID as at 31 December 2010

TIME-TO-FUND

The term “Time-to-Fund” refers to the timeframe (usually stipulated as number of years) required to achieve the set Target Fund levels, given the levels of premiums to be assessed on member banks and the level of net surplus to be accumulated annually. The Time-to-Fund modelling is predicated upon and is sensitive to the following factors:

| FACTORS AFFECTING TIME-TO-FUND |
|---|
| <p>Growth in TID: As the Target Fund is specified as a percentage of TID, the target levels in absolute Ringgit Malaysia terms will vary according to TID growth year on year. In modelling the Time-to-Fund, if the rate of growth in TID is higher than expected, the estimated Time-to-Fund would correspondingly lengthen. The reverse would also be true should the TID growth rate be lower than expected.</p> |
| <p>Premiums: The level of premiums assessed on member banks is a key driver in achieving the desired Time-to-Fund as it has a direct and significant impact on the net surplus to be accumulated annually.</p> |
| <p>Investment income: Premiums received from member institutions are invested in stable, low-risk fixed income investment securities. Accordingly, the level of return on investments, which contributes to the net surplus accumulated annually, will have an inverse effect on the Time-to-Fund – i.e. the higher the return on investments, the shorter the Time-to-Fund.</p> |
| <p>Operating expenditures: Moving forward, the operating expenditures of PIDM are expected to marginally increase and will begin to stabilise after all the required resources have been obtained and all key infrastructure, systems and processes have been implemented.</p> |

The level of premiums is the most significant among the four factors that would affect the Time-to-Fund.

| COUNTRY | PREMIUM ASSESSMENT BASE | PREMIUM SYSTEM | PREMIUM RATE(S) | TARGET FUND | TARGET FUND LEVEL |
|----------|--------------------------|----------------|--|-------------|--|
| Malaysia | Insured deposits | DPS | <u>Deposit Insurance System:</u> Category 1: 0.03% Category 2: 0.06% Category 3: 0.12% Category 4: 0.24% | Yes | 0.6% to 0.9% of Total Insured Deposits for both Conventional and Islamic Deposit Insurance Funds |
| | Relevant assessment base | Flat | <u>Takaful and Insurance Benefits Protection System:</u> <ul style="list-style-type: none"> General Insurance / General Takaful: 0.25% of total net premiums received Life Insurance / Family Solidarity Takaful: 0.06% of actuarial valuation liabilities | No | Not applicable |

ARTICLE

TARGET FUND FOR THE DEPOSIT INSURANCE SYSTEM

| COUNTRY | PREMIUM ASSESSMENT BASE | PREMIUM SYSTEM | PREMIUM RATE(S) | TARGET FUND | TARGET FUND LEVEL |
|-------------|---|----------------|---|-------------|---|
| Hong Kong | Insured deposits | DPS | Category 1: 0.0175% Category 2: 0.0280% Category 3: 0.0385% Category 4: 0.0490% | Yes | 0.25% of insured deposits |
| Indonesia | Insurable deposits | Flat | 0.20% | Yes | 2.50% of insurable deposits |
| Kazakhstan | Insurable deposits | DPS | Category 1: 0.04% Category 2: 0.08% Category 3: 0.11% Category 4: 0.19% Category 5: 0.38% | Yes | 5.00% of insurable deposits |
| Korea | Insurable deposits | Flat | <ul style="list-style-type: none"> For banks: 0.08% For financial investment companies, merchant banks: 0.15% For mutual savings banks: 0.4% | Yes | <ul style="list-style-type: none"> Banks, financial investment companies: 0.825% - 1.10% Mutual savings banks: 1.65% - 1.925% |
| | Arithmetic average of policy reserves and premiums earned | Flat | <ul style="list-style-type: none"> For insurance companies: 0.15% | Yes | <ul style="list-style-type: none"> Non-life insurance companies: 0.825% - 1.10% Life insurance companies: 0.66% - 0.935% |
| Philippines | Total deposit liabilities | Flat | 0.20% | Yes | P75.5bn (Target for 2010 – reviewed annually) |
| Singapore | Insured deposits | DPS | Category 1: 0.02% Category 2: 0.03% Category 3: 0.07% | Yes | 0.30% of insured deposits |
| Taiwan | Insurable deposits | DPS* | Category 1: 0.05% Category 2: 0.06% Category 3: 0.08% Category 4: 0.11% Category 5: 0.15% | Yes | 2.00% of insured deposits |
| | | Flat** | 0.005% | | |
| Thailand | Insurable deposits | Flat | 0.40% | No | Not applicable |
| Vietnam | Insured deposits | Flat | 0.15% | No | Not applicable |

* A differential premium rate for insured deposits

** A flat premium rate for deposits exceeding the maximum insurance coverage

Table 3: Comparisons of Target Fund levels, premium rates and levels of DIF / protection funds for selected countries as at 31 December 2011

PIDM is currently reviewing its framework to determine an appropriate and reasonable Time-to-Fund for its DIFs.

DISCLOSURE IN FINANCIAL STATEMENTS

Target Fund is unique to the deposit insurance business. To date, there are no specific accounting standards or guidelines relating to disclosures of Target Fund in financial statements. Hence, significant variations exist in the disclosure approaches adopted by deposit insurers globally.

In the case of Malaysia, the relevant accounting standards include FRS 7 Financial Instruments: Disclosures, FRS 101 Presentation of Financial Statements and FRS 137 Provisions, Contingent Liabilities and Contingent Assets.

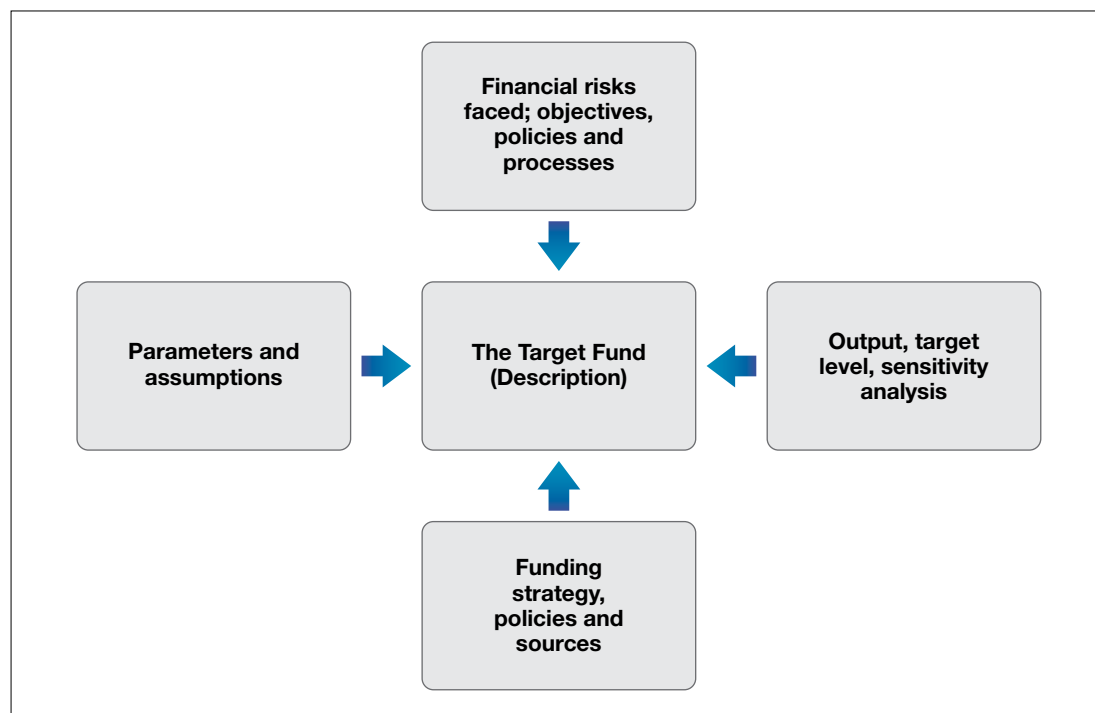


Diagram 4: PIDM's Target Fund Disclosure Framework

In establishing an appropriate disclosure framework that balances the requirement for transparency and integrity against the potential adverse impact on confidence in the financial system, PIDM took into consideration the relevant accounting standards in Malaysia, the quantitative and qualitative aspects of the disclosure, and benchmarked against disclosures of other deposit insurers.

PIDM's Target Fund disclosures can be found in the Management's Discussion and Analysis section of the Annual Report on pages 95 to 97 as well as in Note 8 to the Financial Statements on pages 130 and 131.

GOING FORWARD

As noted above and in line with the requirements of the "Core Principles for Effective Deposit Insurance Systems", the overall adequacy of funding for a deposit insurer is critical to ensure the effectiveness of a deposit insurance system. The key to an effective and robust funding framework is having internal funds that meet the deposit insurer's operational and funding objectives, with the support of an appropriate external funding mechanism.

The Target Fund is not static and may change over time as the operating environment changes. In that regard, PIDM will be carrying out periodic reviews of the Target Fund modelling, including reviewing the model variables and modelling assumptions, to ensure it remains current and relevant.

Achieving the Target Fund levels itself will take time. Deposit insurers in most jurisdictions are still working towards achieving their Target Fund levels. Having a reasonable timeframe for achieving the Target Fund levels is important to ensure the credibility of a deposit insurer's funding framework. As for PIDM, we are currently reviewing our Time-to-Fund framework as well as our premium rates for the Differential Premium Systems (DPS) for member banks in meeting this objective.

PIDM will also be looking into developing a similar Target Fund framework for insurer members under the Takaful and Insurance Benefits Protection System (TIPS) over the next few years.

Section 8

PUBLIC AWARENESS INITIATIVES AND CORPORATE SOCIAL RESPONSIBILITY



PUBLIC AWARENESS INITIATIVES AND CORPORATE SOCIAL RESPONSIBILITY

PUBLIC AWARENESS INITIATIVES



ACHIEVEMENT OF THE INTEGRATED COMMUNICATIONS PLAN 2007 - 2011

The year 2011 marked the final year of implementation of PIDM's five-year Integrated Communications Plan (Plan) for 2007 to 2011. PIDM launched the Plan to drive its communications initiatives based on two strategic thrusts – creating awareness of the deposit insurance system and building confidence in PIDM's role as the administrator of the Deposit Insurance System (DIS).

To achieve the first strategic thrust, the key communications messages focused on the then deposit insurance protection limit of RM60,000 per depositor per member bank, deposit insurance being provided automatically at no direct cost to depositors, and PIDM promptly reimbursing depositors on their insured deposits in the unlikely event of a bank failure.

The second strategic thrust focused on PIDM's role and contribution, including PIDM as the administrator of the Government-backed DIS in Malaysia, PIDM providing

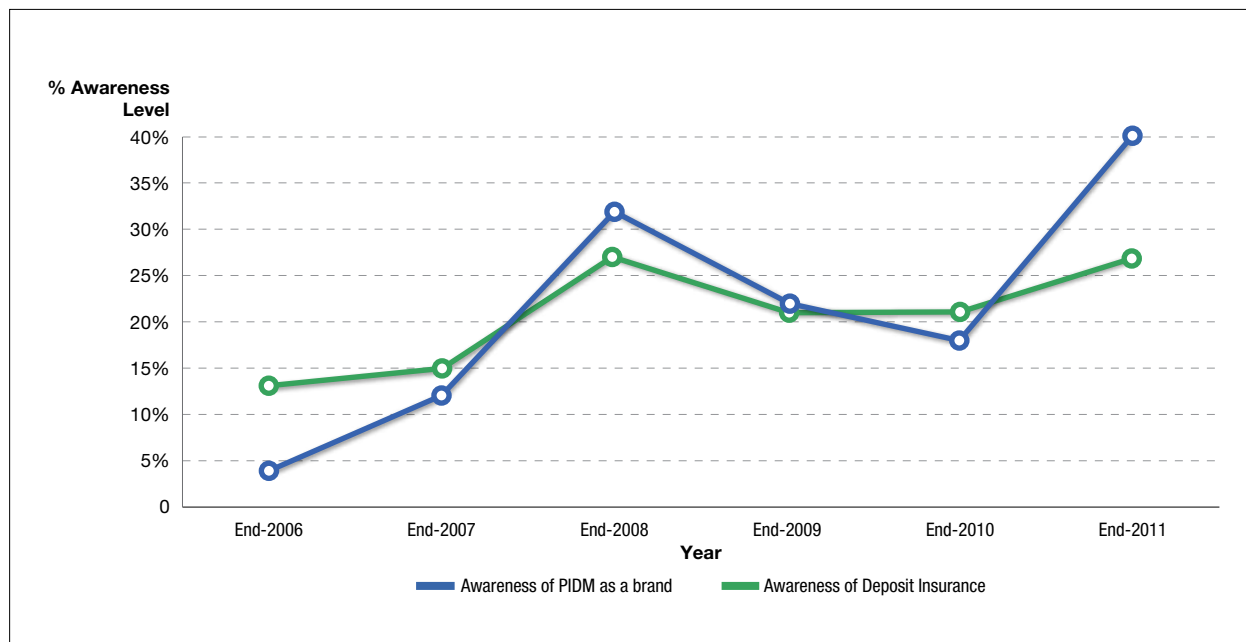
insurance against the loss of part or all of deposits of a member institution, PIDM providing incentives for sound risk management in the financial system and PIDM's contribution to the stability of the financial system.

As PIDM entered its sixth year of operations in 2011, it is encouraging to note the increase in the level of public awareness of deposit insurance and PIDM compared to its early years of establishment. Public awareness levels are gauged through annual nationwide consumer surveys commissioned by PIDM and conducted by an independent research agency. As at the end of 2011, public awareness of deposit insurance increased to 27% from 21% in 2010, while awareness of PIDM also improved to 40% from 18% during the same period. In the consumer survey for 2011, PIDM also measured the level of awareness of the Takaful and Insurance Benefits Protection System (TIPS) for the first time given that TIPS came into operation on 31 December 2010. Awareness of TIPS was registered at 37% as at the end of 2011.

PUBLIC AWARENESS INITIATIVES AND CORPORATE SOCIAL RESPONSIBILITY

PUBLIC AWARENESS INITIATIVES

This graph shows the awareness levels of deposit insurance and PIDM from 2006 to 2011.



PIDM's success in promoting public awareness and building public confidence in its role as the national insurer is attestable not just domestically but also on the international front, as evident from receiving the "2011 Deposit Insurance Organisation of the Year" Award, presented by the International Association of Deposit Insurers (IADI). Such recognition is indeed remarkable for an organisation that has been operating for only six years. Furthermore, PIDM was recipient of the "Best Annual Report of Non-Listed Organisations" for our 2010 Annual Report, awarded by the National Annual Corporate Report Awards (NACRA) for the third consecutive year.

The key elements of its communications strategy and initiatives which contributed to the achievement of the Plan include:

- Direct and easy access to information about deposit insurance protection in an individual's language of choice;
- Establishment of a toll-free Call Centre to handle public enquiries in the four main languages of Malaysia (Bahasa Malaysia, English, Chinese and Tamil) from the first day of operations;

- Availability of information placed directly into the hands of the general public in the form of printed materials, particularly public information brochures printed in the four main languages and two additional languages, Kadazandusun and Iban, used by major ethnic groups in Sabah and Sarawak respectively;
- Use of technology in disseminating accurate information in a timely manner, especially through PIDM's website at www.pidm.gov.my, maintained in the four main languages since the early months of PIDM's operations; and
- Use of consumer research findings in the development, review and implementation of communications initiatives such as advertising, publicity, stakeholder relations and our education programme.

For further information, you may refer to PIDM's past Annual Reports, which are available on PIDM's website in different languages.

Frequently asked questions and answers on DIS and TIPS are also available on PIDM's website, www.pidm.gov.my.

AN OVERVIEW OF OUR INITIATIVES IN 2011

The year 2011 was a dynamic and challenging one for PIDM in terms of its communications and public awareness efforts. A comprehensive communications campaign was developed with the primary objective of educating the public and other key stakeholders on the Enhanced Financial Consumer Protection Package, which included the introduction of the new deposit insurance protection limit of RM250,000, increased scope of coverage to include foreign currency deposits, the implementation of TIPS, and the coming into force of the Provision of Information on Deposit Insurance Regulations 2011.





The implementation of the PIDM-administered TIPS necessitated the development of a communications strategy to reach a broader target audience which now included owners of takaful and insurance products as well as member takaful operators and insurance companies. These groups demonstrate different perspectives, requirements and characteristics compared to consumers of banking and deposit products as well as member banks.



PUBLIC AWARENESS INITIATIVES AND CORPORATE SOCIAL RESPONSIBILITY

PUBLIC AWARENESS INITIATIVES

HIGHLIGHTS OF OUR INITIATIVES IN 2011

| INITIATIVE | ACHIEVEMENT |
|----------------------------------|--|
| ADVERTISING AND PUBLICITY | <p>PIDM's Advertising Campaign for 2011 was implemented in well-planned and coordinated phases to ensure effective dissemination of the key messages on the Enhanced Financial Consumer Protection Package.</p> <p>Advertisements were carried in the print media, television, radio and online news portals to educate the public on the enhanced DIS and newly implemented TIPS, as well as the role of PIDM.</p> <p>Three new types of information brochures in six languages – on deposit insurance, TIPS and Provision of Information on Deposit Insurance Regulations – were published for public distribution. A new handbook on TIPS and an updated handbook on deposit insurance were also published for distribution to member institutions and other stakeholders.</p> <div>  </div> <div>  </div> <div>  </div> <div>  </div> |

| INITIATIVE | ACHIEVEMENT |
|--|--|
| <p>FINANCIAL AWARENESS AND LITERACY</p> | <p>Following the successful introduction of the PIDM Project MoneySmart in 2010, the programme was expanded in 2011 to cover 250 secondary schools and 50 institutions of higher learning.</p> <p>Through the programme, aimed at enhancing financial awareness among the younger generation, we conducted talks for about 92,000 students in secondary schools and distributed PIDM Project MoneySmart leaflets to 286,000 students. During road shows in institutions of higher learning, we engaged students and distributed PIDM Project MoneySmart leaflets, directly benefiting a total of 100,000 students.</p> <p>PIDM added another feature to the education programme by conducting financial management seminars for 2,200 teachers in 30 secondary schools.</p> <div data-bbox="580 568 986 1137"> </div> <div data-bbox="1011 568 1203 1137"> </div> <div data-bbox="1227 568 1420 1137"> </div> <div data-bbox="734 1160 938 1590"> </div> <div data-bbox="963 1160 1267 1590"> </div> |

PUBLIC AWARENESS INITIATIVES AND CORPORATE SOCIAL RESPONSIBILITY

PUBLIC AWARENESS INITIATIVES

| INITIATIVE | ACHIEVEMENT |
|----------------------------|--|
| COMMUNITY RELATIONS | <p>Corporate Outreach</p> <p>A total of 87 people comprising Government officials and community leaders attended a Special Dinner Talk held as part of PIDM's annual Corporate Outreach programme in Johor Bahru. Two public talk sessions were also held for a total of about 280 people, including 81 Army Officers.</p> <p>The Corporate Outreach is held annually for the Board of Directors and Senior Management to engage with local Government officials and community leaders in different states across Malaysia.</p> <p>Exhibitions and Road Shows</p> <p>PIDM representatives conducted public talks and briefings for staff of Sungai Petani Municipal Council, universities, colleges, the Malaysian Army and members of Women Entrepreneurs' Association (<i>Persatuan Usahanita</i>) in Sungai Petani during the Financial Awareness Week (<i>Minggu Kesedaran Kewangan – M2K</i>) in Sungai Petani, Kedah.</p> <p>Besides PIDM, participating agencies included BNM, the Credit Counselling and Debt Management Agency (<i>Agensi Kaunseling dan Pengurusan Kredit – AKPK</i>) and the Financial Mediation Bureau (FMB). PIDM has been participating in the annual M2K event as co-organiser and exhibitor since it was first held in 2008. The M2K is a financial awareness event organised by BNM for the general public.</p> <p>PIDM also participated in several exhibitions and road shows, including the 8th Malaysia International Halal Showcase (MIHAS), Malaysia Consumer Carnival (<i>Karnival Pengguna Malaysia</i>), 1st Malaysia Insurance Summit and <i>Program Hari Pengguna Malaysia</i> by the Federation of Malaysian Consumers Associations (FOMCA).</p> <p>For a complete listing of our participation in exhibitions and road shows, please refer to our Calendar of Events for 2011 (pages 178 to 187).</p> <div>    </div> |

| INITIATIVE | ACHIEVEMENT |
|--------------------------------------|---|
| <p>STAKEHOLDER ENGAGEMENT</p> | <p>Following the implementation of the Enhanced Financial Consumer Protection Package, PIDM intensified its engagement with member institutions and other stakeholders.</p> <p>Briefings were held for member banks as well as insurer members and their agents in various parts of the country in collaboration with Institut Bank-Bank Malaysia (IBBM) and the Malaysian Insurance Institute (MII).</p> <p>A total of 67 briefing sessions were conducted for various stakeholder groups including member institutions, Government agencies, institutions of higher learning and the general public.</p> <p>An annual dialogue was held with member banks and insurer members in conjunction with the release of the PIDM Annual Report 2010 on 12 May. The annual dialogue provides a platform for discussing industry matters with the Board of Directors and senior management of member institutions.</p> <p>For a complete listing of our briefings and dialogues, please refer to our Calendar of Events for 2011 (pages 178 to 187).</p> <div data-bbox="577 721 986 1023" data-label="Image"> </div> <div data-bbox="1005 721 1417 1023" data-label="Image"> </div> |
| <p>MEDIA RELATIONS</p> | <p>With a view to strengthening public understanding of the new limit and scope of coverage of deposit insurance, features of TIPS and the enhanced mandate of PIDM, the Corporation conducted three media briefings, one each in Kuala Lumpur, Kota Kinabalu and Kuching.</p> <p>Senior officers of PIDM also gave exclusive interviews to various print and broadcast media.</p> <p>A press conference was also held following the release of the PIDM Annual Report 2010. In 2011, PIDM issued five press releases in Bahasa Malaysia, English, Chinese and Tamil.</p> <div data-bbox="577 1402 922 1666" data-label="Image"> </div> <div data-bbox="940 1402 1401 1666" data-label="Image"> </div> <div data-bbox="577 1688 922 1946" data-label="Image"> </div> <div data-bbox="940 1688 1401 1946" data-label="Image"> </div> |

PUBLIC AWARENESS INITIATIVES AND CORPORATE SOCIAL RESPONSIBILITY

PUBLIC AWARENESS INITIATIVES

MOVING FORWARD WITH THE INTEGRATED COMMUNICATIONS PLAN 2012 - 2016

The achievement of the PIDM Integrated Communications Plan for 2007 to 2011 has provided PIDM with a solid foundation for developing the Integrated Communications Plan for 2012 to 2016 to further enhance understanding of the role of PIDM in contributing to the stability of the country's financial system.

The PIDM Integrated Communications Plan for 2012 to 2016 is driven by three strategic thrusts underpinning its communications strategy and initiatives:

- (a) Strengthen **awareness** of the DIS and TIPS and promote confidence in the role of PIDM;
- (b) Actively contribute to the enhancement of financial awareness and literacy through **education** initiatives and programmes; and
- (c) Enhance **engagement** with member institutions and relevant strategic partners.

Towards this end, PIDM will focus its efforts on the following strategies:

- Expand the relevant target audience base for optimum information dissemination and maximum public reach;
- Continuously implement effective key communication initiatives and tools such as advertising in print, broadcast and electronic media, stakeholder engagement and our education programme, amongst others; and
- Strengthen existing partnerships with key stakeholders and establish partnerships with new relevant stakeholders.

The multi-year plan provides a three-pronged approach for achieving the long-term awareness objectives as well as a platform for long-term strategy through the adoption of various initiatives and communications tools.

(i) Information on corporate branding, enhancement of PIDM's brand presence, and awareness of DIS and TIPS

PIDM will continue to present and disseminate information to the general public in a direct, clear and simple manner. In the same tone, PIDM aims to strengthen its brand identity and prominence to position itself in the minds of the public as the provider of financial consumer protection in Malaysia. Hence, PIDM will continue to enhance its communications

infrastructure, particularly the Call Centre and website, as well as develop and implement advertising initiatives and stakeholder engagement programmes specifically tailored to suit the respective demographic profiles of different target audiences.

(ii) Educate public on the benefits and limitations of DIS and TIPS

As the national financial consumer protection organisation, PIDM will continue with its education programme to help enhance financial awareness and literacy among the general public as well as the younger generation, especially on the importance of savings and prudent financial management, and at the same time, educate them about the DIS, TIPS and the role of PIDM.

The PIDM Education Programme will continue to be a key tool for reaching students and academic staff of secondary schools and institutions of higher learning in Malaysia.

(iii) Engage key stakeholders

Recognising the importance of strategic partnerships in an effective and efficient financial safety net, PIDM will continue to conduct various activities, including briefings, training sessions and seminars, to engage and collaborate with key stakeholders, namely:

- Member banks and insurer members;
- Media;
- Regulatory authorities and agencies such as BNM, Ministry of Finance, Credit Counselling and Debt Management Agency (AKPK) and FMB;
- Government departments and agencies; and
- Relevant associations with wide public reach such as consumer associations.

CONCLUSION

PIDM will continue to build on its achievements in communication as part of efforts to fulfil its mandate to promote or contribute to the stability of the country's financial system. The continued emphasis on public awareness is crucial for building public confidence in our financial system.

PUBLIC AWARENESS INITIATIVES AND CORPORATE SOCIAL RESPONSIBILITY

CORPORATE SOCIAL RESPONSIBILITY

PIDM's Corporate Social Responsibility (CSR) initiatives underpin a strategic agenda, which reflects the Corporation's commitment to its various stakeholders and to reach out and give back to the community. The CSR activities are aimed at delivering sustainable value to the environment and society at large, partly inspired by the aspiration to support the Government in its nation-building endeavours.

Scholarship Programme

The PIDM Scholarship Programme was conceived in 2009 with the aim of developing young Malaysians with potential. PIDM supports the continuous learning and growth of such individuals to contribute to the creation of a talent pool for Malaysia in general and the financial services sector in particular.

The Scholarship Programme was implemented in 2010 with five scholars. The number of scholars for the 2011 programme was increased to 10.

The PIDM scholarship is intended to provide assistance to those who have achieved academic excellence but who are unable to pursue tertiary education for lack of financial support. The basis of funding for the scholarship programme remains unchanged from 2010, providing coverage of up to RM86,000 per scholar for a four-year undergraduate programme, with an option to undergo a six-month internship with the Corporation on graduating.

Of the scholars for 2011, six enrolled in law degrees, three in Economics and one in Actuarial Science.

We are pleased to report that the academic performance of the five scholars from the 2010 programme has been

impressive. Four were placed on the Dean's List or President's List for at least one semester in 2010 with Cumulative Grade Point Average (CGPA) scores ranging between 3.4 and a perfect 4. One scholar has been chosen to represent her university under a student exchange programme with Teesside University in the United Kingdom for a period of six months.

PIDM's Scholarship Programme incorporates a holistic approach and is executed in three parts: Induction, Mentoring and Coaching, and Internship. During the induction period, scholars are introduced to the mandate, vision, mission and values of PIDM and exposed to the various functions of the Divisions in PIDM.

The mentoring and coaching aspect of the PIDM scholarship distinguishes it from other scholarship programmes. During the term of the scholarship, each recipient is assigned a mentor from PIDM's Executive Management Committee, enabling the scholar to leverage on the mentor's wide experience as well as obtain advice and support throughout the period of study. A mentoring session was held on 19 August 2011 where the new scholars were introduced and acquainted with their mentors. In 2011, PIDM also provided a training session on soft skills.

In addition to the internship offered at graduation, scholars are given an opportunity to do practical training with PIDM during their semester breaks. Two of our 2010 scholars have taken advantage of this opportunity to work on site for a number of weeks.

Planning for the 2012 Scholarship Programme has begun and 10 more scholars will be selected for the awards.



PUBLIC AWARENESS INITIATIVES AND CORPORATE SOCIAL RESPONSIBILITY

CORPORATE SOCIAL RESPONSIBILITY

Financial Literacy Programme

As part of our CSR efforts in 2011, we also commenced the implementation of a financial literacy programme for the hearing impaired. Following a feasibility study to assess the general availability of current financial literacy programmes in Malaysia, we identified a need for financial literacy programmes amongst the visually-, hearing-, and motor-impaired. Whilst there were some programmes targeted for the disabled, it was found that these programmes were largely not sustainable, due to a lack of resource or capability.

The results clearly indicate a need and an interest for financial education among the disabled. The report also highlights the need for greater accessibility to a wider range of financial products and credit options, as well as the physical accessibility to facilities such as ATMs, cheque or cash deposit machines.

As a start, in 2011, we began working with others, in part to learn how we can usefully contribute in this area. Two initiatives, which the Corporation part-sponsored, were undertaken to provide deaf youth (including students in a school in Penang) with money management skills. The benefits of this programme included the following:

- education to the deaf youth on money management matters, arming them with greater understanding of the importance of savings, and with greater ability to manage their finances and their future;
- we were able to leverage on our “MoneySmart programme” as a teaching tool and raise awareness about PIDM and its roles and responsibilities; and
- our employees were able to be directly involved and contribute to the programmes.

We received positive feedback from the participants, and, going forward, we plan to consider how we can achieve a greater reach to the disabled, and to consider how we might achieve sustainability in these initiatives, possibly by partnering with like-minded organisations.

We believe that these initiatives are in line with our mandate. While we recognise that there will be challenges to achieving sustainability for such programmes, we nevertheless remain committed to pursuing financial literacy programmes for the disabled, which we believe have purpose and meaning.

Recycling Programme and Other Activities

As for our recycling programme, we have continued to separate our office waste. Proceeds from the sale of shredded paper and newspaper, plastic items and metals are added to the CSR fund, and will be matched with ringgit for ringgit contributions by the Corporation. Employees are also encouraged to separate their domestic waste and to bring similar recyclable items from their homes for this purpose.

In order to encourage continuous employees’ engagement in our CSR activities, our CSR Committee, comprising volunteer employees, has invited all employees to submit their ideas on CSR activities. The suggestions were required to correspond with the Corporation’s core CSR themes, namely employee well-being, community involvement and environmental protection. The suggestions were then put to a vote among the CSR Committee members for the best ideas, which will be executed as part of our CSR initiatives in 2012. The Committee voted to bring joy and cheer to the aged, orphaned, and physically challenged members of society and will be working out a home visitation strategy to impact these vulnerable members of society.

CONCLUSION

CSR is about creating a sustainable environment that benefits society. At PIDM, we are encouraged by our leadership to support corporate philanthropy, and to commit to enhancing the environment in which we operate. Thus we, as individuals and as an organisation, subscribe to Aristotle’s philosophy, which is that “... the greatest virtues are those which are most useful to other persons”.



Section 9

CALENDAR OF EVENTS



CALENDAR OF EVENTS

JANUARY

17 January, PIDM, Kuala Lumpur

Audit Committee Meeting

19 - 21 January, Bangkok, Thailand

International Association of Deposit Insurers (IADI) Asia-Pacific Regional Committee (APRC) 9th Annual Meeting and International Conference

27 January, Kuala Lumpur

National Annual Corporate Report Awards (NACRA) 2010 Award Presentation Ceremony

28 January, PIDM, Kuala Lumpur

Board of Directors Education Session



FEBRUARY

10 February, PIDM, Kuala Lumpur

Governance Committee Meeting

11 February, PIDM, Kuala Lumpur

Audit Committee Meeting

16 February, PIDM, Kuala Lumpur

Study Visit by the Central Bank of Sudan

21 - 23 February, Basel, Switzerland

32nd IADI Executive Council Meeting and Standing Committee Meetings

23 February, PIDM, Kuala Lumpur

Board of Directors Meeting

28 February, PIDM, Kuala Lumpur

Interview by Utusan Malaysia with PIDM Chief Operating Officer (COO)



MARCH

3 March, Kuala Lumpur

Briefing on the Enhanced Financial Consumer Protection Package for the Financial Sector Talent Enrichment Programme (FSTEP)

3 March, PIDM, Kuala Lumpur

Briefing on the Enhanced Financial Consumer Protection Package for students and academic staff of Universiti Teknologi MARA (UiTM) Jengka, Pahang

4 March, PIDM, Kuala Lumpur

Dialogue with Liaison Officers of Member Institutions

8 - 9 March, Melbourne, Australia

Presentation by PIDM at Asia-Pacific Economic Cooperation (APEC) Regional Symposium on Enhancing Financial Policy and Regulatory Responses to the Global Financial Crisis

22 March, PIDM, Kuala Lumpur

Briefing to Member Banks on the Guidelines of Differential Premium Systems and Total Insured Deposits

29 March, PIDM, Kuala Lumpur

Briefing to Insurer Members on the Guidelines on TIPS Submission of Returns on Calculation of Premiums

30 - 31 March, Bucharest, Romania

Presentation by PIDM at Europe Regional Committee (ERC) Seminar on Building Confidence by Awareness



APRIL

4 April, Kuala Lumpur

Presentation by PIDM on Role of Deposit Insurance in Consumer Protection and Financial Education at Financial Inclusion Policymakers Forum (FIPF) 2011

5 - 7 April, Arlington, USA

Presentation by PIDM at IADI Executive Training Programme on Deposit Insurance Assessments and Fund Management

6 - 9 April, Kuala Lumpur

Exhibition at the 8th International Halal Showcase (MIHAS) 2011

13 - 14 April, PIDM, Kuala Lumpur

Study Visit by Indonesia Deposit Insurance Corporation (IDIC)

18 April, Shah Alam, Selangor

Briefing on the Enhanced Financial Consumer Protection Package for students and academic staff of SMK Bukit Jelutong

19 April, PIDM, Kuala Lumpur

Audit Committee Meeting

21 April, PIDM, Kuala Lumpur

Media Briefing on the Enhanced Financial Consumer Protection Package

21 April, Kuala Lumpur

"Live" talk show on Astro Awani with PIDM COO

21 - 22 April, Seoul, South Korea

Presentation by PIDM at International Joint Workshop on Integrated Deposit Insurance Systems: Experience and Future Development

23 April, Rawang, Selangor

Community Talk organised by The Federation of Malaysian Consumers Associations (FOMCA)

24 - 28 April, Khartoum, Sudan

Co-organised 3rd Seminar on Islamic Deposit Insurance: Building an Effective Islamic Deposit Insurance System with Bank Deposit Security Fund (BDSF), Sudan



CALENDAR OF EVENTS

MAY

3 May, Kota Kinabalu, Sabah

Media Briefing on the Enhanced Financial Consumer Protection Package

4 May, Kuching, Sarawak

Media Briefing on the Enhanced Financial Consumer Protection Package

7 May, Kuala Lumpur

Briefing on the Enhanced Financial Consumer Protection Package for insurance agents and members of the public

12 May, Kuala Lumpur

- Launch of PIDM Annual Report 2010
- Annual Dialogue with Member Institutions
- Press Conference

16 May, PIDM, Kuala Lumpur

Audit Committee Meeting

18 May, PIDM, Kuala Lumpur

Governance Committee Meeting

18 May, Kuala Lumpur

"Live" talk show on TV3 with PIDM COO

19 May, Pulau Pinang

Briefing on the Enhanced Financial Consumer Protection Package for Member Institutions

24 May, Johor Bahru, Johor

Briefing on the Enhanced Financial Consumer Protection Package for Member Institutions

26 May, PIDM, Kuala Lumpur

Board of Directors Meeting

26 May, Kuala Lumpur

- Briefing on the Enhanced Financial Consumer Protection Package for staff of Allianz Life Insurance Malaysia Berhad
- Presentation by PIDM on Roles and Functions of PIDM in Supporting Financial Stability at the 31st Intermediate Central Banking Course

30 May, Kuala Lumpur

"Live" talk show on RTM1 "Selamat Pagi Malaysia" with PIDM COO

31 May, Kuala Lumpur

"Live" talk show on TV2 "Hello On Two" with PIDM Chief Executive Officer (CEO)

31 May, PIDM, Kuala Lumpur

Study Visit by Brunei Deposit Protection Corporation



JUNE

1 June, Kuala Lumpur

Briefing on the Enhanced Financial Consumer Protection Package for staff of Takaful Ikhlas Sdn. Bhd.

6 - 9 June, Basel, Switzerland

33rd IADI Executive Council Meeting and IADI Research Conference

9 June, Kuala Lumpur

Briefing on the Enhanced Financial Consumer Protection Package for staff of HSBC Bank Malaysia Berhad

11 June, Johor Bahru, Johor

Briefing on the Enhanced Financial Consumer Protection Package for insurance agents and members of the public

14 June, Kuala Lumpur

- “Live” talk show on Lite FM The Lite Breakfast with PIDM CEO
- Briefing on the Enhanced Financial Consumer Protection Package for staff of Great Eastern Life Assurance

18 June, Petaling Jaya, Selangor

PIDM Family Day

21 June, PIDM, Kuala Lumpur

Briefing on the Enhanced Financial Consumer Protection Package for insurance agents of Prudential Life Assurance

22 June, Kuala Lumpur

“Live” talk show on Sinar FM with PIDM COO

22 - 24 June, Victoria Falls, Zimbabwe

Presentations by PIDM on Public Awareness and Enhancing Public Confidence in the Financial System, and Islamic Banking: Overview and Products at IADI African Regional Committee (ARC) Annual Conference

23 June, Kuala Terengganu, Terengganu

Briefing on the Enhanced Financial Consumer Protection Package for Member Institutions

23 - 24 June, Bangkok, Thailand

Memorandum of Understanding (MOU) Study Visit with IDIC and Deposit Protection Agency (DPA) Thailand on Fund Management System

25 June, Pulau Pinang

Briefing on the Enhanced Financial Consumer Protection Package for insurance agents and members of the public

25 June, Petaling Jaya, Selangor

PIDM CSR Initiative – “Be Money Smart and Career Wise” Workshop for Deaf Community

28 - 29 June, Shah Alam, Selangor

Strategic Planning Workshop for PIDM Senior Management



CALENDAR OF EVENTS

JULY

1 July, Kuala Lumpur

PIDM - BNM Sports Carnival

4 - 6 July, Johor Bahru, Johor

PIDM Corporate Outreach 2011

8 July, Taipei, Taiwan

MOU with Central Deposit Insurance Corporation (CDIC) Taiwan

10 July, Kota Bharu, Kelantan

Community Talk organised by FOMCA

11 July, Shah Alam, Selangor

Exhibition on PIDM MoneySmart at SMK Bukit Jelutong

16 July, Ipoh, Perak

Briefing on the Enhanced Financial Consumer Protection Package for insurance agents and members of the public

19 July, Kuching, Sarawak

Briefing on the Enhanced Financial Consumer Protection Package for Member Institutions

19 - 21 July, PIDM, Kuala Lumpur

Study Visit by Deposit Insurance of Vietnam

20 July, Ampang, Selangor

Teachers' Seminar on PIDM MoneySmart at SMK Bukit Indah

23 - 24 July, Ipoh, Perak

Exhibition at the Malaysia Consumer Carnival (*Karnival Pengguna Malaysia*) 2011

25 - 26 July, Kuala Lumpur

Presentation by PIDM at the 1st Malaysia Insurance Summit 2011 organised by the Malaysian Insurance Institute (MII)

26 July, Kota Kinabalu, Sabah

Briefing on the Enhanced Financial Consumer Protection Package for Member Institutions

30 July, Ipoh, Perak

Exhibition at Malaysian Consumers' Day 2011 organised by FOMCA



AUGUST

3 August, Melaka

Briefing on the Enhanced Financial Consumer Protection Package for students and academic staff of Finance and Banking Faculty, Multimedia University (MMU)

8 August, Kuala Lumpur

Buka Puasa with Members of the Media

9 August, PIDM, Kuala Lumpur

Open Day on Intervention and Failure Resolution (IFR)

18 August, PIDM, Kuala Lumpur

- PIDM Scholarship Induction Programme
- Buka Puasa for PIDM employees and families

19 August, Kuala Lumpur

Remuneration Committee Meeting

22 August, PIDM, Kuala Lumpur

Audit Committee Meeting

23 August, PIDM, Kuala Lumpur

Interview by Malaysian Reserve with PIDM CEO

24 August, Kuantan, Pahang

Briefing on the Enhanced Financial Consumer Protection Package for insurance agents and members of the public

24 and 26 August, PIDM, Kuala Lumpur

IFR Mini Simulation Exercise

25 August, Kuala Lumpur

Presentation by PIDM on Roles and Functions of PIDM in Supporting Financial Stability at the 32nd Intermediate Central Banking Course

29 August, PIDM, Kuala Lumpur

Interview by Money Compass with PIDM CEO

31 August, Melbourne, Australia

Presentation by PIDM at the Capacity Building Training Program for APEC Regional Policy Makers and Financial System Regulators



CALENDAR OF EVENTS

SEPTEMBER

8 - 9 September, Tanjung Bungah, Pulau Pinang

PIDM CSR Initiative – “Be Money Smart and Career Wise” Workshop for Deaf Students of Sekolah Menengah Pendidikan Khas Persekutuan Penang

13 September, PIDM, Kuala Lumpur

Governance Committee Meeting

17 September, Kuala Lumpur

PIDM Scholarship Programme Award Ceremony

20 September, PIDM, Kuala Lumpur

Board of Directors Education Session

23 September, Kuala Lumpur

Briefing on the Enhanced Financial Consumer Protection Package for FSTEP

24 September, Kuala Lumpur

Briefing on the Enhanced Financial Consumer Protection Package for students and academic staff of the Business and Accountancy Faculty, Universiti Malaya

26 September, Kuala Lumpur

- Exhibition at Malaysia's Private Pension and Healthcare Conference 2011
- Briefing on the Enhanced Financial Consumer Protection Package for staff of Public Bank Berhad

27 September, Alor Setar, Kedah

Briefing on the Enhanced Financial Consumer Protection Package for Member Institutions

29 September, PIDM, Kuala Lumpur

Board of Directors Session – Strategic Planning

29 - 30 September, Jakarta, Indonesia

MOU Study Visit with IDIC and DPA on Bank Resolution and Payout Process



OCTOBER

4 October, PIDM, Kuala Lumpur

Board of Directors Meeting

6 October, PIDM, Kuala Lumpur

Briefing on the Enhanced Financial Consumer Protection Package for Member Institutions

10 - 12 October, Kuala Lumpur

Hosting of Internal Auditors' Training Programme on Enhancing Understanding and Management of Banking Risks

11 October, PIDM, Kuala Lumpur

Board of Directors Education Session

12 October, Sungai Petani, Kedah

Briefing on the Enhanced Financial Consumer Protection Package for staff of the Sungai Petani Municipal Council

12 - 14 October, PIDM, Kuala Lumpur

- IFR Simulation Exercise
- Study Visit by Deposit Insurance and Credit Guarantee Corporation (DICGC) India

13 October, Ipoh, Perak

Briefing on the Enhanced Financial Consumer Protection Package for Member Institutions

14 October, PIDM, Kuala Lumpur

Study Visit by Deposit Protection Fund Board of Kenya

14 - 16 October, Sungai Petani, Kedah

Financial Awareness Week (*Minggu Kesedaran Kewangan – M2K*) Exhibition

16 October, Sungai Petani, Kedah

Briefing on the Enhanced Financial Consumer Protection Package for students and academic staff of Sungai Petani Community College (*Kolej Komuniti Sungai Petani*)

17 October, Sungai Petani, Kedah

Briefing on the Enhanced Financial Consumer Protection Package for the Royal Military Camp

17 - 21 October, Warsaw, Poland

- 10th IADI Annual Conference and AGM
- Deposit Insurance Organisation of the Year Award Presentation Ceremony

18 October, Sungai Petani, Kedah

Briefing on the Enhanced Financial Consumer Protection Package for the Single Mothers Association and police officers of the Sungai Petani Police Headquarters (*Ibu Pejabat Polis Sungai Petani*)

18 October, Melaka

Briefing on the Enhanced Financial Consumer Protection Package for Member Institutions

19 October, Seremban, Negeri Sembilan

Briefing on the Enhanced Financial Consumer Protection Package for Member Institutions

24 October, Kuala Lumpur

- Briefing on the Enhanced Financial Consumer Protection Package for staff of Bank Muamalat
- Briefing on the Enhanced Financial Consumer Protection Package for staff of Citibank

27 October, PIDM, Kuala Lumpur

Briefing on the Enhanced Financial Consumer Protection Package for students and academic staff of RIMTAC, Universiti Sultan Zainal Abidin (UniSZA)



CALENDAR OF EVENTS

NOVEMBER

2 November, PIDM, Kuala Lumpur

Briefing on the Enhanced Financial Consumer Protection Package for Member Institutions

11 - 12 November, Shah Alam, Selangor

Business Continuity Plan Crisis Simulation Exercise

14 - 16 November, Jodhpur, India

Presentation by PIDM at IADI-DICGC Conference on Role of Deposit Insurance in Bank Resolution Framework: Lessons from the Financial Crisis

15 November, Kota Bharu, Kelantan

Briefing on the Enhanced Financial Consumer Protection Package for Member Institutions

15 November, Kuala Lumpur

National Annual Corporate Report Awards (NACRA) 2011 Award Presentation Ceremony

15 - 18 November, Taipei, Taiwan

Presentation by PIDM at IADI Executive Training Program on Deposit Insurance Assessments and Fund Management

17 November, Kuantan, Pahang

Briefing on the Enhanced Financial Consumer Protection Package for Member Institutions

17 November, Kuala Lumpur

Presentation by PIDM at the 4th Islamic Financial Stability Forum on the Implementation of Islamic Deposit Insurance System for Islamic Financial Services Industry

22 November, PIDM, Kuala Lumpur

Audit Committee Meeting

23 - 24 November, Toronto, Canada

Presentation by PIDM at the 1st International Forum for Insurance Guarantee Schemes on Raising Global Awareness on Policyholder Protection



DECEMBER

1 December, Kuala Lumpur

Remuneration Committee Meeting

2 December, PIDM, Kuala Lumpur

Briefing on the Enhanced Financial Consumer Protection Package for students and academic staff of Finance Undergraduates Club (*Kelab Mahasiswa Kewangan*), UniSZA

3 December, Kuala Lumpur

PIDM Annual Dinner 2011

6 December, PIDM, Kuala Lumpur

- Board of Directors Meeting
- Briefing on the Enhanced Financial Consumer Protection Package for students and academic staff of Management and Science University (MSU)

8 - 9 December, PIDM, Kuala Lumpur

MOU Study Visit with IDIC and DPA on Differential Premium Systems, Enterprise Risk Management and PIDM's Approach to Developing a Payout System

9 December, PIDM, Kuala Lumpur

Board of Directors Education Session

14 December, Kuala Lumpur

Briefing on the Enhanced Financial Consumer Protection Package for staff of Maybank

19 December, Ipoh, Perak

Briefing on the Enhanced Financial Consumer Protection Package for agents of Star Planner Sdn. Bhd. (ING Insurance)



APPENDIX



APPENDIX

CHARTER OF GOVERNANCE COMMITTEE

1.0 MANDATE

Pursuant to Section 7 of the Malaysia Deposit Insurance Corporation Act, the Corporation may establish any committee as it considers necessary or expedient for the performance of its functions. The Board has considered it necessary to establish a Governance Committee.

2.0 OBJECTIVE

The Governance Committee (Committee) of the Board of Directors (the Board) of the Malaysia Deposit Insurance Corporation (Corporation) is responsible to direct the implementation of, and compliance with, sound corporate governance principles in the Corporation. In this regard, the principal objectives of the Committee are to assist with Board oversight of: maintaining effective corporate governance principles and practices; evaluating and assessing the functioning of the Board, Board Committees and Management; nominating individuals qualified to become Directors consistent with criteria approved by the Corporation; and succession planning.

3.0 OPERATING PRINCIPLES

3.1 Functions and Composition

- (a) The Committee shall comprise at least three members of the Board, as named by the Board.
- (b) Members of the Committee shall each be independent of Management.
- (c) The Committee shall carry out such functions as are assigned or delegated to it by the Board and any incidental activities consistent with this Charter as the Committee or the Board deems necessary or appropriate.

3.2 **Chair** – The Committee shall be chaired by the Chairperson of the Board. In the absence of the Chairperson of the Committee for any meeting or part of the meeting, the remaining members present shall elect one of the members present to chair the meeting.

3.3 **Quorum** – The presence of two members constitutes a quorum for a meeting of the Committee.

3.4 **Voting** – A matter put to a vote at a meeting of the Committee shall be decided by a majority of the votes cast, and in the event of an equality of votes its Chair has a second vote.

3.5 **Procedure and Conduct** – Subject to this Charter and any resolution of the Board respecting a specific matter, the Chair shall determine the procedures and conduct of meetings of the Committee.

3.6 **Secretary and Minutes** – The Corporate Secretary shall be the secretary of the Committee. Copies of the minutes of the proceedings of the Committee shall be sent by the Corporate Secretary to all members of the Board once they have been approved by the Committee.

3.7 **Frequency of Meetings** – The Committee will meet at the discretion of its Chair, but not less frequently than twice each year.

3.8 **Notice of Meetings** – The proper notice period for calling a meeting of the Committee shall be a minimum of 14 days or such shorter notice as agreed by the Committee.

3.9 **Meeting Agenda** – A written agenda for each meeting of the Committee will be distributed to the members of the Committee at least five days in advance of the meeting date, together with any related materials, if available.

3.10 **Supplemental Attendees** – Any person who may possess information that would be useful to the Committee in carrying out its duties may be invited by the Chair to attend any meeting of the Committee.

3.11 **Term of Appointment / Rotation of Members** – Membership of the Committee should be changed on an appropriate, regular basis. Such change should be on a rotation basis in order to ensure that the entire membership of the Committee is not changed at any one time.

3.12 **Reporting** – The Committee will, where appropriate, provide a written or verbal report of each meeting of the Committee at the next regular Board meeting or as may otherwise be required by the Board.

3.13 **Review of Charter** – The Committee shall review and assess the adequacy of this Charter at least annually. If the Committee recommends any amendments, the Committee shall submit a revised Charter to the Board for its approval.

3.14 **Self-assessment** – An evaluation of the Committee shall be conducted regularly, in which the Committee shall review its performance for the purpose, among

APPENDIX

CHARTER OF GOVERNANCE COMMITTEE

other things, of assessing whether the Committee fulfilled the responsibilities and duties stated in this Charter.

3.15 **Disclosure** – The Committee shall ensure that this Charter and its membership composition are publicly disclosed.

3.16 **Independent Counsel or Other Advisors** – The Committee has the authority to engage outside advisors, including but not limited to counsel, independent consultants and / or other experts, as needed, to review any matter under its responsibility, in accordance with the relevant Board resolution or policy.

3.17 **Conflict of Interest** – In the event that the matter being considered is the re-appointment of the Chairperson or the re-appointment of a non-ex officio Director of the Board who is a member of the Committee, the Chairperson or the non-ex officio Director (as the case may be) shall not participate in the meeting whilst the Committee discusses, deliberates or decides on the matter. During such time, the Chairperson or the non-ex officio Director (as the case may be) will absent himself or herself from the meeting.

4.0 PRINCIPAL DUTIES AND RESPONSIBILITIES

4.1 Corporate Governance Oversight

(a) The Committee shall review at least annually the Corporation's approach to governance issues and shall make recommendations to the Board respecting revisions to the Corporation's governance policies. The Committee shall make recommendations to the Board on policies with regard to director tenure, retirement and succession.

(b) The Committee shall ensure the ongoing administration of the policies and procedures that enable a Board Committee or member of the Board to engage separate independent counsel or other advisors in appropriate circumstances and at the Corporation's expense.

(c) On a periodic basis, the Committee shall review the Corporation's mandate as set out in the Malaysia Deposit Insurance Corporation Act and make any recommendation it sees fit to the Board.

(d) The Committee shall keep up to date on corporate governance developments so as to ensure the Corporation's governance practices are in line with best practices.

(e) The Committee shall undertake such other governance initiatives as may be necessary or desirable to ensure that the appropriate processes, structures and information necessary for effective direction and oversight are in place to contribute to the sound governance and management of the Corporation.

4.2 Evaluation of Board Operations and Board Committees

(a) In consultation with the Chief Executive Officer (CEO), the Committee shall assess the needs of the Board in terms of the frequency and location of Board and Committee meetings, meeting agendas, documents and information, and the conduct of meetings, and make recommendations to the Board as required.

(b) The Committee shall annually review, for Board approval, the mandates and responsibilities of the Board, the Chairperson of the Board, the CEO, a member of the Board and the Board Committees.

(c) The Committee shall annually implement, and regularly review, the process to assist the Board in determining whether the Board is satisfied with the manner, frequency and timeliness with which significant issues are brought to its attention, as well as the appropriateness of that information.

(d) The Committee shall annually implement, and regularly review, the method for regularly evaluating and assessing the effectiveness of the Board and of individual members of the Board and Board Committees and recommend any appropriate action plans to address any significant findings.

(e) The Committee shall, after the affected Committees have conducted their annual review of their respective Charters, annually review each of the Board Committee Charters together and recommend proposed amendments (if any) to the Board Committee Charters to the Board.

4.3 **Board Nominations**

- (a) The Committee shall annually review both a Board profile and a Board member profile of qualifications and skills and characteristics for individual directors, taking into consideration the current strengths, skills and experience on the Board, terms, retirement dates and the strategic direction of the Corporation.
- (b) The Committee shall identify a list of potential Board nominees who possess the skills, experience, knowledge and characteristics which fit the profiles and update such list on a regular basis.
- (c) When a vacancy or vacancies on the Board occurs or are anticipated, the Committee shall prepare and recommend to the Board a list of potential nominees.
- (d) Develop and implement a strategy to communicate the profiles and potential candidate or candidates to the Minister.
- (e) The Committee shall review periodically the compensation program of members of the Board and make recommendations to the Board.

- (f) The Committee shall make recommendations regarding the orientation programme, training and ongoing development of members of the Board.

4.4 **Succession Planning** – The Committee shall review Management's succession plans for the CEO and other corporate officers and make recommendations in respect of the same, to the Board for approval.

4.5 **Leadership Needs** – The Committee shall keep under review the leadership needs of the Corporation, both executive and non-executive, with a view to ensure the continued ability of the Corporation to efficiently and effectively meet its mandate.

4.6 **Reporting and Disclosure** – Recommend to the Board the content of such governance reports as may be required or considered advisable for public disclosure.

APPENDIX

CHARTER OF REMUNERATION COMMITTEE

1.0 MANDATE

Pursuant to Section 7 of the Malaysia Deposit Insurance Corporation Act, the Corporation may establish any committee as it considers necessary or expedient for the performance of its functions. The Board has deemed it necessary to establish a Remuneration Committee.

2.0 OBJECTIVE

The Remuneration Committee (Committee) of the Board of Directors (the Board) of the Malaysia Deposit Insurance Corporation (Corporation) is responsible to ensure that the Corporation has fair, and equitable human resource policies that profiles for the hiring and retention of people with the appropriate expertise and qualifications. In this regard, the principal objectives of the Committee are to assist with Board oversight of: human resources and compensation matters; management succession plans generally; the review and approval of annual objectives for the Chief Executive Officer (CEO) and perform the annual evaluation thereof; and policies and processes relating to employee business conduct and ethical behaviour.

3.0 OPERATING PRINCIPLES

3.1 Functions and Composition

- (a) The Committee shall comprise at least three members of the Board, as named by the Board.
- (b) Members of the Committee shall each be independent of Management.
- (c) The Committee shall carry out such functions as are assigned or delegated to it by the Board and any incidental activities consistent with this Charter as the Committee or the Board deems necessary or appropriate.

3.2 **Chair** – The Committee shall be chaired by one of its members, as named by the Board. In the absence of the Chairperson of the Committee for any meeting or part of the meeting, the remaining members present shall elect one of the members present to chair the meeting.

3.3 **Quorum** – The presence of two members constitutes a quorum for a meeting of the Committee.

3.4 **Voting** – A matter put to a vote at a meeting of the Committee shall be decided by a majority of the votes cast, and in the event of an equality of votes its Chair has a second vote.

3.5 **Procedure and Conduct** – Subject to this Charter and any resolution of the Board respecting a specific matter, the Chair shall determine the procedures and conduct of meetings of the Committee.

3.6 **Secretary and Minutes** – The Corporate Secretary shall be the secretary of the Committee. Copies of the minutes of the proceedings of the Committee shall be sent by the Corporate Secretary to all members of the Board once they have been approved by the Committee.

3.7 **Frequency of Meetings** – The Committee will meet at the discretion of its Chair, but not less frequently than twice each year.

3.8 **Notice of Meetings** – The proper notice period for calling a meeting of the Committee shall be a minimum of 14 days or such shorter notice as agreed by the Committee.

3.9 **Meeting Agenda** – A written agenda for each meeting of the Committee will be distributed to the members of the Committee at least five days in advance of the meeting date, together with any related materials, if available.

3.10 **Supplemental Attendees** – Any person who may possess information that would be useful to the Committee in carrying out its duties may be invited by the Chair to attend any meeting of the Committee.

3.11 **Term of Appointment / Rotation of Members** – Members of the Committee should be changed on an appropriate, regular basis. Such change should be on a rotation basis in order to ensure that the entire Committee is not changed at any one time.

3.12 **Reporting** – The Committee will, where appropriate, provide written or verbal report of each meeting of the Committee at the next regular Board meeting or as may otherwise be required by the Board.

3.13 **Review of Charter** – The Committee shall review and assess the adequacy of this Charter at least annually. Any proposed amendments to the Charter will be considered by the Governance Committee for recommendation to the Board.

3.14 **Self-assessment** – An evaluation of the Committee shall be conducted regularly, in which the Committee shall review its performance for the purpose, among other things, of assessing whether the Committee fulfilled the responsibilities and duties stated in this Charter.

- 3.15 **Disclosure** – The Committee shall ensure that this Charter and its composition are publicly disclosed.
- 3.16 **Independent Counsel or Other Advisors** – The Committee has the authority to engage outside advisors, including but not limited to counsel, independent consultants and / or other experts, as needed, to review any matter under its responsibility, in accordance with the relevant Board resolution or policy.

4.0 PRINCIPAL DUTIES AND RESPONSIBILITIES

4.1 Policies and Strategies

- (a) The Committee shall review key human resource policies and strategies and propose such changes as seem desirable.
- (b) The Committee shall review the Corporation's compensation philosophy and its related policies, and make recommendations, if any, to the Board for approval.
- (c) The Committee shall ensure that the Corporation develops on an ongoing basis, adequate, appropriate and effective policies, strategies, controls, processes and procedures within the Corporation to maintain an organisational climate that fosters ethical employee business conduct and behaviour, employee commitment to the operations of the Corporation and a high degree of employee satisfaction and shall review policies and codes in respect of the same and make recommendations, if any, to the Board for approval.

4.2 Compliance and Reports – The Committee shall review reports with respect to:

- (a) compliance with legal requirements and major corporate policies pertaining to human resource matters on an annual basis; and
- (b) compliance with policies on employee business conduct and ethical behaviour on an annual basis or immediately where circumstances dictate. When required, the Committee shall request of Management that it provides a report to the Audit Committee in the event a breach occurs or a concern is raised that is of a nature that warrants such a report.

4.3 Matters Referred by CEO – The Committee shall review any matter concerning human resource and compensation matters that may be referred to it by the CEO.

4.4 Reports to Board – The Committee shall report to the Board as it deems appropriate regarding human resource and compensation matters and Management performance in this area.

4.5 Bonus Awards – The Committee shall review and approve individual employee bonus awards as recommended by the CEO. The Committee shall also conduct a review of the Corporation's policy on bonus awards, and make recommendations to the Board as required.

4.6 CEO Objectives and Evaluation – The Committee shall:

- (a) review the annual statement of objectives for the CEO and recommend same to the Board for approval; and
- (b) review the performance of the CEO, based on an evaluation thereof by the Chairperson of the Board, having regard to the aforesaid statement of objectives and any other relevant factors. The Committee shall make recommendations, if any, to the Board with respect to the CEO's compensation and bonus.

4.7 Complaints – Save and except as expressly provided in any other Board Charter or policy, the Committee shall serve as the initial point of contact at the Board level for any complaints concerning the CEO that may reach the Board, on the understanding that the normal resolution mechanisms must be followed and complaints would only be brought forward when every other appeal process had been exhausted.

APPENDIX

CHARTER OF AUDIT COMMITTEE

1.0 MANDATE

Pursuant to Section 7 of the Malaysia Deposit Insurance Corporation Act, the Corporation may establish any committee as it considers necessary or expedient for the performance of its functions. The Board has deemed it necessary to establish an Audit Committee.

2.0 OBJECTIVE

The Audit Committee (Committee) of the Board of Directors (the Board) of the Malaysia Deposit Insurance Corporation (Corporation) is responsible to ensure that the auditing, accounting principles and practices are in line with international and Malaysian best practices and conform to all legislative requirements. In this regard, the principal objectives of the Committee are to assist the Board with oversight of: the integrity of the Corporation's financial statements; the financial reporting process; the systems of internal accounting and financial controls; the performance of the Corporation's internal audit function; the identification and management of the Corporation's significant risks; and the Corporation's compliance with ethics-related policies and legal and regulatory requirements.

3.0 OPERATING PRINCIPLES

- 3.1 (a) **Functions and Composition** – The Committee shall comprise at least three members of the Board, as named by the Board. Committee members shall each be independent of Management. The Committee will carry out such functions as are assigned or delegated to it by the Board.
- (b) **Competencies** – All Committee members appointed to the Committee shall either:
- (i) be financially literate, upon appointment, that is, having a basic understanding of finance and accounting and being able to read and understand fundamental financial statements, including a balance sheet, income statement and statement of cash flows; or
 - (ii) undertake to be financially literate within a reasonable period of time after their appointment to the Committee.

The Chair and the Vice-Chair (if appointed) shall have financial expertise. "Financial expertise" means a person who has professional qualifications as an accountant and who has had extensive experience in auditing.

Where appropriate, Committee members will enhance their familiarity with financial and accounting practices for Audit Committees and other areas relevant to their responsibilities by keeping abreast of trends and best practices in these areas including considering topical issues and their application to the Corporation and by participating in educational sessions or other opportunities for development.

- 3.2 **Chair** – The Chair is a non-ex officio Director, as named by the Board.
- 3.3 **Vice-Chair** – The Vice-Chair may, if the Board considers appropriate, for the purposes of succession planning be appointed from among the non-ex officio Directors, as named by the Board. In the absence of the Chair, if there is a Vice-Chair, the Vice-Chair shall preside at the meeting of the Committee, and while so presiding, shall have all the powers of the Chair. If the Chair or the Vice-Chair is absent or there is no Vice-Chair, a Chair shall be appointed by the members present, who shall preside at the said meeting, or until the arrival of the Chair or the Vice-Chair, as the case may be. The Vice-Chair (if appointed) is the Chair's deputy, and shall perform on his behalf such duties as may be delegated by the Chair.
- 3.4 **Quorum** – The presence of two members constitutes a quorum for a meeting of the Committee.
- 3.5 **Voting** – A matter put to a vote at a meeting of the Committee shall be decided by a majority of the votes cast and in the event of an equality of votes its Chair has a second vote.
- 3.6 **Procedure and Conduct** – Subject to any resolution of the Board in respect of a specific matter, the Chair shall determine the procedure at and conduct of meetings of the Committee.
- 3.7 **Secretary and Minutes** – The Corporate Secretary shall be the secretary of the Committee. Copies of the minutes shall be sent by the Corporate Secretary to all members of the Board once they have been approved by the Committee.
- 3.8 **Frequency and Calling of Meetings** – The Committee will meet at the discretion of the Chair of the Committee, but not less frequently than four times each year.

- 3.9 **Notice of Meetings** – The proper notice period for calling a meeting of the Committee shall be a minimum of 14 days or such shorter notice as agreed by the Committee.
- 3.10 **Auditor General (AG)** – The Auditor General, as referred to in the Audit Act 1957 (Revised 1972) (Act 62), is:
- (a) entitled to receive notice of every meeting of the Committee and, at the expense of the Corporation, to attend and be heard at each meeting and the AG shall be invited to attend any or every meeting of the Committee; and
 - (b) may call a meeting of the Committee.
- 3.11 **Private Meetings** – The Committee may meet privately as a committee, and periodically with Management, the AG and the heads of enterprise risk management and the internal audit function in separate private sessions.
- 3.12 **Meeting Agenda** – A written agenda for each meeting of the Committee will be distributed to the members of the Committee at least five days in advance of the meeting date, together with any related materials, if available.
- 3.13 **Supplemental Attendees** – Any person who may possess information that would be useful to the Committee in carrying out its duties may be invited by the Chair to attend any meeting of the Committee.
- 3.14 **Term of Appointment / Rotation of Committee Members** – Members of the Committee shall be changed on an appropriate, regular basis. Such change should be on a rotation basis in order to ensure that the entire Committee is not changed at any one time.
- 3.15 **Reporting** – The Committee will, where appropriate, provide a written or a verbal report of each meeting of the Committee at the next regular Board meeting or as may otherwise be required by the Board.
- 3.16 **Review of Charter** – The Committee shall review and assess the adequacy of this Charter at least annually. Any proposed amendments to the Charter will be considered by the Governance Committee for recommendation to the Board.
- 3.17 **Self-assessment** – An evaluation of the Committee shall be conducted regularly, in which the Committee shall review its performance for the purpose, among other things, of assessing whether the Committee fulfilled the responsibilities and duties stated in this Charter.
- 3.18 **Disclosure** – The Committee shall ensure that this Charter and the composition of the Committee are publicly disclosed.
- 3.19 **Independent Counsel or Other Advisors** – The Committee has the authority to engage outside advisors, including but not limited to counsel, independent audit consultants and / or other experts, as needed, to review any matter under its responsibility, in accordance with the relevant Board resolution or policy.

4.0 PRINCIPAL DUTIES AND RESPONSIBILITIES

- 4.1 **Advice and Recommendations to Board** – In discharging its duties and responsibilities, the Committee relies on the expertise of Management, the Corporation's internal audit function and the AG. Although it does not carry out internal audits, the Committee shall monitor the audit and review the reports, and make reasonable inquiries, to allow it to provide sound advice and recommendations to the Board.
- 4.2 **Investigation** – In assisting the Board in discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities, AG and personnel of the Corporation. The Committee shall recommend to the Board that special investigations be conducted into such matters as the Committee may deem appropriate based on information supplied to it.
- 4.3 **Financial Reporting** – The Committee shall assist the Board in discharging its oversight role of reliable, accurate and clear financial reporting, including by reviewing the Corporation's annual financial statements and Management's Discussion and Analysis (MD&A) prior to approval by the Board, and reviewing, as appropriate, releases to the public of significant non-public financial information. Such review shall include, where appropriate but at least annually, discussion with Management, the internal audit function, and the AG, of significant issues regarding accounting principles, the Corporation's accounting policies, and significant management estimates and judgments, including the quality and acceptability of Generally Accepted Accounting Principles (GAAP).

APPENDIX

CHARTER OF AUDIT COMMITTEE

The Committee shall satisfy itself that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements, other than the public disclosure in the Corporation's annual financial statements and MD&A, and must periodically assess the adequacy of those procedures.

4.4 **Financial Reporting Processes, Accounting Policies and Internal Control Structure** –

Management is responsible for the preparation, presentation, and integrity of the Corporation's financial statements and for maintaining appropriate accounting and financial reporting principles and policies and internal controls and procedures designed to ensure compliance with accounting standards and applicable laws and regulations.

The Committee shall seek Management's and the AG's views on opportunities to improve the quality of the Corporation's accounting principles as applied in its financial reporting, inquire into alternative treatments that may have been considered but rejected, review the aggressiveness or conservatism of the Corporation's accounting principles and estimates, and review instances where the AG's advice on accounting or disclosure matters has not been followed.

Specifically, the Committee shall assist the Board in its oversight of the financial reporting process of the Corporation including:

- (a) reviewing and advising the Board with respect to the Corporation's annual financial statements;
- (b) reviewing and advising the Board with respect to the AG's annual audit report;
- (c) reviewing major changes to the Corporation's auditing and accounting principles and practices as suggested by the AG, the internal audit function or Management;
- (d) ensuring that Management has the necessary policies and procedures in place related to internal controls, in accordance with applicable laws, regulations and guidance, to provide reasonable assurance on the adequacy and effectiveness of the Corporation's internal control systems; and reviewing the related reporting by Management and the internal audit function on such internal controls;
- (e) reviewing the integrity of the Corporation's financial reporting processes and the internal control structure;
- (f) reviewing the process relating to and the certifications of the Chief Executive Officer (CEO) and the Chief Financial Officer on the integrity of the Corporation's financial statements;
- (g) reviewing the plan for the annual audit by assessing the reasonableness of the audit scope and plan and determining whether the Corporation is receiving appropriate audit coverage and overall effort; satisfying itself that the AG has considered the work of the internal audit function in developing its overall audit strategy; and, assessing the degree of assurance that the Board will be able to take from the AG's work. Accordingly, the Committee should satisfy itself that the audit scope will not be restricted in any way and that key areas of interest to the Board are adequately covered;
- (h) reviewing and monitoring the implementation of recommendations made through the annual audit by the AG and any management letter provided by the AG and Management's responses to such reports and any such letter;
- (i) establishing systems of reporting to the Committee by each of Management, the AG and the internal audit function regarding any significant judgments made in Management's preparation of the financial statements and any significant difficulties encountered during the course of the review or audit, including any restrictions on the scope of work or access to required information; and
- (j) through its oversight of the internal audit function, satisfying itself that the Corporation is maintaining its books of account, records in relation thereto, financial and management control and information systems and management practices in such manner as will provide reasonable assurance that:
 - (i) the assets of the Corporation are safeguarded and controlled;
 - (ii) the transactions of the Corporation are in accordance with the requirements of the Statutory Bodies (Accounts and Annual Reports) Act 1980 (Act 240), other legislative requirements, directives, circulars or guidelines issued by the Ministry of Finance or the Prime Minister's Department (if applicable); and
 - (iii) the financial, human and physical resources of the Corporation are managed economically and efficiently and the operations of the Corporation are carried out effectively.

4.5 Strategic and Financial Management Oversight:

- (a) Corporate Plan and Operating Capital Budgets – review and recommend to the Board with respect to the Corporation's Corporate Plan and monitor and advise the Board with respect to Management's performance against said plan.
- (b) Financing – review and advise the Board with respect to the policies and procedures of the Corporation relating to and the terms and conditions of any external financing to be incurred or assumed by the Corporation, through the Corporation's debt or otherwise.
- (c) Investments – review and advise the Board with respect to the policies and procedures of the Corporation relating to and the terms and conditions of the investment of the Corporation's cash assets in short-term and long-term securities.
- (d) Chairperson's and Officers' Expenses – receive reports from Management, and review reports thereon from the internal audit function and / or AG on their review of the expense accounts of the Chairperson of the Board and Officers of the Corporation.

4.6 The Internal Audit Function – The internal audit function investigates and provides information and assurance to the Committee and Management on the Corporation's books of account and records and on the effectiveness and performance of financial and management control and information systems and management practices and that the operations of the Corporation are carried out effectively pursuant to the relevant legislation.

In order to fulfil its responsibilities, the internal audit function requires independent status and therefore, functionally reports to the Board directly through the Committee and, administratively reports to the CEO. This relationship requires that the Committee and the internal audit function have unrestricted access to each other directly.

The Audit Committee is responsible for the oversight of the work of the internal audit function and for the compensation and oversight of the Chief Internal Auditor. The Chair of the Committee shall be consulted before the appointment or termination of the Chief Internal Auditor and shall conduct entry and exit interviews with the same. The appointment of the Chief Internal Auditor must be approved by the Board.

The Committee shall oversee any internal audit of the Corporation. The Committee's specific responsibilities include:

- (a) reviewing the internal audit function's mandate on an annual basis;

- (b) assessing the internal audit function's capabilities;
- (c) reviewing the internal audit function's independence and reporting relationships;
- (d) reviewing the internal audit function's audit plans, budgets, quality and quantity of staff and other resources it needs to do its job well;
- (e) reviewing the internal audit function's performance including performance against its audit plans and budgets;
- (f) reviewing the internal audit function's reports;
- (g) monitoring the implementation of the internal audit function's reports and recommendations;
- (h) ensuring coordination of the internal audit function with annual AG audits and special examinations; and
- (i) reviewing the overall operations of the internal audit function having regard to its mandate and taking into account current internal audit standards.

4.7 Risk Management – The enterprise risk management function provides independent advice, monitors and maintains the enterprise risk management framework of the Corporation, promotes effective management of all risk categories and fosters the establishment and maintenance of an effective risk culture throughout the Corporation.

The Chief Risk Officer (CRO), as the head of the enterprise risk management function, is responsible for the implementation and maintenance of the enterprise risk management framework for the Corporation. The enterprise risk management function assists and provides information to the Committee regarding all enterprise risk management activities and outcomes of the enterprise risk management process, that is, the identification, assessment, evaluation, treatment, monitoring and communication of the significant risks affecting the Corporation. The enterprise risk management function also provides independent assessments in respect of the Corporation's risk management capabilities, and provides recommendations to improve these capabilities, where appropriate. The CRO shall have regular reporting duties to the Board through the Committee.

In order to fulfil its responsibilities effectively, the CRO requires independent status and therefore, functionally reports directly to the Committee and, administratively reports to the CEO. This relationship requires that the Committee and the CRO have unrestricted access to each other directly.

The Committee shall be responsible for the oversight of the work of the enterprise risk management function and for the performance and oversight of

APPENDIX

CHARTER OF AUDIT COMMITTEE

the CRO, and shall ensure that the enterprise risk management function has a sufficient amount, and quality of resources to fulfil its roles. The Chair of the Committee shall be consulted before the appointment of the CRO or the termination of his / her employment and shall conduct entry and exit interviews with the same. The appointment of the CRO must be approved by the Board.

The Committee shall:

- (a) ensure that sound policies, guidelines and practices are implemented for the management of key corporate risks;
- (b) receive sufficient information to understand the nature and magnitude of significant risks to which the Corporation is exposed;
- (c) review with Management and advise the Board on the Corporation's policies and guidelines implemented to manage the Corporation's risk exposures, and review such policies and guidelines at least once a year to ensure that they remain appropriate and prudent;
- (d) on a regular basis, obtain reasonable assurance that the Corporation's risk management policies and guidelines for significant risks are being adhered to;
- (e) report to the Board on: the significant risk profile; the mitigation plans and controls in place to manage these significant risks; and the overall effectiveness of the risk management process;
- (f) periodically consider the respective roles of the AG and internal audit function concerning risk management at the Corporation and annually evaluate the AG's and internal audit function's respective performance in relation to such roles;
- (g) request reports from the internal audit function validating Management's risk assessments; and
- (h) review with Management and advise the Board on whether a sound and effective approach has been followed in establishing the Corporation's business continuity planning arrangements, including whether disaster recovery plans have been tested periodically.

4.8 **Ethical and Legal Compliance** – The Committee shall:

- (a) review with the Corporation's counsel any legal matter that could have a significant impact on the Corporation's financial statements;

- (b) ensure oversight for ethics and integrity and preservation of the Corporation's reputation by receiving from Management, reports on compliance with the Corporation's policies or codes of business conduct and ethical behaviour and any other matter of conduct or behaviour that may give rise to a liability to the Corporation; and by reviewing any report that is received from the internal audit function, the AG and / or other Committee Chairs on their review of compliance with same;
- (c) ensure there is a system for monitoring the Corporation's compliance with laws and regulations, and obtain reports, on an annual basis, that the Corporation is in conformity with applicable legal requirements;
- (d) review the results of Management's investigation of, and actions taken in connection with, any internal control or accounting matters that may be questionable;
- (e) establish and review from time to time the process for (i) the receipt, retention and treatment of complaints or concerns regarding accounting, internal controls or auditing matters; (ii) the confidential and anonymous submission, in accordance with established corporate policies, by the Corporation's employees of concerns regarding questionable accounting or auditing matters; and (iii) the receipt, retention and treatment of complaints regarding the CEO and senior officers of the Corporation. Establish and review from time to time a process for the evaluation, investigation and resolution of concerns relating to accounting, internal controls or auditing matters that may be questionable; and
- (f) investigate any allegations that any officer or Director of the Corporation, or any other person acting under the direction of such a person, took any action to influence, coerce, manipulate or mislead any person engaged in the performance of an audit of the financial statements of the Corporation for the purpose of rendering such financial statements materially misleading and, if such allegations prove to be correct, take or recommend to the Board appropriate disciplinary action.

APPENDIX

CORPORATE SCORECARD 2012 - 2014

| Corporate Objectives | | Key Performance Indicators (KPIs) / Corporate Initiatives | Targets | | |
|-----------------------------------|---|--|---|--|---|
| | | | 2012 | 2013 | 2014 |
| Stakeholders | A Educated and informed stakeholders | 1. Public awareness index: a. General awareness of PIDM b. General awareness of deposit insurance system (DIS) c. General awareness of takaful and insurance benefits protection system (TIPS) | 39% 35% 15% | 42% 39% 20% | 45% 42% 25% |
| | | 2. Successful completion of key initiative(s): a. Integrated Communications Plan b. Education programme | Complete Implement and monitor | Complete Implement and review | Complete Implement and review |
| | B Effective partnerships | 3. PIDM's relationship with: a. Bank Negara Malaysia b. Member institutions c. Key suppliers and strategic partners d. Other deposit insurers e. Other stakeholders | Strong Satisfactory Strong Strong Satisfactory | Strong Satisfactory Strong Strong Satisfactory | Strong Satisfactory Strong Strong Satisfactory |
| | | 4. Participate in international fora | Active participation | Active participation | Active participation |
| | | 5. Support the Financial Institutions Directors' Education (FIDE) Programme and the Alumni | Active participation | Active participation | Active participation |
| Governance and Internal Processes | C Well-governed and well-managed organisation | 6. Board assessment on: a. Best practices of governance adopted b. Significant policies and practices complied with c. Quality of management support to the Board | High satisfaction High satisfaction High satisfaction | High satisfaction High satisfaction High satisfaction | High satisfaction High satisfaction High satisfaction |
| | | 7. Successful completion of key initiative(s): a. ERM Board Risk policies b. MDIC Act 2011 | Review and enhance Review | Review and enhance Review | Review and enhance - |
| | D Robust risk assessment, monitoring, intervention and resolution capability | 8. Successful completion of key initiative(s): a. Differential Premium Systems (DPS), Total Insured Deposits (TID), Differential Levy System (DLS) and Total Protected Policies (TPP) frameworks: i. Review and enhance TID and DPS-related regulations for DIS ii. Develop and implement DLS and Return of TPP framework for TIPS: a(ii)(1). DLS framework a(ii)(2). Guidelines on DLS and the regulations a(ii)(3). Supervisor validation on Return of TPP a(ii)(4). External auditor validation on Guidelines on Return of TPP | Review Develop and consult Develop and consult Implement and review - | Develop and consult Implement Implement Review Develop | Implement Review Review - Implement |
| | | b. Risk Assessment and Monitoring Methodology and Framework: i. Enhance Risk Assessment System for DIS ii. Develop Risk Assessment System for TIPS | Develop and implement Develop | Review Develop and implement | Review and enhance Review and enhance |
| | | c. Develop and implement Early Warning System (EWS): i. DIS ii. TIPS | Develop - | Develop and validate Research | Implement Develop |
| | | d. Intervention and Failure Resolution Framework including policies, processes and procedures: i. DIS: d(i)(1). Develop and implement the final components of IFR activities for member banks d(i)(2). Develop and implement Valuation Model and System ii. TIPS: d(ii)(1). Amend IFR policies and procedures to include consideration for insurer members | Develop Develop Develop and complete | Complete Develop Review | Review Develop and implement Enhance |

APPENDIX

CORPORATE SCORECARD 2012 - 2014

| Corporate Objectives | | Key Performance Indicators (KPIs) / Corporate Initiatives | Targets | | |
|-----------------------------------|---|--|---|---|--|
| | | | 2012 | 2013 | 2014 |
| Governance and Internal Processes | D Robust risk assessment, monitoring, intervention and resolution capability | e. Policies and regulations: i. DIS: e(i)(1). Interest and dividend payable guidelines / rules e(i)(2). Premium surcharge e(i)(3). Terms and Conditions of Membership Regulations 2008 e(i)(4). Provision of Information on Deposit Insurance Regulations 2011 ii. TIPS: e(ii)(1). Terms and Conditions of Membership Regulations e(ii)(2). TIPS Information Regulations f. Conduct simulation on: i. Payout ii. Intervention and Failure Resolution g. Develop the remaining audit programme to ensure integrity of Payout Data, Systems and Processes for member banks h. Develop and implement claims management system, policies and procedures for insurer members: i. Phase 1a: Product Registry System ii. Phase 1b: Claims Management System iii. Phase 1c: Policy Holders Support Management System iv. Phase 2: Payment Management System i. Member institutions' compliance programme | Implement Complete Review and implement Review and implement | Review Review - Monitor | Enhance Enhance - Monitor |
| | | 9. Reporting through: a. Annual Report b. Corporate Plan | Complete Complete | Complete Complete | Complete Complete |
| | | 10. Actual vs. approved expenditures budget | ±10% variance | ±10% variance | ±10% variance |
| | | 11. Internal Control Compliance | Strong | Strong | Strong |
| | | 12. Internal Customer Satisfaction | 75% | 75% | 75% |
| | | 13. Successful completion of key initiative(s): a. Policies and Procedures for Phase 1: Government Borrowings and Phase 2: Funding from capital market b. Target Fund framework for TIPS c. Develop and implement the following strategic plans: i. Annual Information Technology Strategic Plan ii. Annual Business Continuity Management Plan d. Disaster Recovery Site and Infrastructure e. Corporate Information Security Framework | Review and enhance - Complete Complete Acquire land Review and enhance | - Research Complete Complete Construct Implement | - Develop Complete Complete Complete Review and enhance |
| | E Sound business and financial practices | | | | |
| | | | | | |
| | F Competent and knowledgeable workforce | 14. Develop and implement annual learning and development plan | Complete | Complete | Complete |
| | | 15. Successful completion of key initiative(s): a. Integrate Competency framework in Human Capital processes b. Knowledge Management Policies and Procedures | Review and enhance Develop | Implement Implement | Implement Review and enhance |
| Learning and Growth | G Conducive corporate environment | 16. Employee satisfaction index (Survey conducted once every two years) | - | 75% | - |
| | | 17. Successful completion of key initiative: a. Implement employee-related programmes to promote conducive corporate environment | Complete | Complete | Complete |

APPENDIX

LIST OF MEMBER INSTITUTIONS

As at 1 February 2012, PIDM's member institutions are as follows:

Commercial Banks (25)

1. Affin Bank Berhad
2. Alliance Bank Malaysia Berhad
3. AmBank (M) Berhad
4. Bangkok Bank Berhad
5. Bank of America Malaysia Berhad
6. Bank of China (Malaysia) Berhad
7. Bank of Tokyo-Mitsubishi UFJ (Malaysia) Berhad
8. BNP Paribas Malaysia Berhad
9. CIMB Bank Berhad
10. Citibank Berhad *
11. Deutsche Bank (Malaysia) Berhad *
12. Hong Leong Bank Berhad
13. HSBC Bank Malaysia Berhad
14. Industrial and Commercial Bank of China (Malaysia) Berhad
15. J.P. Morgan Chase Bank Berhad
16. Malayan Banking Berhad
17. Mizuho Corporate Bank (Malaysia) Berhad
18. OCBC Bank (Malaysia) Berhad
19. Public Bank Berhad
20. RHB Bank Berhad
21. Standard Chartered Bank Malaysia Berhad
22. Sumitomo Mitsui Banking Corporation Malaysia Berhad
23. The Bank of Nova Scotia Berhad
24. The Royal Bank of Scotland Berhad
25. United Overseas Bank (Malaysia) Berhad

* denotes this bank provides Islamic banking services

Islamic Banks (16)

1. Affin Islamic Bank Berhad
2. Alliance Islamic Bank Berhad
3. Al Rajhi Banking & Investment Corporation (Malaysia) Berhad
4. AmlIslamic Bank Berhad
5. Asian Finance Bank Berhad
6. Bank Islam Malaysia Berhad
7. Bank Muamalat Malaysia Berhad
8. CIMB Islamic Bank Berhad
9. Hong Leong Islamic Bank Berhad
10. HSBC Amanah Malaysia Berhad
11. Kuwait Finance House (M) Berhad
12. Maybank Islamic Berhad
13. OCBC Al-Amin Bank Berhad
14. Public Islamic Bank Berhad
15. RHB Islamic Bank Berhad
16. Standard Chartered Saadiq Berhad

Insurance Companies (35)

1. ACE Jerneh Insurance Berhad
2. Allianz General Insurance Company (Malaysia) Berhad
3. Allianz Life Insurance Malaysia Berhad
4. American International Assurance Bhd.
5. AmG Insurance Berhad
6. AmLife Insurance Berhad
7. AXA Affin General Insurance Berhad
8. AXA Affin Life Insurance Berhad
9. Berjaya Sampo Insurance Berhad
10. Chartis Malaysia Insurance Berhad
11. CIMB Aviva Assurance Berhad
12. Etiqa Insurance Berhad
13. Great Eastern Life Assurance (Malaysia) Berhad
14. Hong Leong Assurance Berhad
15. ING Insurance Berhad
16. Kurnia Insurance (Malaysia) Berhad
17. Lonpac Insurance Berhad
18. Malaysian Assurance Alliance Berhad
19. Manulife Insurance Berhad
20. MCIS Zurich Insurance Berhad
21. MSIG Insurance (Malaysia) Bhd.
22. MUI Continental Insurance Berhad
23. Multi-Purpose Insurans Berhad
24. Oriental Capital Assurance Berhad
25. Overseas Assurance Corporation (Malaysia) Berhad
26. Pacific & Orient Insurance Co. Berhad
27. Progressive Insurance Berhad
28. Prudential Assurance Malaysia Berhad
29. QBE Insurance (Malaysia) Berhad
30. RHB Insurance Berhad
31. The Pacific Insurance Berhad
32. Tokio Marine Insurans (Malaysia) Berhad
33. Tokio Marine Life Insurance Malaysia Bhd.
34. Uni.Asia General Insurance Berhad
35. Uni.Asia Life Assurance Berhad

Takaful Operators (12)

1. AIA AFG Takaful Berhad
2. AmFamily Takaful Berhad
3. CIMB Aviva Takaful Berhad
4. Etiqa Takaful Berhad
5. Great Eastern Takaful Sdn. Bhd.
6. Hong Leong MSIG Takaful Berhad
7. HSBC Amanah Takaful (Malaysia) Sdn. Bhd.
8. ING PUBLIC Takaful Ehsan Berhad
9. MAA Takaful Berhad
10. Prudential BSN Takaful Berhad
11. Syarikat Takaful Malaysia Berhad
12. Takaful Ikhlas Sdn. Bhd.

APPENDIX

GLOSSARY OF TERMS

Agency arrangements

A resolution method involving an arrangement between PIDM, a member institution and an agent bank or agent takaful operator or agent insurance company (agent), where the agent acts as the agent of the member institution to manage the orderly winding down of the member institution and meet depositors' or takaful beneficiaries' or insured persons' claims as they become due.

Assumption of control

Once a member institution has been determined by Bank Negara Malaysia (BNM) to be non-viable or likely to be non-viable, PIDM may take control of part or the whole of the business, assets, liabilities and affairs of a non-viable member institution pursuant to paragraph 99(1)(c) of the Malaysia Deposit Insurance Corporation Act (MDIC Act) 2011, and effect intervention or failure resolutions in accordance with its mandate.

Bridge institution

An institution which is a subsidiary of PIDM (separate from the insurer) that would assume and operate part or all of the business, assets and liabilities of a failing member institution, and continue to service depositors, certificate owners or policy owners, until a purchaser for the business, assets and liabilities can be found to acquire the bridge institution. In other jurisdictions, the bridge institution is often used as a resolution option to preserve the franchise value of the troubled institution, and to allow for more time to address the problems of the troubled institution and find a purchaser.

Capital Adequacy Ratio (CAR)

The CAR is the ratio of a bank's regulatory capital to its risk-weighted assets exposure. International standards recommend a minimum ratio of eight percent intended to permit banks to absorb losses without becoming insolvent, so as to protect depositors.

Certificate owner

The person who has the legal title to a takaful certificate and includes the assignee, the personal representative of a deceased certificate owner and the annuitant.

Conventional Deposit Insurance Fund

All premiums received by PIDM from member banks providing conventional banking services and interest earned minus the direct cost of operating the conventional deposit insurance system.

Depositor Liabilities Information Management System (DLIMS)

An internal PIDM system used to process depositors' details and deposit accounts, so as to compute the total insured deposit amounts by entity. The system carries out processes that include the aggregation of deposit accounts for the same entity, making payment adjustments, holding back of payments and generating of payment files for further processing by payment management.

Depositor Support Management System (DSMS)

DSMS is the communications component of the PIDM Payout System. In the event of a Payout, the PIDM Call Centre, which manages depositor communications, enquiries and requests, will use the DSMS as an interface to the Payout System.

Differential premium system

A system to levy premiums on member institutions at differential rates, based on their risk profiles.

Enterprise Portal

The Enterprise Portal is a system for integrating information, people and processes. This portal allows users access via a single gateway to information retained within the portal.

Enterprise Risk Management

The framework applied on an organisation-wide basis to ensure and demonstrate that an entity's significant risks are being consistently and continuously identified, assessed, managed, monitored and reported on.

Family Solidarity Takaful Protection Fund

All premiums received by PIDM from insurer members conducting family takaful business and returns made minus the direct costs of operating the Takaful and Insurance Benefits Protection System (TIPS).

Financial assistance

The form of financial assistance stipulated under Section 25(2)(a)(ii) to (vi) and Section 25(2)(e) of the MDIC Act provided for the furtherance of PIDM's objects of promoting or contributing to the stability of the financial system.

Financial safety net

Usually comprises the deposit insurance function, prudential regulation and supervision, and the lender-of-last-resort function.

Foreign currency

Any currency other than Ringgit Malaysia, the Malaysian currency.

General Insurance Protection Fund

All premiums received by PIDM from insurer members conducting general insurance business and interest earned minus the direct costs of operating TIPS.

General Takaful Protection Fund

All premiums received by PIDM from insurer members conducting general takaful business and returns made minus the direct costs of operating TIPS.

Government Deposit Guarantee (GDG)

The GDG announced by the Government of Malaysia on 16 October 2008 was a temporary deposit guarantee that covered the full amount of guaranteed deposits and instruments held in member banks and other guaranteed financial institutions. The GDG was a pre-emptive and precautionary measure, consistent with measures taken by neighbouring jurisdictions, to preserve confidence in the financial system. It was in effect until 31 December 2010.

Group certificate / Group policy

Insurance / takaful covering a group of people (three or more lives) under a master policy. It is typically issued to an employer for the benefit of employees, or to members of an association.

Insurance benefits

The aggregate of insurance benefits for which an insurance company is liable to any person in the usual course of the insurance business of the insurance company.

Insurer members

All takaful operators licensed under the Takaful Act 1984 to conduct family and / or general takaful business in Malaysia, as well as insurance companies licensed under the Insurance Act 1996 to conduct life and / or general insurance business in Malaysia, as defined under the MDIC Act. Membership is compulsory under the MDIC Act. A full list of these insurer members is available on page 201.

Integrated Communications Plan

This five-year plan identifies the strategies and initiatives to enhance understanding and awareness of the deposit insurance system. The plan is built on three major thrusts: to strengthen awareness of DIS and TIPS and to promote confidence in the role of PIDM; to actively contribute to the enhancement of financial awareness and literacy through education initiatives and programmes; and to enhance engagement with member institutions and relevant strategic partners.

Intervention and failure resolution

Intervention refers to actions taken on a member institution by PIDM in order to address certain concerns with the member institution. These actions are usually taken prior to any failure resolution option being taken against the member institution. Failure resolution refers to actions in dealing with a failed member institution that has been determined by BNM as non-viable.

Intervention and Failure Resolution Framework

A framework that will guide PIDM in its development of intervention and failure resolution policies and operating procedures. It outlines PIDM's overall intervention and failure resolution approach and sets out the policies and procedures in relation to the various actions and options available to PIDM to deal with a troubled or failed member institution.

Islamic Deposit Insurance Fund

All premiums received by PIDM from member Islamic banks or member commercial banks providing Islamic banking services and returns made minus the direct costs of operating the Islamic deposit insurance system.

Islamic Protection Funds

Islamic Protection Funds refer to the Islamic Deposit Insurance Fund, General Takaful Protection Fund and the Family Solidarity Takaful Protection Fund.

Life Insurance Protection Fund

All premiums received by PIDM from insurer members conducting life insurance business and interest earned minus the direct costs of operating TIPS.

Member banks

All commercial banks (including foreign banks incorporated in Malaysia) licensed under the Banking and Financial Institutions Act 1989 and all Islamic banks licensed under the Islamic Banking Act 1983. Membership is compulsory under the MDIC Act. A full list of these banks is available on page 201.

Member institutions

Members of PIDM comprising member banks and insurer members.

Moral hazard

The incentive for additional risk taking by financial institutions that might arise as a result of the provision of deposit insurance or deposit guarantee on the basis that financial institutions would not suffer the adverse consequences of risk taking.

Payment management

A process for handling payments to insured depositors, takaful beneficiaries and insured persons, including generating payment statements, keeping payment files and monitoring the payment status.

Payout

A process undertaken by PIDM to reimburse insured deposits to eligible depositors, or protected benefits to eligible takaful beneficiaries or insured persons of a non-viable member institution in accordance with Sections 56 and 57, and Sections 80 and 81 of the MDIC Act.

APPENDIX

GLOSSARY OF TERMS

Policy owner

The person who has the legal title to an insurance policy and includes the assignee, the personal representative of a deceased policy owner and the annuitant.

Protection Funds

Protection Funds refer to the Islamic Deposit Insurance Fund, Conventional Deposit Insurance Fund, General Takaful Protection Fund, Family Solidarity Takaful Protection Fund, General Insurance Protection Fund and the Life Insurance Protection Fund.

Purchase and assumption

A resolution method which involves a healthy financial institution or group of investors purchasing part or all of the assets and assuming part or all of the liabilities, including all insured deposits or protected benefits, of a member institution.

Restructuring

A resolution method that involves a reorganisation of a member institution's financial position or in respect of other non-financial areas.

Risk-weighted assets

Risk-weighted assets refer to a concept developed by the Basel Committee on Banking Supervision for determining the CAR. Assets are weighted by factors representing their riskiness and potential for default.

Shariah principles

The law of Islam, based upon the Quran, *Sunnah* (sayings and deeds of the Prophet Muhammad s.a.w.), *Ijma'* (consensus among Islamic scholars) and *Qiyas* (analogy).

Takaful benefits

The aggregate of takaful benefits for which a takaful operator is liable to any person in the usual course of business of the takaful operator.

Target fund

A target fund, in general, is the level of accumulated funds required to adequately cover expected losses arising from intervention and failure resolution activities.

Total Insured Deposits

The sum of deposits insured by PIDM and held in a member bank.

APPENDIX

CONTACT DETAILS

For more information about PIDM

- Contact our Customer Service Call Centre at:
Toll-free **1-800-88-1266**
8.30 am to 5.30 pm, Mondays to Fridays
- Visit our website at **www.pidm.gov.my**
FAQs on PIDM, DIS and TIPS are available on our website
- Email to **info@pidm.gov.my**
- Write to:
Communications and Public Affairs Division
Perbadanan Insurans Deposit Malaysia
Level 12, Quill 7,
No. 9, Jalan Stesen Sentral 5,
Kuala Lumpur Sentral,
50470 Kuala Lumpur.

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