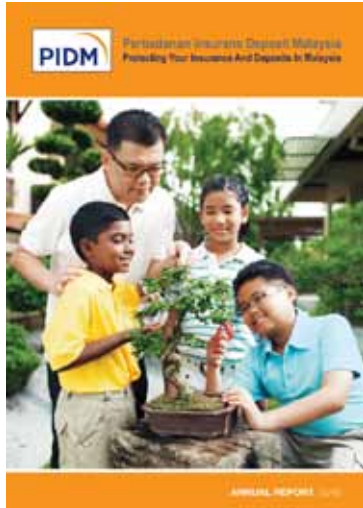




**Perbadanan Insurans Deposit Malaysia**  
**Protecting Your Insurance And Deposits In Malaysia**

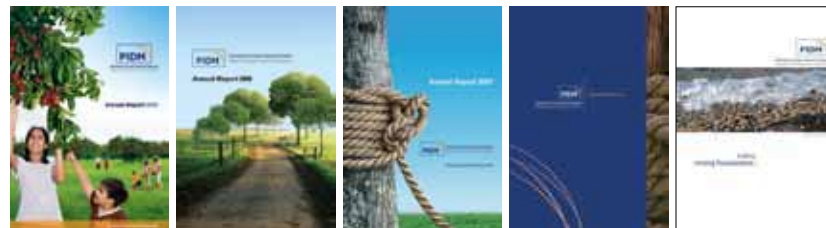




The young bonsai craftsman, guided by the experience and skills of the master craftsman, has practised his art most diligently and with complete dedication. The skills and expertise he has gained now enable him to nurture the growth of the bonsai tree, while sharing his knowledge with his peers.

Similarly, PIDM has grown from strength to strength since its establishment in 2005. Driven by its vision to be a best practice insurer, PIDM constantly seeks knowledge, strives for excellence and builds on its successes, ensuring at all times that depositors can remain confident in the safety of their deposits.

By building on the experience and expertise gained over the years, PIDM strives to fulfil its newly expanded mandate and ensure that all takaful certificate and insurance policy owners enjoy the assurance and confidence that they too are protected by PIDM.



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

- A best practice insurer

## OUR MISSION

We shall:

- Protect Islamic and conventional deposits
- Protect takaful and insurance benefits
- Fulfil our mandate in an efficient and effective manner, having regard to the interests of our key stakeholders and our employees

## OUR STRATEGIC THRUSTS

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

## OUR CORPORATE OBJECTIVES

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

## OUR CORPORATE VALUES

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

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## Section 1: INTRODUCTION

*Strengthening an enduring commitment  
to best practices...*



## INTRODUCTION

### CORPORATE PROFILE



Perbadanan Insurans Deposit Malaysia (PIDM) is a statutory body established in 2005 under the Malaysia Deposit Insurance Corporation Act (MDIC Act). As an integral part of the national financial safety net system, we administer the Deposit Insurance System and the Takaful and Insurance Benefits Protection System (TIPS). PIDM insures depositors against the loss of part or all 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 licensed under the Takaful Act 1984. As at 1 February 2011, PIDM's membership comprises 23 commercial banks and 17 Islamic banks as well as 36 insurance companies and 10 takaful operators.

The Malaysian deposit insurance system covers Islamic and conventional deposits separately. It is funded by annual premiums collected from the member institutions 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 member institutions in respect of takaful and insurance benefits that are protected. 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 seven-member Board of Directors. We are also known internationally as the Malaysia Deposit Insurance Corporation.

### **ENHANCED FINANCIAL CONSUMER PROTECTION**

Under the new MDIC Act, 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 will further strengthen the deposit insurance system. These Regulations are to ensure member institutions 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 failure of any member institution, PIDM will act promptly to reimburse depositors and protect owners of takaful certificates or insurance policies 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), which is 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.

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 are armed with a wide range of legislative tools to deal with distressed member institutions. 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, 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 acquire assets from member institutions or to provide financial assistance, where appropriate. 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 actions to implement a least cost resolution as appropriate.

Timely and clear communications to engender public confidence in the deposit insurance system 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 of our financial consumer protection.

# INTRODUCTION

## THE YEAR 2010 AT A GLANCE



Since our establishment in 2005, we have made significant progress in building a strong foundation towards being recognised as a best practice deposit insurer.

Our key focus for 2010 was to continue our efforts in raising public awareness on deposit insurance and understanding of PIDM, ensuring operational effectiveness and readiness to manage intervention

and failure resolutions (IFR) as well as intensifying risk assessment and monitoring activities. We also continued to enhance our governance practices and embarked on initiatives to develop talents in core competencies.

We achieved our planned key initiatives and undertook two major initiatives which were unplanned. All of the initiatives were completed within the approved financial plan.

### HIGHLIGHTS OF OUR ACCOMPLISHMENTS IN 2010

#### Stakeholders

- Officially launched the PIDM Project MoneySmart, an education programme for students of secondary schools and tertiary institutions throughout Malaysia.
- Implemented our multi-year Scholarship Programme.
- Participated in the Tripartite Meeting between PIDM, Deposit Protection Agency (DPA) Thailand and Indonesia Deposit Insurance Corporation (IDIC).
- Developed the Provision of Information on Deposit Insurance Regulations 2011.
- Continued to participate actively in the International Association of Deposit Insurers (IADI) activities as well as organised and hosted study visits for other deposit insurers.

#### Governance and Internal Processes

- 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 Enterprise Risk Management (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 Financial Institutions Directors' Education (FIDE) Programme and the establishment of a company limited by guarantee for the FIDE Alumni.
- Developed the enhanced Differential Premium Systems (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.



INTRODUCTION  
THE YEAR 2010 AT A GLANCE

HIGHLIGHTS OF OUR ACCOMPLISHMENTS IN 2010

Learning and Growth

- Continued to develop our employee talents through a comprehensive Learning and Development needs analysis.
- Conducted two corporate-wide employees training on IFR Framework, Contingency Plan and two resolution options.
- Continued to implement the competency model and succession planning framework including the cross-functional development opportunities.
- Organised the first off-site teambuilding session for employees.
- Relocated our office to Quill 7, Kuala Lumpur Sentral.

Key Achievements

- Following the announcement by the Minister of Finance in May 2010 on the Enhanced Financial Consumer Protection Package, we:
- Developed and implemented the transition package to exit the Government Deposit Guarantee and recommended a new Act, which came into operation on 31 December 2010, to replace the Malaysia Deposit Insurance Corporation Act (MDIC Act) 2005, including developed requisite regulations; and
  - Undertook the development and implementation of the Takaful and Insurance Benefits Protection System (TIPS).

External Recognition

- Recipient of the “2010 National Annual Corporate Report Awards (NACRA) for Best Annual Report of Non-Listed Organisations” for our 2009 Annual Report.

INTRODUCTION  
HIGHLIGHTS OF OUR ACCOMPLISHMENTS SINCE ESTABLISHMENT

2005

Stakeholders

- Commenced operations of the Call Centre, established the Corporate Website and distributed decals, brochures and handbooks.

Governance

- MDIC Act 2005 came into effect on 11 August 2005.
- Established our Board of Directors with all Non-Executive Directors.
- Established three Board Committees i.e. Audit, Governance and Remuneration Committees.
- The Minister of Finance appointed our Chief Executive Officer on 30 August 2005.
- Established organisational and reporting structure and PIDM's framework.
- Developed our first Corporate Plan 2006 - 2008 setting out PIDM's vision, mission, corporate values and four business strategies i.e. readiness; sound business and financial practices; public awareness and strong partnerships.
- Established the Executive Management Committee.

2006

Stakeholders

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

Governance

- 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 by the National Annual Corporate Report Awards.

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.
- 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 Insurer of the Year” Award.
- Recipient of the “Certificate of Merit” Award for the 2007 Annual Report, presented by the National Annual Corporate Report Awards.

2009

Stakeholders

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

Governance

- Conducted two Board Education sessions.
- Established 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 Process for the Return on Total Insured Deposits submitted by Member Institutions.
- 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.

Other Achievements

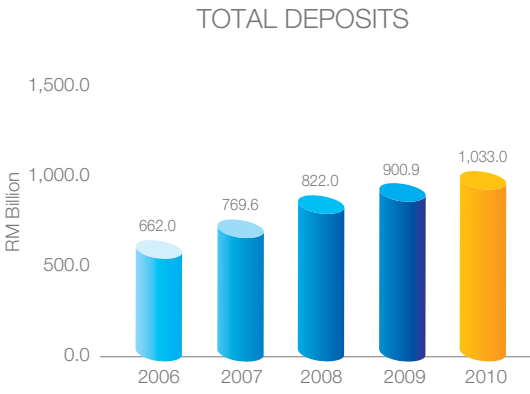
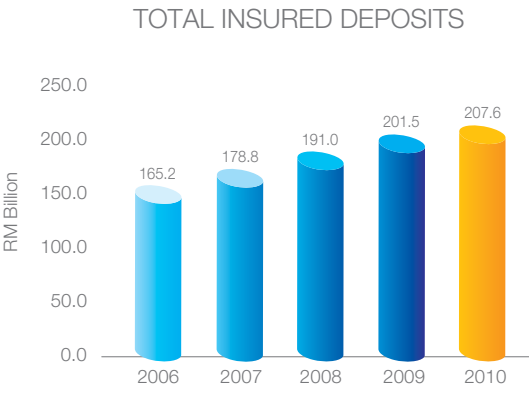
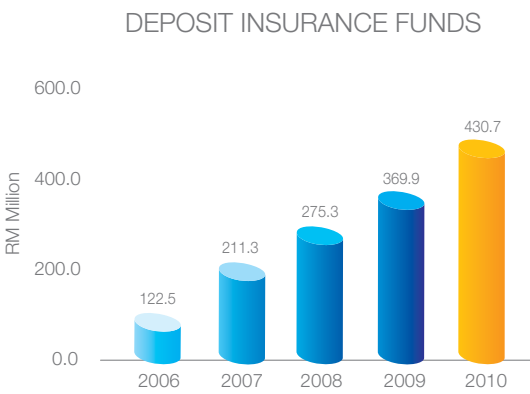
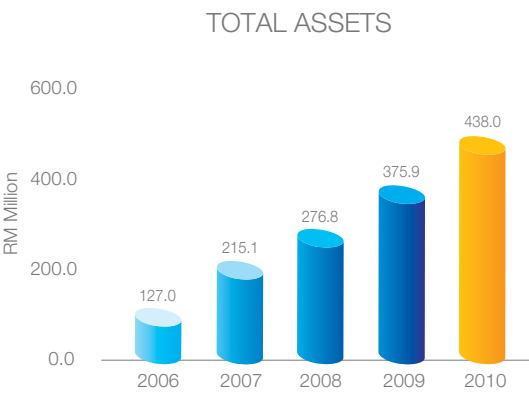
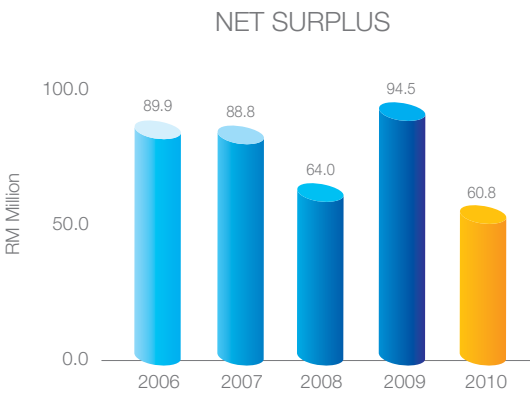
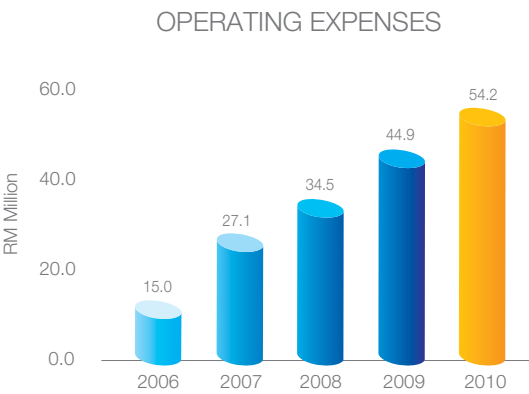
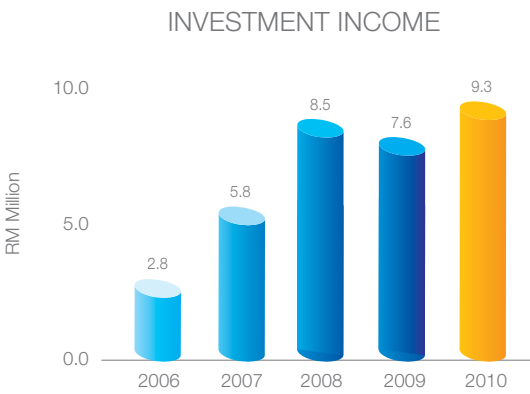
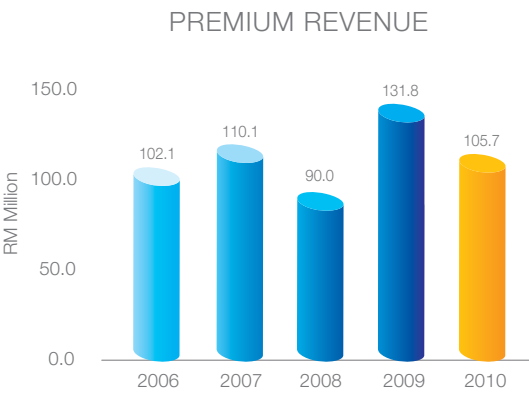
- Tabled the Stabilisation Insurance Legislation in Parliament which was enacted in January 2010.

External Recognition

- Nominated for the “2009 Deposit Insurer of the Year” Award.
- Recipient of the “2009 National Annual Corporate Report Awards (NACRA) for Best Annual Report of Non-Listed Organisations” for our 2008 Annual Report.

INTRODUCTION

FINANCIAL SUMMARY: PIDM'S FIVE-YEAR PERFORMANCE



FOR THE YEARS ENDED 31 DECEMBER	2010	2009	2008	2007	2006
			RM Million		
SELECTED ITEMS FROM THE STATEMENT OF COMPREHENSIVE INCOME					
Premium Revenue	105.7	131.8	90.0	110.1	102.1
Conventional	90.7	109.2	76.0	98.5	92.7
Islamic	15.0	22.6	14.0	11.6	9.4
Investment Income	9.3	7.6	8.5	5.8	2.8
Conventional	8.1	6.7	7.5	5.2	2.6
Islamic	1.2	0.9	1.0	0.6	0.2
Operating Expenses	54.2	44.9	34.5	27.1	15.0
Net Surplus	60.8	94.5	64.0	88.8	89.9
SELECTED ITEMS FROM THE STATEMENT OF FINANCIAL POSITION					
Total Assets	438.0	375.9	276.8	215.1	127.0
Total Liabilities	7.3	6.0	1.5	3.8	4.5
Deposit Insurance Funds	430.7	369.9	275.3	211.3	122.5
Conventional	374.6	320.9	243.0	190.4	111.2
Islamic	56.1	49.0	32.3	20.9	11.3
Total Deposit Insurance Funds and Liabilities	438.0	375.9	276.8	215.1	127.0
Growth Rate of Deposit Insurance Funds (%)	16.4%	34.3%	30.3%	72.5%	276.4%
FOR ASSESSMENT YEAR					
	2010	2009	2008	2007	2006
			RM Billion		
Total Insured Deposits*	207.6	201.5	191.0	178.8	165.2
Growth Rate of Insured Deposits (%)	3.0%	5.5%	6.8%	8.2%	–
Total Deposits*	1,033.0	900.9	822.0	769.6	662.0
Growth Rate of Deposits (%)	14.7%	9.6%	6.8%	16.3%	3.3%

\* Total Insured Deposits and Total Deposits for assessment year 2010 refer to deposit positions as at 31 December 2009 as the annual premium assessments are based on the level of deposits held by member banks as at 31 December of the preceding year.

INTRODUCTION

GOING FORWARD



Our Corporate Plan 2011 – 2013 sets out our strategic direction, focus and priorities that serve as our roadmap to fulfil our mandate effectively and work towards our vision to be recognised as a best practice insurer.

In summary, we continue to build the Corporation's readiness in terms of its overall capacity and capabilities,

promote public awareness focused on depositors and policy owners and work towards enhancing our operational efficiency and effectiveness. Specifically, we shall focus our resources on the full implementation and delivery of TIPS and continue our efforts in completing certain initiatives respecting the deposit insurance system.



## MESSAGE FROM THE CHAIRMAN

### TAN SRI DATO' ABDUL AZIZ HAJI TAHA

Originally conceived in the United States following the 1933 Great Depression of the 30s, the contributions of deposit insurance systems to public confidence and the stability of the financial system have since been internationally recognised. Such public confidence enables banks to intermediate effectively and support economic growth. By 31 January 2010, 106 countries had instituted some form of explicit deposit insurance – from 12 in 1974. Another 19 countries are studying or considering an explicit deposit insurance system.<sup>1</sup>

As a preventive response to the recent financial crisis, an international survey shows that 48 jurisdictions had adopted policies to enhance depositor protection. Out of the 48 jurisdictions, 29 had adopted either temporary full depositor guarantees or temporary increases in deposit insurance coverage levels while 19 had provided full depositor guarantees. Seventeen jurisdictions had announced end dates with most occurring either in 2010 or 2011. In Asia, Malaysia, Singapore and Hong Kong, which had formed a tripartite working group to map out a coordinated strategy for unwinding the full depositor guarantees, had successfully exited from the guarantees at the end of 2010, as scheduled.<sup>2</sup>

Interestingly, what originated from the Great Depression as a protection for small depositors has, in the era of the recent US Great Recession, achieved much prominence as a pre-emptive tool in the broader financial stability framework.

#### THE MALAYSIAN EXPERIENCE

The year 2010 marked PIDM's fifth anniversary. As our new Malaysia Deposit Insurance Corporation Act (MDIC Act) brings us to an end of an epoch and a beginning of a new one, I feel compelled to take stock of how we have evolved since our inception in 2005.

In line with best practice recommendations, it had been carefully planned in Bank Negara's Financial Sector Masterplan that PIDM would be established during the time when Malaysia's banking system was healthy and its institutional environment was sound. Our job is to carry out our mandate with speed and efficiency, and our Act recognises, in its preamble, the need in the public interest for special provisions to empower the Corporation to promptly implement resolution actions at minimum cost to the financial system.

Thus, in our early years of establishment, PIDM set about building our foundations by developing sound governance and management practices and operational readiness to ensure our credibility and public confidence in PIDM as a statutory authority. We also worked hard towards reducing excessive risk taking by member institutions, by providing incentives for sound risk management through our differential premium systems and by promoting enhanced corporate governance within the institutions, including through the establishment of the Financial Institutions Directors' Education Programme with Bank Negara Malaysia.

<sup>1</sup> Deposit Insurance Systems, International Association of Deposit Insurers (IADI), available at <http://www.iadi.org/di.aspx>

<sup>2</sup> Report to the Financial Stability Board - A note from staff of the International Association of Deposit Insurers and IMF on Update on Unwinding Temporary Deposit Insurance, June 2010

# INTRODUCTION

## MESSAGE FROM THE CHAIRMAN

The recent global financial crisis, with its derivatives and shadow-banking concerns, brought about a flurry of policy responses worldwide, with varying degrees of intensity and scope, to address issues of financial stability. Few countries remained unaffected during this period. This included Malaysia.

Despite our essentially healthy domestic banking environment, the backwash of the international financial crisis nevertheless drew policy responses in Malaysia (and in the region) and led to changes in the scope of our original mandate. As a result of the 2008 - 2010 Government Deposit Guarantee (GDG), the law now allows the Minister of Finance (on the recommendation of PIDM) to provide Government guarantees in extraordinary circumstances and during the period of such guarantee, PIDM would administer such guarantees on behalf of the Government with the necessary intervention and resolution powers.

And since 31 December 2010, in conjunction with the exit from the 2008 - 2010 GDG:

- PIDM has acquired a new set of responsibilities to protect owners of takaful certificates and insurance policies, with corresponding statutory powers;
- the deposit insurance coverage has been enlarged to incorporate foreign currency deposits; and
- the limit for deposits insured has been raised to RM250,000 per depositor per member bank.

As the world moved forward to address gaps in financial regulatory architectures and enhance laws to deal with crises, so too, did Malaysia, with the swift enactment of the new Central Banking Act of 2009 and the new MDIC Act. The new MDIC Act updates our former legislation, where relevant, so that we have the ability to deal with similar issues to those recently witnessed in other jurisdictions. Amongst other measures, the new MDIC Act has broadened our arsenal of powers to achieve orderly resolutions of troubled institutions, in particular with the introduction of the bridge institution tool.

As for insurance compensation schemes, I would note that a number of jurisdictions in Europe and Asia have insurance compensation schemes to protect policyholders, and there are various such schemes in different states in the United States. Of the 27 European Union states, 13 operate at least one insurance compensation scheme.

The UK Financial Services Authority and the Korea Deposit Insurance Corporation are administrators of both the deposit insurance and the insurance compensation schemes. In 2010, following its experiences with one particular insurer during the global crisis, Singapore also proposed the establishment of such a scheme.

Thus, events around the world have brought the nation's relatively new deposit insurance system protection to a point of development that reflects the broader evolution of deposit and other protection schemes around the world.

### BUILDING ON THE PAST, FOR STABILITY IN THE FUTURE

These advancements and other measures taken to reinforce the nation's financial safety net are considerable inroads towards a stronger financial and regulatory infrastructure in the Malaysian financial industry for tomorrow's world.

As for the establishment of the Takaful and Insurance Benefits Protection System (TIPS), we expect that this would help level the playing field between the banking and insurance sectors. In particular, we plan to develop and implement incentives for sound risk management, similar to those provided for member banks, for our insurance industry members. TIPS also aims to mitigate the risk of contagion to other insurance companies and the financial system in general, by promoting consumer confidence. There are clear benefits to all.

The international and domestic events that I have touched on earlier, I believe, answer the concerns of those who question the value of depositor protection and similar systems – which often happens when times are good.

I hasten to add, of course, that the mere existence of a depositor (or insurance policy owner) protection system by itself is not sufficient – it needs to be effective. The financial safety net design also needs to deal with issues of moral hazard as well as the appropriate balance in its design and implementation. This means having:

- sufficient incentives for member institutions to refrain from activities that excessively increase risk to the detriment of depositors or insurance policy owners;
- prudential regulation and judicious monitoring of member institutions, as well as sound coordination amongst financial safety net players; and

- the ability to act promptly to intervene in or resolve troubled institutions, and an effective exit mechanism for winding down the affairs of a failed institution to provide the public with ready access to insured funds so that stability and confidence in the financial system are maintained and to reinforce systemic stability.

As noted earlier, some of these design features have been enhanced in the new MDIC Act. At the same time, I would observe, with a Winston Churchill quote, that "It is always more easy to discover and proclaim general principles than to apply them." Hence, having established an appropriate design and an effective framework for the deposit insurance system, it is important that we concentrate on the practical implementation of the matters needed to successfully achieve our mandate. Thus, building foundations and operationalising our system has been a key preoccupation of the Corporation since inception some five years ago, with the ultimate objective of achieving a state of readiness to deal with any eventuality, effectively and efficiently.

I am tremendously pleased to report that, in 2010, we have continued our work in this regard, and I am equally pleased to present you with our Annual Report, which details our advancements in 2010.

### CONCLUSION

Aside from the need to progress our ongoing initiatives within the deposit insurance system, our expanded mandate for TIPS brings with it new member institutions, a new industry and new challenges. From what I have witnessed to date, I am confident that our Board and management, together with our safety net players and our strategic partners, have the capabilities to meet these challenges. A key focus for the Board in 2010 – and going forward in 2011 – was and will be to ensure leadership continuity so that the route towards our vision continues untrammelled.

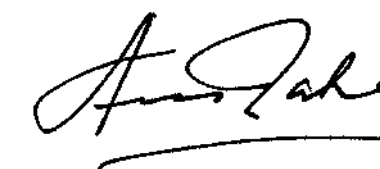
Before I conclude, I would like to express our sincerest gratitude to two of our former Directors, Tan Sri Sulaiman Mahbob and Mr. Michael Wong Kuan Lee, who retired in August of 2010. For their strategic insights, wisdom, hard work and dedication during their terms with the Corporation, we are greatly indebted. At the same time, I am pleased to welcome to PIDM our new public sector Board member, Dato' Halipah binti Esa, and our new private sector Board member, Mr. Lim Tian Huat, both of whom joined the Board in August 2010.

I would thank all of my colleagues on the Board, Management and employees for their enormous support for me as Chairman of the Board as well as for their commitment towards making the Corporation the best it can be. They have been assiduous in their quest for continuous improvement. On behalf of the Corporation, I would also extend our gratitude to our *ex officio* Directors, the Governor of Bank Negara Malaysia, Tan Sri Dr. Zeti Akhtar Aziz, and the Secretary General of the Treasury, Tan Sri Wan Abdul Aziz Wan Abdullah, for their unstinting contributions especially towards achieving a smooth exit from the 2008 - 2010 GDG.

I would also formally thank our counterparts from Indonesia Deposit Insurance Corporation, for hosting a productive tripartite meeting in Jakarta with the Deposit Protection Agency of Thailand last September. The meeting culminated in the signing of the memorandum of understanding on exchange of knowledge amongst the three regional deposit insurers, and we look forward to our continued cooperation. I would also cite Malaysia's recent regional coordination with Singapore and Hong Kong in our efforts to ensure a smooth transition from blanket depositor protection back to limited protection schemes as an example of the benefits of regional cooperation.

As I ruminate over the last five years, I must conclude that these have been extraordinary times in the field of financial consumer protection and financial stability regulation. I would be remiss if I were not to pay tribute to our Chief Executive Officer, Mr. J.P. Sabourin, without whom our challenges over these past years would have appeared so much more daunting.

A well-deserved congratulations to all!



TAN SRI DATO' ABDUL AZIZ HAJI TAHA



# INTRODUCTION

## BOARD OF DIRECTORS

**From left to right:**

Mr. George Anthony David Dass, Datuk Dr. Abdul Samad bin Haji Alias, Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz, Tan Sri Dato' Abdul Aziz bin Haji Taha, Tan Sri Dato' Sri Dr. Wan Abdul Aziz Wan Abdullah, Dato' Halipah binti Esa, Mr. Lim Tian Huat



# INTRODUCTION

## BOARD OF DIRECTORS: MEMBERS AND PROFILES

### TAN SRI DATO' ABDUL AZIZ BIN HAJI TAHA

*Chairman*

Tan Sri Dato' Abdul Aziz bin Haji Taha was appointed to the Board of PIDM on 15 August 2005 as its Chairman, and his current term of appointment continues until 14 August 2011.

A Chartered Accountant by profession, he has had extensive experience in the field of banking and finance. He has served in various capacities in both the public and private sectors. He spent 16 years in the service of Bank Negara Malaysia and was its Governor between 1980 and 1985. He also held positions as Chairman of the Capital Issues Committee and was a partner of Messrs Kassim Chan & Co/Deloitte Haskins & Sells Malaysia, a member of the Foreign Investment Committee, the National Development Planning Council, the Investment Panel of Lembaga Tabung Angkatan Tentera and the Investment Panel of Lembaga Tabung Haji. He was also a member of the Board of the Malaysian Industrial Development Finance Berhad and Perbadanan Nasional Berhad.

### TAN SRI DATO' SRI DR. ZETI AKHTAR AZIZ

Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz, the Governor of Bank Negara Malaysia, is one of two *ex officio* Members of the Board.

She has been with the central bank since 1985, in a career spanning several senior positions in monetary and financial policies, and reserve management. Dr. Zeti presided over the formulation of the Financial Sector Masterplan, a 10-year road map for the development of the Malaysian financial system. During her term as Governor, she oversaw the transformation of the financial system, involving wide-ranging financial reforms, the establishment of new financial institutions, strengthening of the financial markets and the transition to a managed float of the Ringgit exchange rate. She is actively involved in promoting regional financial cooperation and in the international development of Islamic finance.

In promoting regional integration initiatives, Dr. Zeti chaired the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) Taskforce on "Regional Cooperation among Central Banks in Asia" to draw up the blueprint for future financial cooperation in the region. Dr. Zeti is a member of the South East Asian Central Banks (SEACEN) Board of Governors and the Chairman of the SEACEN Board of Directors. She is also a member of the Bank for International Settlements (BIS) Central Bank Governance Group since 2001. Dr. Zeti is also one of the founding members of the Asian Consultative Council for the BIS and was the Chairman of the Council from 2008 – 2010.

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

He has 34 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 areas 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 (FELDA), Malaysia Airlines System Berhad (MAS), Petrolam Nasional Berhad (PETRONAS), MISC Berhad, Kumpulan Wang Persaraan (Diperbadankan) (KWAP), Inland Revenue Board (LHDN), Syarikat Bekalan Air Selangor Sdn. Bhd. (SYABAS), Cyberview Sdn. Bhd., Pembinaan BLT Sdn. Bhd. and Bank Negara Malaysia. Tan Sri Dr. Wan Abdul Aziz holds a Ph.D in Economics from the University of Leeds, the United Kingdom.

### TAN SRI DATO' SRI DR. SULAIMAN MAHBOB

Tan Sri Dato' Sri Dr. Sulaiman Mahbob was appointed as a Board Member on 15 August 2005 and his term ended on 14 August 2010.

Tan Sri Sulaiman was previously the Director General of the Economic Planning Unit (EPU) of the Prime Minister's Department. He has extensive experience in the areas of national economic planning, public finance, public policies and overall national economic management. He served the Malaysian Government for 33 years from 1971 till 2004 in various capacities, including as Secretary General of the Ministry of Domestic Trade and Consumer Affairs, Under-Secretary (Economics) at the Ministry of Finance and Head of the Secretariat of the National Economic Action Council (NEAC) at EPU during the last financial crisis from 1998 to 2001. His previous appointments also include the presidency of the Malaysian Institute of Integrity, an agency established to implement the National Integrity Plan, the Executive Director of the Malaysian Institute of Economic Research and a Board Member of the Malaysian Intellectual Property Corporation, Padiberas Nasional Berhad and Petrolam Nasional Berhad.

He is currently the Chairman of the Malaysian Industrial Development Authority (MIDA). He is also an Adjunct Professor (Economics) at the University of Malaya and Universiti Utara Malaysia (Public Management and Law) and was appointed to the Board of Bank Negara Malaysia on 16 November 2009.

### DATO' HALIPAH BINTI ESA

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

She 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 held various senior positions in the EPU and retired as the Director General in 2006. She had also served in the Ministry of Finance as Deputy Secretary General.

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 (MHB), 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 Board of UDA Holdings Berhad, Petrolam Nasional Berhad, Employees Provident Fund (EPF) and Inland Revenue Board (IRB). She was a consultant to the World Bank and United Nations Development Programme (UNDP) 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.

### DATUK DR. ABDUL SAMAD HAJI ALIAS

Datuk Dr. Abdul Samad Haji Alias was appointed as a Board Member on 15 August 2005 and his current term continues until 14 August 2011.

A Fellow of the Institute of Chartered Accountants in Australia, he has extensive experience in auditing and accounting. He is Chairman of Bank Pembangunan Malaysia Berhad, Malaysia Venture Capital Management Bhd and Malaysia Debt Ventures Bhd. He is a Board Member of Lembaga Tabung Haji, Perbadanan Kemajuan Iktisad Negeri Kelantan, Felda Holdings Berhad, Felda Global Ventures Bhd. and TH Plantations Berhad. He is also a member of the Malaysian Institute of Certified Public Accountants and the Malaysian Institute of Accountants. In 2006, Datuk Dr. Abdul Samad received global recognition through the Association of Chartered Certified Accountants' Award for Achievement in Asia.

### MR. MICHAEL WONG KUAN LEE

Mr. Michael Wong Kuan Lee was appointed as a Board Member on 15 August 2005 and his term ended on 14 August 2010.

He was a partner of the legal firm, Messrs Shook Lin & Bok, for 23 years, and served as its Managing Partner for 19 years before retiring from practice in December 1991.

He has extensive experience as a corporate and commercial lawyer and acted as legal advisor to various local and international organisations, including banks, investment banks, securities and asset management firms, Bank Negara Malaysia and the Association of Banks in Malaysia. He also held several public appointments, including membership on

the Higher Education Advisory Council, the Petaling Jaya Municipality, and the Tunku Abdul Rahman College Council. He was also a Director of Bank Negara Malaysia and a member of Dewan Negara on appointment by the Seri Paduka Baginda Yang di-Pertuan Agong between 1977 and 1981.

### 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.

He 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 had 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 U.K., between 1997 and 2000. Currently, he continues to do some consultancy work 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 Institut 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 (LL.M) 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.

He is the Managing Partner of Lim Tian Huat & Co, Chartered Accountants and a licensed auditor and liquidator. He is a member of the Malaysian Institute of Accountants (MIA), Council Member of the Malaysia Institute of Certified Public Accountants (MICPA) and also a Fellow Member of the Association of Chartered Certified Accountants (ACCA). He also holds a degree in BA Economics (Honours).

He has extensive experience in corporate restructuring, recovery and insolvency. He was appointed by the Domestic Trade Minister as a member of the Corporate Law Reform Committee (CLRC) under the purview of the Companies Commission of Malaysia. He was appointed as Commissioner to the United Nations Compensation Commission for a period of five years from 1998 to 2002 and has co-authored the book "The Law and Practice of Corporate Receivership in Malaysia and Singapore".

Mr. Lim was a Partner of Ernst & Young (2002-2009) and Arthur Andersen & Co. (1990-2002). He is the first President of Insolvency Practitioners Association of Malaysia (IPAM) formed in 2010.



# MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

## JEAN PIERRE SABOURIN

I suppose, as countries trudge out of the global crisis, we might be asking ourselves the following questions – Did we end last year's journey, deflated by reflections on serious yet irresistible questions about the financial world, economic orthodoxy, and new laws? Or did we enter 2011, invigorated with new wisdoms, more choices and renewed momentum?

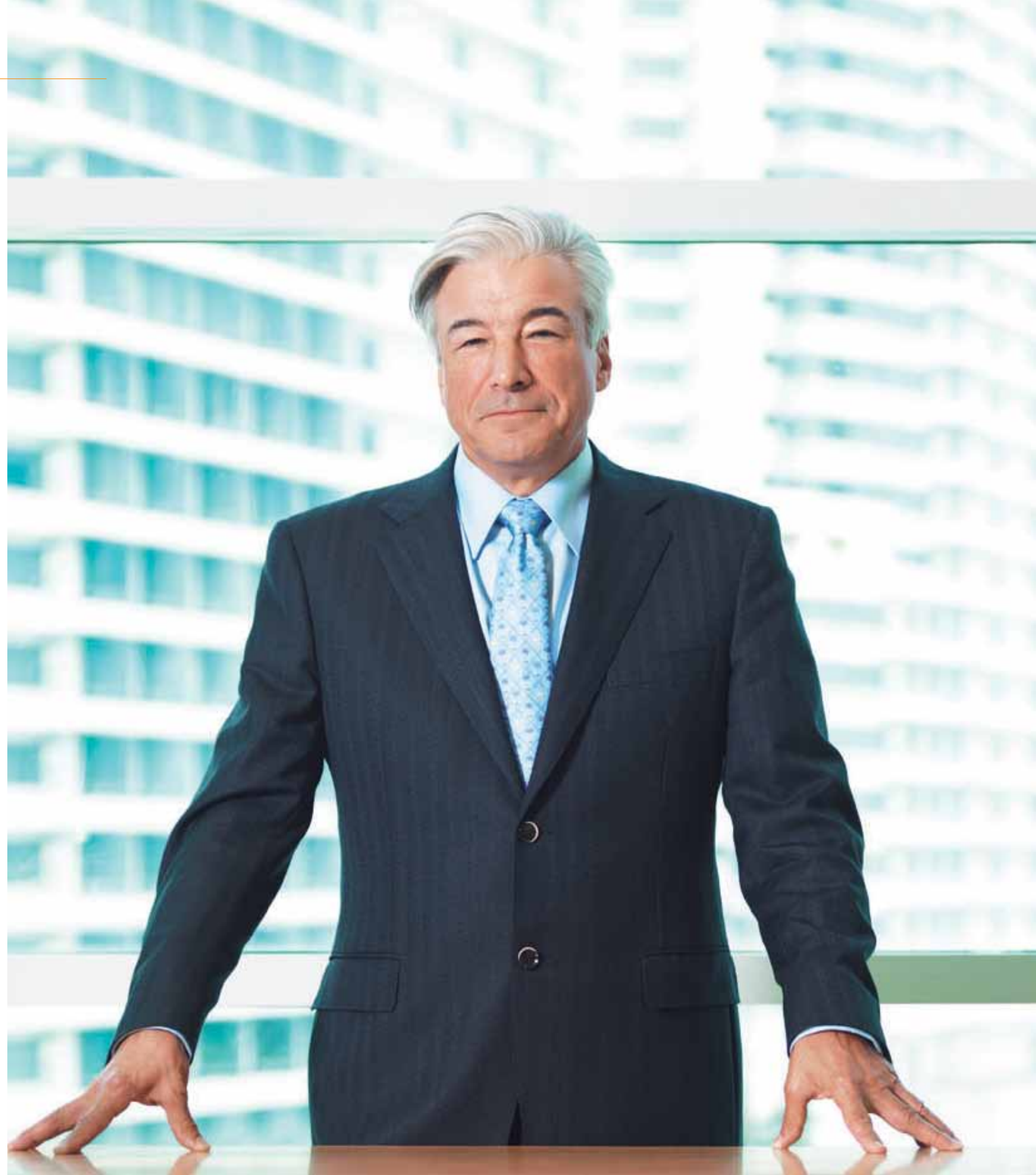
Fortunately, the plethora of invectives which barraged financial life elsewhere and that demanded immediate legislative responses were not aimed at our doors. Further, the answers – still elusive in significant parts of the rest of the world – might be more simply answered in our context. I put forward this view, largely because of Malaysia's unscripted economic thinking, its history, the stage of development of our financial industry, and our policymakers' astuteness in seizing these opportunities to improve our laws as well as to learn from other countries' mistakes. Bank Negara Malaysia's Central Bank Act 2009, for one, was an example of this foresight.

But while we found relative fortune in the state of health of our banking and regulatory environment, this did not mean for PIDM a gentle journey into its fifth anniversary. Just as Malaysia was thrust into making emergency policy responses to ensure consumer confidence and financial stability in 2008, we found ourselves needing to implement an exit strategy from the Government Deposit Guarantee (GDG) that loomed largely before us on 31 December 2010. This made, for PIDM, a jam-packed year, with new policies to develop; new legislation to pursue; new resources to bring together, amidst the need to move with a sense of urgency with our regular but no less important key initiatives on operational readiness.

### THE GDG EXIT AND A NEW MANDATE

The article on page 144 of this Annual Report describes our plans for the 2008 - 2010 GDG exit. The results of these plans, I am pleased to report, were notable only for the uneventfulness with which 31 December 2010 entered the annals of Malaysian financial history.

As part of the exit strategy from the GDG and to ensure the preservation of stability, we recommended an enhanced financial consumer protection package to the Minister of Finance, which was approved and announced on 11 May 2010. Consequently, we were called upon all at once to research, develop, consult, test and embed the final TIPS policies as part of the legislative package, which, amongst other matters, also allowed for the increase in the deposit coverage and limit as approved by the Minister of Finance on PIDM's recommendation.



# INTRODUCTION

## MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

The financial consumer package included the introduction of a takaful and insurance benefits protection system, the increase in the deposit insurance limit to RM250,000, the coverage of foreign currency deposits and additional powers to deal effectively with troubled member institutions. The implementation of such recommendations required amendments to the existing MDIC Act.

The result, as you know, was the enactment of the new MDIC Act, which came into operation on 31 December 2010. With this, PIDM acquired a larger mandate, powers and responsibilities.

In developing the detailed policy proposals to bring forward for the Minister, we were fortunate to find insurance compensation schemes in Canada, Europe and Korea. However, none, of course, simply fit into the Malaysian regulatory environment, our particular insolvency practices and Shariah principles. There were no models that did not call for considerable degree of customisation. Thus, as a start, we researched and developed our proposed policies, publicly consulted, then tapped on specific expertise and experiences from the takaful and insurance industry, in particular from former and current regulators and experts from the industry itself. We also referred to Bank Negara Malaysia's Shariah Advisory Council for clearance on Shariah issues. As we did for our deposit insurance legislation, we will over time stress-test the legislation to ensure its efficiency and practicality.

Our new membership also means an increase in our stewardship role. We will have new funds, namely for takaful general; takaful life; conventional general; and conventional life. These, together with our existing funds, will bring the funds to be administered by PIDM separately to a total of six. Relevant regulations and orders were gazetted on 1 February 2011, which provide for the exact scope of TIPS coverage and address premium rates for insurer members. More regulations can be expected to implement and put into operation TIPS. A comprehensive public awareness campaign to educate the public on the same will also be forthcoming. All this, and our deposit insurance mandate, can only mean that we will have our work cut out before us.

This does not in the least detract from the fact that the policy decision to house the new mandate in PIDM, as recommended by Bank Negara Malaysia, was one that makes eminent sense. There are indisputable synergies and cost efficiencies, and we envisage that our strategic approach to the takaful and insurance industry will level the playing field amongst our deposit-taking and insurer members.

### DEPOSIT INSURANCE AND ENHANCED POWERS

The new MDIC Act, aside from addressing TIPS and the exit from the GDG, is also the culmination of an exercise (mentioned in our past Corporate Plans) to conduct a comprehensive review of the old legislation to ensure that it remains updated and relevant.

With the new MDIC Act, PIDM now has enhanced powers for intervention and resolution of troubled member institutions. These include the ability to create a bridge institution as an added resolution tool. The bridge institution is a temporary institution that would be owned by PIDM, and the tool is designed to allow PIDM to quickly transfer certain assets and liabilities of a member institution that is no longer viable to this bridge institution. This is intended to stabilise and preserve critical functions and franchise value of the member institution, until the bridge institution can be returned to the private sector. It has been used in various forms in other countries for financial stability purposes, such as the Dumfermline Building Society in the U.K. and Silverton Bank in the U.S. It is, out of interest, a tool now available to the Office of Complex Financial Institutions at the U.S. Federal Deposit Insurance Corporation for all financial institutions, and is no longer limited to traditional deposit-taking banks.

With the exit, we have also issued The Provision of Information on Deposit Insurance Regulations, aimed at providing depositors with accurate, relevant and timely information on whether or not deposit products offered by our member institutions are insured. Deposit-taking members are gearing up to ensure the documentation offering products make clear to the depositor, the insurability status of the products at point of sale. The regulations take effect in April 2011.

### OPERATIONAL READINESS

If there is one thing we can glean from history, it is that despite sophisticated and academically approved theories whether about efficiently allocated capital or about risks, market failures happen.<sup>1</sup> The potential for failure, and the resolution of their failures, are the very reasons regulators exist.

As a financial regulator, we strive to achieve two key goals: (a) to reduce risks by providing incentives for sound risk management, i.e. so that risks and costs of failures are minimised; and (b) to limit the damage caused by a failure if an institution does fail, despite all efforts to prevent a failure. These tasks, carried out efficiently by an operationally ready, well-governed and well-managed institution, coupled with an educated public, lead to confidence in the financial system.

What, therefore, in 2010, was our operating environment like, and what did we do towards these goals?

The Management Discussion and Analysis on page 68 of the Annual Report describes our operating environment and progress on our initiatives in 2010 in some detail. In very broad outline:

### Governance

We continued to seek continuous improvements in our governance arrangements and benchmarked our practices against international developments in corporate governance. In particular, we benchmarked our Enterprise Risk Management practices against ISO31000:2009 – the first international standard for risk management – and we are in compliance with the standard. In 2010, our Board also approved three Board Risk Policies – Market Risk Policy, Liquidity Risk Policy and Insurance Powers Risk Policy. The remaining Board Risk Policies in the areas of Reputation Risk, Strategic and Governance Risk, Assessment and Monitoring Risk as well as Operational Risk will be completed in 2011. Our reports on governance are found in Section 2 of the Annual Report.

### Risk assessment, monitoring and readiness

PIDM remained vigilant in its risk assessment and monitoring function to ensure that it would be able to identify any issues arising within its membership or guaranteed institutions. Being ready remained a key focus for the Corporation. In 2010, PIDM made substantial progress in the development of detailed policies and procedures for undertaking intervention and failure resolution (IFR) activities, which is targeted for completion by the second quarter of 2011. During the year, we carried out our first Corporation-wide IFR simulation. This provided participants with a clearer understanding of their roles and responsibilities in dealing with a bank in crisis. Our three-phase Payout system project, which commenced development in 2007, is on schedule for completion within budget. We plan a comprehensive payout system that will provide a seamless link to all critical activities involved in a payout, so as to ensure accurate and prompt reimbursements to depositors, a critical goal in maintaining public confidence during a failure.

### Membership, premiums and income

Overall, our membership remained sound and profitable. The total premiums collected from member institutions were RM105.7 million, compared with RM132 million in the previous year, mainly due to the overall improvements in the differential premium systems ratings as well as lower total insured deposits growth of 3% as compared with 2009's growth of 5.5%. The Corporation's investment income for 2010 totalled RM9.3 million, higher than budget of RM8.0 million, largely due to improving yields during the year.

### Expenditures

Total operating expenditures amounted to RM54.2 million, which was RM9.3 million or 21% higher compared with 2009 though RM10.8 million below 2010 budget. The increase reflected the Corporation's continuous effort in building its capacity and capabilities especially in human capital, processes, systems and infrastructure.

### Human capital

An expansion of our team within PIDM for the skills, capabilities and capacity to deal with our expanded mandate began in 2010 and will continue well into 2011.

### Public awareness

Ensuring that the public is aware of deposit insurance, its benefits and limits is an important aspect of PIDM's work. As in 2010 the GDG continued to apply, our strategy was to reduce awareness activities about deposit insurance, limits and scope of coverage. In 2010, the annual awareness level about deposit insurance remained unchanged from the previous year. In 2011, we will necessarily step up our communications efforts to ensure awareness about the new limit and scope of coverage, as well as TIPS. We shall also continue the roll-out of our education programme for schools which is focused on financial literacy and deposit insurance matters.

### CONCLUSION

In sum, in 2010, we implemented, within budget, our Board-approved key initiatives planned for the year as stated in our Corporate Plan. Over and above those initiatives, we implemented our policy proposals through legislation, with the help of many and within the demands of the deadline. We also implemented communications efforts, all of which allowed for the implementation of the Government's enhanced financial consumer protection package and the smooth exit from the GDG. We would express our gratitude to the many without whom this would not have been possible – representatives from Bank Negara Malaysia, the Treasury and others in the Government machinery, and in particular members of the industry who willingly contributed their time, expertise and counsel, to help develop policies and legislation for TIPS.

I would also thank all of our employees for their enormous dedication, and for showing a strength of character always encouraged by our Chairman of the Board, namely, persistence. Our Chairman and the rest of Board are, as always, much appreciated for their alacrity in challenging and then supporting Management in our work. We sincerely miss the wisdoms of Tan Sri Sulaiman Mahbob and Michael Wong, following their retirement from our Board, and thank them for invaluable work as pioneers

<sup>1</sup> See the essay "The Anatomy of Market Failure", by Francis Bator



# INTRODUCTION

## MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

on our Board. At the same time, we look forward to working with our new Directors, Dato' Halipah Esa and Mr. Lim Tian Huat.

On the Management front, one of our key experts on policy matters, Lai Wai Keen, retired in early 2011. I would like to thank her for all her outstanding work over the years, her sound advice and generosity in sharing her knowledge and experience both within the organisation, as well as in the international community. We wish her happiness in her retirement years.

And to finally answer the questions posed at the beginning of my message. I would suggest that we did in fact ponder deeply about the global crisis, what caused it, who was responsible for it, and how such events can be fixed for the future; who in the world of financial regulation would have not done this?

But differences in our financial landscape, economic thinking, and our historical antecedents mean that for Malaysia we are not forced into making urgent and sweeping reforms only in answer to a specific crisis; a path that often leads to the development of piecemeal legislation that becomes outdated with the times. In other words, we were not focussed merely on addressing a multitude of recent problems, or agonising over still-open questions on the real causes and origin of the crisis leading up to law reform. And even though we looked from afar, we were still able to identify possible risks and flaws in financial stability architecture before, rather than post an event, and best of all, able to learn from the experiences of others.

This having been said, you would surmise that my conclusion is that we begin the year in 2011, not with a note of exhaustion, but with an appreciation for our past and our present circumstances and the opportunities to improve for the future. At the same time (especially with our expanded role and responsibilities) we do not forget that there is no room for complacency. There will be a need for thoroughness and vigilance in monitoring our risks. We will need to gear up our knowledge and experience about the takaful and insurance industry. We also anticipate the intensity of the challenges ahead of us, and we acknowledge the need to focus on operational readiness. In this, I would subscribe to the philosophy of the former British Prime Minister, Harold Wilson, who once quipped, "I am an optimist, but I'm an optimist who carries a raincoat."



JEAN PIERRE SABOURIN

## WINNER OF THE NACRA BEST ANNUAL REPORT OF NON-LISTED ORGANISATIONS FOR TWO CONSECUTIVE YEARS



2010 NACRA Best Annual Report  
of Non-Listed Organisations



2009 NACRA Best Annual Report  
of Non-Listed Organisations

Perbadanan Insurans Deposit Malaysia (PIDM) has once again been recognised by the National Annual Corporate Report Awards (NACRA) for its high governance standards and excellence in corporate reporting. Being awarded this prestigious accolade for two consecutive years is a true testament of our continuous effort to enhance our quality of disclosure and reporting.

We strive to be a well-governed and well-managed organisation, so that our stakeholders can have confidence in our ability to meet our mandate.

It is indeed a great honour to receive the 2009 and 2010 NACRA Awards.

## INTRODUCTION

### ORGANISATION CHART



## INTRODUCTION

### EXECUTIVE MANAGEMENT COMMITTEE



Note:

\* CEO appointed by the Minister of Finance on recommendation by the Board of Directors until August 2014

\*\* Corporate officers appointed by the Board of Directors



# INTRODUCTION

## EXECUTIVE MANAGEMENT COMMITTEE



Back row from left to right:

Noorida Baharuddin, Lim Yam Poh, Md Khairuddin bin Hj Arshad, Chua Ee Leen, Rafiz Azuan Abdullah, Lee Yee Ming, S. Loganathan, Wan Ahmad Ikram Wan Ahmad Lotfi, Lim Kong Kuan

Front row from left to right:

Jean Pierre Sabourin, Lai Wai Keen, Siti Zubaidah Haron



# 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 discussions on 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 communication, teamwork, adaptability to change and effective collaboration throughout all areas of PIDM, as well as serve as a conduit for information to all employees.

### JEAN PIERRE SABOURIN

*Chief Executive Officer*

Jean Pierre Sabourin is the Chief Executive Officer (CEO) of PIDM since its establishment in 2005. He has unparalleled expertise in all aspects of deposit insurance and is very much in demand internationally. His assistance has been widely sought by other countries on establishing and improving their deposit insurance systems.

Among his many achievements, he chaired the Financial Stability Forum's international study and working groups on deposit insurance and 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 Canada Deposit Insurance Corporation (CDIC) in 1976, and held various positions within CDIC before being appointed its President and CEO in 1990, a position he held until his retirement in April 2005. In August 2005, he was appointed by the Malaysian Government as the first ever Chief Executive Officer of PIDM. His term of office expires in August 2014. Under his leadership, PIDM is building a best practice insurer. He is Chairman of the Advisory Committee of The ICLIF Leadership and Governance Centre and a member of the Financial Stability Executive Committee of Bank Negara Malaysia. He holds a Master of Business Administration degree from the University of Toronto.

### MD KHAIRUDDIN BIN HJ ARSHAD

*Chief Operating Officer*

Md Khairuddin bin Hj Arshad was appointed the Chief Operating Officer at the beginning of 2010 and he assists the CEO in managing the day-to-day operations of the Corporation. Prior to this appointment, he was the General Manager, 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 also served Bank Negara Malaysia (BNM) 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 currently the Chairman of the Islamic Deposit Insurance Group (IDIG) of IADI and a member of the Malaysian Accounting Standards Board (MASB) working group on Islamic financial transactions. He has also provided technical assistance to various countries in developing their Islamic banking industry as well as presented papers at domestic and international seminars. He holds an accounting degree from the International Islamic University, Malaysia.

### LIM YAM POH

*General Counsel and Corporate Secretary*

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

Her responsibilities include compliance with all statutory requirements, including legislation specific to PIDM's business and affairs. She also performs the role of Corporate Secretary and provides all secretariat services related to the Board. In particular, she provides input and advice to the Governance Committee through which the PIDM Board of Directors monitors and addresses corporate governance matters.

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 a senior manager at 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.

### WAN AHMAD IKRAM WAN AHMAD LOTFI

*Chief Financial Officer and General Manager, Finance and Administration*

Wan Ahmad Ikram bin Wan Ahmad Lotfi was appointed the Chief Financial Officer (CFO) in 2006 and is responsible for the overall financial and office administrative affairs 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, office administration as well as 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. Upon 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.

### NOORIDA BAHARUDDIN

*Chief Internal Auditor and General Manager, Audit and Consulting Services*

Noorida Baharuddin was appointed the Chief Internal Auditor (CIA) 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 over 15 years of 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 Offshore Financial Services Authority (LOFSA). In risk management, she had been

involved in the development and implementation of enterprise-wide risk management for LOFSA. She was also attached to the Islamic Financial Services Board where she assisted in the development of Guiding Principles of Risk Management for Banks Offering Islamic Financial Services.

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) and a Certified Financial Planner (CFP) with the Financial Planning Association of Malaysia (FPAM).

### LEE YEE MING

*Chief Risk Officer and General Manager, Enterprise Risk Management*

Lee Yee Ming was appointed the Chief Risk Officer in 2008 and heads the Enterprise Risk Management (ERM) Division. She is responsible for the implementation of PIDM's ERM framework on an organisation-wide basis and assists the Board in ensuring that PIDM's significant risks are being consistently and continuously identified, assessed, managed, monitored and reported on.

She has over 10 years of consulting and banking experiences in ERM, Basel II, corporate governance and internal audit. She began her career in the U.S. with a financial institution in Illinois and subsequently joined Ernst & Young in the Kuala Lumpur, Malaysia and Taipei, Taiwan offices. With regard to ERM, she has advised organisations in Malaysia and internationally on the implementation of their respective ERM frameworks. She has also assisted banks in Taiwan as the overall project manager in their Basel II system implementation and Basel II-related implementation projects.

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.

### LAI WAI KEEN

*General Manager, Policy and International*

Lai Wai Keen was appointed the General Manager of Policy and International Division in 2005 and retired on 18 January 2011. She was responsible for PIDM's key policy areas and international relations. She



# INTRODUCTION

## EXECUTIVE MANAGEMENT COMMITTEE: MEMBERS AND PROFILES

was one of the members of the Deposit Insurance Task Force of BNM, which was set up to establish the deposit insurance system. The task force was responsible for developing policies that take into consideration the specific needs of the Malaysian financial system and Malaysian depositors. She has over 20 years of regulatory experience with BNM, including in bank regulation, communications, international relations and negotiations. She holds a degree in business administration from the University of Malaya and a law degree from the University of London.

### 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, where his final position was Manager of 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 Economic (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, the United Kingdom in 2001 where he graduated with Distinction.

### 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 Bank Negara Malaysia 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.

### S. LOGANATHAN

*General Manager, Communications and Public Affairs*

S. Loganathan was appointed the General Manager, Communications and Public Affairs Division in 2006. He is responsible for communications and public relations as well as managing PIDM's public awareness programmes. He has more than 25 years of experience in the financial media and the securities industry.

He started his career as a journalist with Bernama and then with Business Times, where he specialised in corporate, stock market and securities industry news. He joined the Bursa Malaysia group (previously known as the Kuala Lumpur Stock Exchange) in 1990 and rose through the ranks, holding various positions including Manager of the Research Institute of Investment Analysts Malaysia, Senior Vice-President of Market Development and General Manager of the Kuala Lumpur Options and Financial Futures Exchange (KLOFFE). His last posting was as General Manager of the Labuan International Financial Exchange, a position he assumed in June 2001. He left the Bursa Malaysia group in October 2004 to set up WeR-1 Consultants Sdn Bhd in Malaysia, a consultancy firm specialising in investor relations and media strategy with its head office in Singapore. He holds a degree in business administration from Universiti Kebangsaan Malaysia.

### SITI ZUBAIDAH HARON

*General Manager, Human Capital*

Siti Zubaidah Haron was appointed the General Manager, Human Capital Division in 2007. Her responsibilities include human capital strategy, talent management and related human capital policies, procedures and functions, as well as to ensure robust human capital development.

She started her career in human resources in 1990 and has experience in managing human resources functions across manufacturing, retail and hypermarket and group service centre serving 15 countries across Europe, the U.S. and Asia Pacific. She has extensive exposure and has been managing the full spectrum of human resources at senior level across various cultures since 1996. She was the Head of Human Resources at Carrefour (Malaysia)/ Magnificent Diagraph Sdn Bhd between 2002 and 2005, and was Vice-President - Human Resources, Learning & Development and Communications at HSBC Electronic Data Processing (M) Sdn Bhd (Group Service Centre, Malaysia) until she joined PIDM. Siti holds an honours Bachelor in Business Administration degree in human resource management and a Diploma in Business Studies.

### CHUA EE LEEN

*Senior Manager, Strategic Planning*

Chua Ee Leen was appointed the Senior Manager, Strategic Planning Division in 2010. 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 on an organisation-wide basis as well as ensuring that PIDM's significant risks were being consistently and continuously identified, assessed, managed, monitored and reported on.

Prior to PIDM, she has over seven years of experience in auditing, risk management, as well as policies and procedures development through her career at 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 (MIA).

# INTRODUCTION

## MANAGEMENT COMMITTEES

### ENTERPRISE RISK MANAGEMENT COMMITTEE

In assisting the Audit Committee and the Board of Directors, the ERM Committee provides oversight and direction for the implementation and consistent application of the corporate ERM framework and business continuity management. The ERM Committee champions risk management and monitors the risk exposures and ERM activities of PIDM at a corporate-wide level.

The ERM Committee comprises the following members:

- CEO (Chair)
- Chief Operating Officer (COO)
- Chief Financial Officer (CFO)
- General Counsel
- Chief Risk Officer (CRO)
- General Manager, Policy and International Division
- General Manager, Insurance, Risk Assessment and Monitoring Division
- General Manager, Intervention and Failure Resolution Division
- General Manager, Communications and Public Affairs Division
- General Manager, Human Capital Division
- Senior Manager, Strategic Planning Division
- Senior 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 in facilitating and coordinating business continuity management, ERM and strategic planning activities 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, Enterprise Risk Management Division
- Representatives of the following divisions in PIDM:
  - Communications and Public Affairs Division
  - Finance and Administration Division
  - Human Capital Division
  - Insurance, Risk Assessment and Monitoring Division

- Intervention and Failure Resolution Division
- Legal Division
- Policy and International Division
- Strategic Planning Division
- Assistant Manager, Enterprise Risk Management Division (Secretary)
- Audit and Consulting Services Division (Observer)

### ASSET AND LIABILITY MANAGEMENT COMMITTEE

The Asset and Liability Management Committee (ALCO) is a management committee designed to assist and support the CFO on issues related to asset and liability management. The Committee also provides assistance, information and support on funding, liquidity, investment and financial risk management to the CFO and Executive Management Committee in general. 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, Communications and Public Affairs Division
- General Manager, Insurance, Risk Assessment and Monitoring Division
- General Manager, Intervention and Failure Resolution Division
- Deputy General Manager, Finance
- Senior Manager, Economics and Research, Policy and International Division
- Senior Manager, Finance (Secretary)
- CIA (Observer)
- CEO (*ex officio*)
- COO (*ex officio*)
- Any other officers or employees of PIDM as required from time to time, to be determined by CFO

### INFORMATION TECHNOLOGY STEERING COMMITTEE

The main function of the Information Technology Steering Committee (ITSC) is to provide oversight, manage and implement IT strategies and plans. The ITSC oversight offers direction and guidance to align and implement IT strategies to support PIDM's goals. The ITSC also offers input and direction that relate to the management of IT-related risks and opportunities from external sources or external events. ITSC also addresses business issues associated with the IT Strategic Plans and reviews budgetary strategy, operational requirements, as well as monitors risks, quality and timeliness of IT projects.

The ITSC members are:

- COO (Chair)
- CFO
- CRO
- General Manager, Communications and Public Affairs Division
- General Manager, Insurance, Risk Assessment and Monitoring Division
- General Manager, Intervention and Failure Resolution Division
- Deputy General Manager, Information Technology
- Deputy General Manager, Administration
- Senior Legal Counsel
- CIA (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 also considers ways to enhance the Corporation's procedures and processes in terms of compliance, as well as to increase awareness and understanding of key policies and procedures applicable throughout all divisions of PIDM.

Its members are:

- General Counsel (Chair)
- CFO
- CRO
- Deputy General Manager, Insurance, Risk Assessment and Monitoring Division
- Senior Manager, Organisation and Methods Department
- Senior Manager, Audit and Consulting Services Division
- Senior Manager, Human Capital Division
- Manager, Communications and Public Affairs Division
- Senior Legal Counsel (Secretary)
- CEO (*ex officio*)

### 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 attempt to resolve those matters.

The Committee members are:

- Deputy General Manager, Administration (Chair)
- Deputy General Manager, Finance
- Deputy General Manager, Insurance, Risk Assessment and Monitoring Division
- Senior Manager, Strategic Planning Division
- Manager, Insurance, Risk Assessment and Monitoring Division (Secretary)
- Representatives of employees from:
  - CEO's Office
  - Communications and Public Affairs Division
  - Enterprise Risk Management 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



A close-up photograph of a hand guiding a black wire to wrap around a pine branch. The wire is being coiled in a spiral pattern around the branch, which is covered in green pine needles. The background is a soft, out-of-focus light blue and white. The hand is visible on the right side, with the index finger pointing towards the wire.

## Section 2: CORPORATE GOVERNANCE

*Shaping the future with visionary leadership  
and sound governance...*

# CORPORATE GOVERNANCE

## MANAGING OUR RISKS



### OVERVIEW

PIDM's Enterprise Risk Management (ERM) function was established in 2007 to assist the Corporation to meet its mandate, fulfil its mission and achieve its vision. In order to be a best practice deposit insurer, the Corporation must have a best practice ERM function.

In 2010, we undertook initiatives to further enhance both the ERM process and infrastructure as our ERM framework, process and practices continued to mature. The areas of enhancement were identified during the ERM effectiveness assessment performed in 2009.

We also benchmarked our ERM practices against ISO31000:2009 – the first international standard for risk management – to ensure our framework and practices remain current and relevant. We found our ERM framework and practices to be in line with the principles, framework and process recommended by the ISO31000.

### OUR KEY ACHIEVEMENTS IN 2010

Whilst maintaining the smooth operation of our established ERM process, we continued to provide risk advisory services, supporting all divisions in various key projects as risk is best identified and managed at source.

Another key function of the ERM Division is Business Continuity Management. We updated the Business Continuity Plan and conducted exercises and tests to ensure that PIDM can continue its critical business functions in the event of a disaster. In addition, we also played our role in promoting good risk management and corporate governance practices through information sharing sessions with deposit insurers from other countries and also with risk management practitioners from other industries.

The key initiatives undertaken by the ERM Division in 2010 are as follows:

- Reviewed and enhanced the annual ERM process to enable more cross-functional discussions;
- Implemented the ERM e-documentation system – Enterprise Risk Assessor (ERA) system to automate the ERM process; and
- Continued the development and implementation of Board Risk Policies.

### Annual ERM process

This year, the Corporation completed another full cycle of the ERM process, which is to identify, assess, evaluate, treat, monitor, report and communicate the significant risks affecting the Corporation.

A key part of this process includes 12 separate divisional risk discussion sessions involving the re-assessment of current risks affecting the respective divisions and adoption of an enterprise view to identify threats to the Corporation in achieving its mandate. The discussions were held before the workshop to ensure more time was allocated during the ERM Risk Identification and Assessment Workshop for cross-functional risk discussions, prioritisation and development of corporate initiatives. The action plans and initiatives developed to address significant risks are included in the Corporate Plan 2011-2013.

### ERA system

We have also implemented an infrastructure to automate the ERM process and house all the divisional and corporate-level risk registers. The system not only helps to reduce time spent in the data entry and consolidation of risk profiles but also provides the ERM Division and the Strategic Planning and ERM Working Committee (PERM Working Committee) a tool to perform various analyses on risk data, trend and other internal control information.

As the Audit and Consulting Services (ACS) Division uses the same system, this allows a direct link between ERM and internal control information. This further integrates the ERM and internal audit functions to provide better assurance that the Corporation is “in control”.

### Board Risk Policies and Reports

The Board Risk Policies clarify what decisions in relation to the specific risk are retained by the Corporation and outline the Board's expectations of Management in supporting the Board.

The Risk Reports outline the current controls, processes and Management oversight in place in managing the respective risks. Management also provides an overall assessment and conclusion of the severity of the risk in PIDM's current operating environment in the Risk Reports.

During the year, certain Board Risk Policies and Reports were deliberated at length at the PERM Working Committee, ERM Committee and Audit Committee meetings and presented to the Board for approval. In 2010, the Board approved the policies and reports for Market Risk, Liquidity Risk and Insurance Powers Risk. We will continue to develop other Board Risk Policies and Reports in 2011 and will review them on an ongoing basis.

### ERM OVERSIGHT STRUCTURE

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

In 2010, the Corporation's two risk committees, the ERM Committee and PERM Working Committee, each met four times to discuss and decide on various risk-related matters.

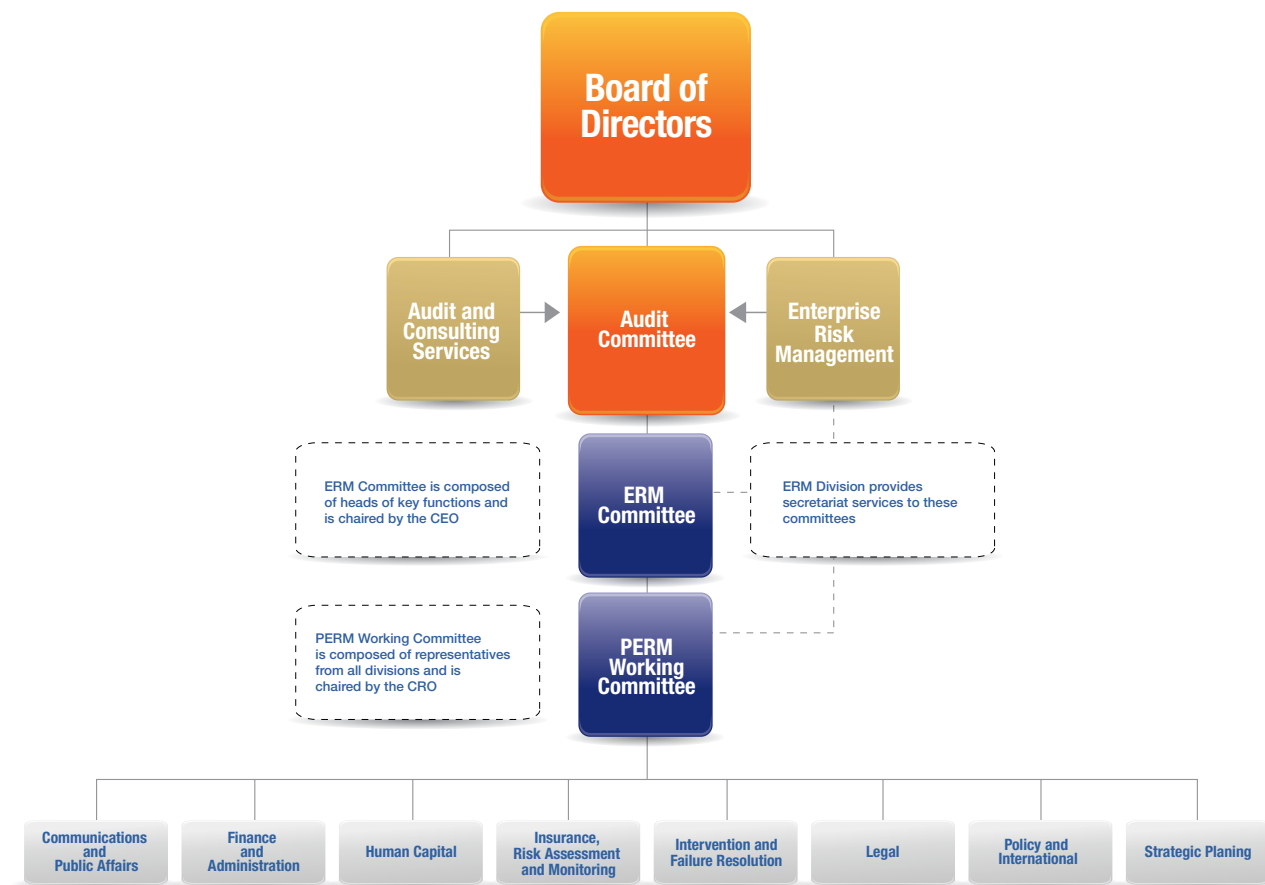
Throughout the year, the ERM function also regularly reported to the Audit Committee and Board and sought their direction on ERM matters.



# CORPORATE GOVERNANCE

## MANAGING OUR RISKS

### PIDM's ERM Oversight Structure



The Board is ultimately responsible for the oversight of PIDM's principal risks. The Board, through the Audit Committee, ensures that appropriate and prudent risk management systems to manage the significant risks of PIDM's business have been implemented and reviews these regularly.

The Audit Committee is responsible for ensuring that sound policies, procedures and practices are implemented to manage PIDM's significant risks. The Committee will review with Management and advise the Board on policies developed and implemented to manage PIDM's risk exposures. The Chief Risk Officer (CRO) reports to the Board through the Audit Committee. The CRO is also a member of the Executive Management Committee.

The ERM Committee 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 management committee champions risk management as well as manages and monitors the risk exposures and ERM activities of PIDM at a corporate-wide level.

At each meeting, the ERM Committee will consider whether there are any significant matters that should be brought to the attention of the Audit Committee and the Board.

The PERM Working Committee supports the ERM Committee. The former facilitates and coordinates ERM and strategic planning activities at the 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 the plans. The PERM Working Committee comprises representatives from every division.

The ACS Division is responsible for performing independent assessment on and validation of the effectiveness and compliance of the ERM process, and for providing assurance to the Audit Committee and the Board that PIDM has an effective ERM process and that risk management policies are being adhered to. The ERM Division also conducts ERM effectiveness assessment

regularly. This assessment aims to assess the effectiveness of PIDM's ERM framework, process and practices against eight attributes and five maturity levels criteria. This tool provides us with clear and objective criteria to plan and develop future ERM plans. The initiatives undertaken by ERM during the year are based on 2009 effectiveness assessment results.

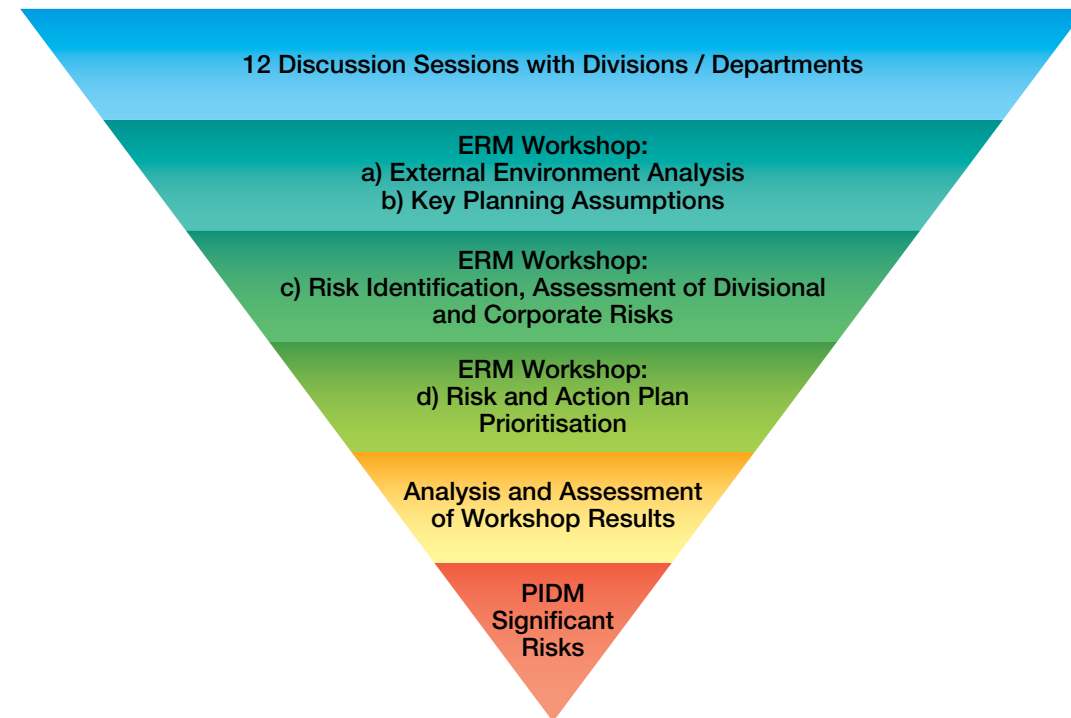
PIDM employees are responsible for managing and reporting risks at source. Risk management is everyone's responsibility at PIDM.

# CORPORATE GOVERNANCE

## MANAGING OUR RISKS

### SIGNIFICANT RISKS AFFECTING PIDM

PIDM conducts an annual ERM assessment to identify, assess and evaluate significant risks affecting the Corporation and to develop action plans and initiatives for addressing them. The following activities were carried out to achieve the annual ERM assessment:



As a best practice, the results of the annual ERM assessment have been synergised and integrated as part of the strategic management process of the Corporation. This symbiotic process enables PIDM to adopt a risk-based approach in its Corporate Plan where the results of ERM help to prioritise the Corporation's initiatives.

Of the five risk categories, the significant risks areas are Strategic and Governance Risk; Insurance Risk; Operational Risk; and Reputation Risk. Financial Risk is currently assessed as well managed and no additional corporate initiative is proposed.

The key risk action plans and initiatives that have been developed to address the significant risks identified are embedded in our Corporate Plan 2011 – 2013. These key initiatives are depicted below.

#### Strategic and Governance Risk

We completed a project to reprioritise the Key Performance Indicators (KPIs) according to our new operational requirements and expanded mandate, and incorporated them into the Corporate Plan for 2011 to 2013.

#### Insurance Risk

With the new Takaful and Insurance Benefits Protection System (TIPS), we plan to continue the transfer of knowledge with subject matter experts locally and abroad, as well as the takaful and insurance industry and other stakeholders. We will also benchmark TIPS procedures, practices and related legislation against international best practices, where available. We will review, stress-test and propose amendments to the Malaysia Deposit Insurance Corporation Act (MDIC Act) every five years.

PIDM has embarked on a project to develop and implement the Risk Assessment and Monitoring Methodology, Framework and System for TIPS, including the Guidelines on Takaful and Insurance Benefits Protection System: Submission of Returns on Calculations of Premium for Takaful and Insurance Business 2011 and the Differential Premium Systems framework.

PIDM has also expanded the deliverables of the Intervention and Failure Resolution project to incorporate takaful and insurance-related considerations into its policies and procedures. In addition, we will continue the annual simulation exercises on Intervention and Failure Resolution as well as Payouts.



#### Operational Risk

PIDM plans to continue the development and implementation of a competency model and a Knowledge Management framework to identify and attract the right talent and to bridge employees' competency gaps respectively.

We will continue to enforce our Information Classification Policy and enhance our Corporate Information Management System by implementing the Corporate Information Security Infrastructure which includes encryption and information access management.

PIDM is also committed to assess the effectiveness and efficiency of our current policies and procedures, processes and practices to ensure our operations are guided by robust policies and procedures in achieving the Corporation's objectives.

#### Reputation Risk

For reputation risk that arises as a consequence arising from other risks such as operational risk, PIDM will continue with its sound governance practices and internal control system to ensure transparency and best practice corporate

governance. In managing external reputation exposure, PIDM will continue to implement the five-year Integrated Communications Plan to increase public awareness about PIDM, deposit insurance system and TIPS to achieve our desired level of public awareness.

### CONCLUSION

The year 2010 was very productive for ERM as well as the Corporation as a whole. We managed to achieve the goals set out for the year and made tremendous headway in our initiatives.

Nonetheless, the maintenance of an effective ERM function will require continued efforts, including ongoing review and enhancements to our various policies, procedures and processes.

For 2011, among other initiatives, we plan to complete the development of the remaining Board Risk Policies, complete the readiness of a disaster recovery site, continue to provide value-added risk advisory services, and continue to enhance the risk management culture within the Corporation.



# CORPORATE GOVERNANCE

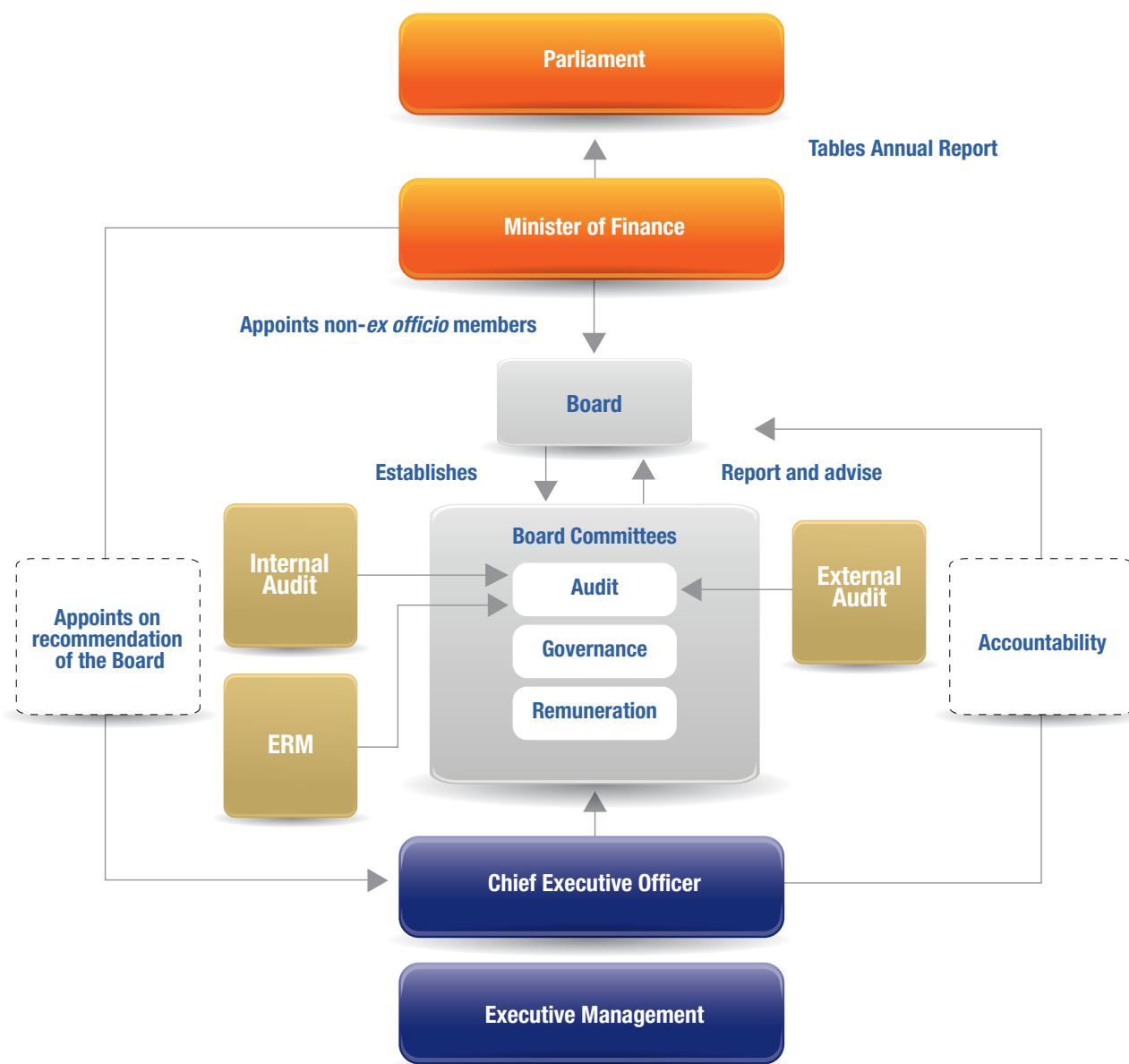
## STATEMENT ON GOVERNANCE

### INTRODUCTION

PIDM's Board Governance Policy was approved by the Board in 2006. 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.

This statement describes how PIDM has complied with these standards and best practices as set out in each standard.

### OUR GOVERNANCE FRAMEWORK



### OUR STATEMENT

The Board is pleased to report full compliance with the Board Governance Policy.

### BOARD OF DIRECTORS

#### Composition, Appointment and Remuneration

The Board comprises seven Directors with diverse skills and experience from the private and public sector. 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 five non-ex officio Directors, on the recommendation of the Board. One of the five has public sector experience. The Chairman must have private sector experience. The remaining three Directors are from the private sector, at least one of whom shall have relevant banking and financial sector experience.

During 2010, the Minister of Finance (on the recommendation of the Board of Directors) appointed two new non-ex officio Directors to fill vacancies arising from the retirement of Mr. Michael Wong and Tan Sri Dato' Sri Dr. Sulaiman bin Mahbob. The new Directors are:

- (a) Dato' Halipah Esa; and
- (b) Mr. Lim Tian Huat.

Their profiles are found on page 20 of this Annual Report.

Under the recently enacted MDIC Act, the maximum number of Directors was increased from seven to nine. One of the two additional Directors must have public sector experience, while the other must have private sector experience. The increase in the maximum number of Directors reflects PIDM's expanded mandate to protect takaful certificate and insurance policy owners.

In 2010, Directors collectively received a total of RM362,000 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 [www.pidm.gov.my](http://www.pidm.gov.my) under "How PIDM is Governed".

#### Board Meeting Attendances

In 2010, there were seven Board meetings. Out of these, there were three special Board meetings, two of which were to consider the proposed amendments to the MDIC Act and policies for TIPS, while the other was for the strategic plan. The attendance record is as follows:

Board of Directors	Attendance	Strategic Planning Session	MDIC Act / TIPS meetings
Tan Sri Dato' Abdul Aziz bin Haji Taha, Chairman	7/7	✓	✓
Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz ( <i>ex officio</i> )	5/7	X	✓
Tan Sri Dato' Sri Dr. Wan Abdul Aziz Wan Abdullah ( <i>ex officio</i> )	5/7	✓	✓
Tan Sri Dato' Sri Dr. Sulaiman bin Mahbob [Retired on 14 August 2010]	4/4 meetings during his term	Retired	✓
Datuk Dr. Abdul Samad bin Haji Alias	6/7	✓	✓
Mr. Michael Wong Kuan Lee [Retired on 14 August 2010]	4/4 meetings during his term	Retired	✓
Mr. David Dass	7/7	✓	✓
Dato' Halipah Esa [Appointed on 14 August 2010]	3/3 meetings during her term	✓	Not yet on the Board
Mr. Lim Tian Huat [Appointed on 14 August 2010]	3/3 meetings during his term	✓	Not yet on the Board

CORPORATE GOVERNANCE  
STATEMENT ON GOVERNANCE



THE WORK OF THE BOARD

The following sections describe how the Board 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 Board Governance Policy.

Overview of Board Work in 2010

Since 2009, on a yearly basis, 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 2010, the Board's objective was to implement measures 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, with more initiatives, and in light of the impending exit from the Government Deposit Guarantee.

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

These were:

- (a) **List of strategic items:** By way of a reminder for the Board and Management, each Board folder would contain a list of strategic items that would be at the forefront of the Board's focus.
- (b) **Proposed agenda and management of meetings:** Proposed agendas would be focused on key and strategic issues.
- (c) **Special Board meetings to focus on specific key policy matters:** Specific time would be allocated to consider and debate critical policy matters thoroughly, as well as to challenge Management. The Board agreed that, if needed, special Board meetings would be arranged to ensure that the Board fully debated policy matters, such as the strategy for ensuring a smooth exit from the Government Deposit Guarantee, or the policies underlying the proposed amendments to the MDIC Act 2005.

The Board implemented its key action plans in 2010 and was able to focus on all key strategic and policy matters in 2010. Three special Board meetings were held: one on 12 April 2010 and one on 3 August 2010 specifically to discuss proposed amendments to the MDIC Act and policies for TIPS, and one on 30 September 2010, which was the strategic planning session.

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 2010
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 and the CEO is not a Member of the Board. All Directors are non-executive and must use their independent judgment to act in the best interests of PIDM. This is a requirement of the MDIC Act.
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 reviewed and considered amendments to the MDIC Act, which involved reviewing the mandate, objects and powers of PIDM. This resulted in recommendations being made to the Minister of Finance to significantly amend PIDM's mandate, objectives and powers.</p> <p>(i) <b>Process for evaluating its effectiveness.</b> In line with best practices, the Board and the respective Committees evaluate their effectiveness each year, as do individual Directors. Led by the Chairman, in early 2011, the Board plans to have met to evaluate its effectiveness for 2010. Individual Directors will also conduct a self-assessment of his or her performance by completing evaluation forms developed based on their duties and responsibilities.</p> <p>In 2010, in view of the corporate governance recommendations such as the Walker Review<sup>1</sup>, the Board considered the need to have an external consultant carry out the Board's evaluation. The Board decided that this was not yet necessary in the context of PIDM, but that it would consider appointing an external corporate governance consultant to assess the current evaluation processes. Amendments to the questionnaire have since been made to focus on matters of performance and in particular, by reference to the draft guidance issued by the Institute of Chartered Secretaries Association, which prepared the draft guidance on "Improving Board Effectiveness".<sup>2</sup></p> <p>(ii) <b>Orientation.</b> In 2010, the Board-approved Orientation Programme was implemented in respect of the two new Directors. The key objective of the Orientation Programme was to ensure that new Directors can be brought quickly up to speed on the work of the Corporation, so that the Board could better benefit from his or her input. As part of the programme, new Directors were also provided with a "Directors' Guide", which provides key information on how the Board works and highlights key expectations.<sup>3</sup></p> <p>(iii) <b>Education sessions.</b> As in previous years, the Board agreed on the education sessions that it would participate in at the beginning of the year. In 2010, Board Members continued to participate in education sessions for the Board's development and understanding of PIDM's objects and powers and its operating environment. In particular, an information session was held on the Target Fund framework and an information session on Payouts was also conducted. Some Members also participated in the Financial Institutions Directors' Education (FIDE) Programme<sup>4</sup>, and also attended talks from key speakers organised by FIDE.</p> <p>(iv) <b>Tripartite meeting with deposit insurers in the region.</b> In 2009, PIDM's Board Members and Management had hosted the first tripartite meeting with deposit insurers from Indonesia and Thailand in Kuala Lumpur, and the meeting resulted in useful knowledge sharing and set the foundation for similar meetings in future. In 2010, PIDM participated in a follow-up event held in Jakarta, with deposit insurers from Indonesia and Thailand. The event culminated in the signing of a memorandum of understanding for further cooperation and knowledge sharing amongst the three deposit insurers.</p>

<sup>1</sup> Walker Review of Corporate Governance of UK Banking Industry (November 2009)

<sup>2</sup> <http://www.icsa.org.uk/policy-guidance/consultations/improving-board-effectiveness/draft-consultation>. ICSA is the international qualifying and Membership body for the Chartered Secretary profession and the world's leading authority on governance and compliance

<sup>3</sup> A copy of the Directors' Guide is found on [www.pidm.gov.my](http://www.pidm.gov.my) under the Section on "How PIDM is Governed"

<sup>4</sup> 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



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DESCRIPTION OF STANDARD	REPORT ON COMPLIANCE IN 2010
<b>Standard 3: Roles and responsibilities of Committees</b>	
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 were reviewed in 2010 to ensure currency and relevance. Changes were made to the Remuneration Committee Charter, the Governance Committee Charter and the Audit Committee Charter respectively as reported below.</p> <p>Each Committee regularly reports against the fulfillment of these charters so as to assess whether it has fulfilled its key responsibilities.</p>
<b>Standard 4: Board composition and succession</b>	
<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> <p>(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 of the desired mix that should be sought in filling upcoming non-ex <i>officio</i> Board vacancies; and</p> <p>(ii) have a Board succession plan to recommend to the Minister of Finance the orderly turnover of directors.</p>	<p><b>Background.</b> 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 as to assess the appropriate mix of skills and expertise available at 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> <p><b>Board profiles.</b> The process for developing Board profiles (collective and individual) was established in November 2006. The profiles were developed and are 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.</p> <p><b>Skills gap analysis.</b> As for previous years, in 2010 the Board carried out its yearly skills gap analysis, comparing what skills, knowledge and experience are available on the Board against the desired profiles. This was to determine if there are any skills, knowledge and experience needed on the Board that was not currently available. The result was that the Board had sufficient skills, knowledge and experience on the Board although going forward, the Board would look for potential candidates with insurance industry expertise.</p> <p><b>Implementation of Board succession planning.</b> As part of its Board succession plan, the Board would maintain and add to a list of candidates that could potentially fit the required profile for Board membership. The list is updated from time to time, for the purposes of recommending the appointment of Directors as the need arises. In 2010, the Board continued to follow this process, and the Board made specific recommendations to the Minister of Finance to fill two vacancies arising in 2010.</p> <p><b>Long-term planning.</b> In 2010, the Board anticipated possible changes to PIDM's operating environment as well as impending changes to the Board's and Board Committees' compositions in the years to come. With the expected expansion of PIDM's mandate to cover TIPS, the Board considered it important to ensure stability and continuity on the Board. A key focus in 2010, therefore, included recommending candidates who had specific skills and expertise. Mr. Lim Tian Huat, a new Director appointed in August was made the Vice-Chairman of the Audit Committee. Dato' Halipah Esa, the other new Director was appointed to the Audit Committee and the Remuneration Committee.</p> <p>As mentioned on page 47, the maximum number of Directors has increased from seven to nine with the enactment of the new MDIC Act effective 31 December 2010. The Board is considering candidates to fill these two new positions, one with insurance industry expertise and the other from the public sector.</p>

DESCRIPTION OF STANDARD	REPORT ON COMPLIANCE IN 2010
<b>Standard 5: Roles and responsibilities of the Chief Executive Officer</b>	
<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>These 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 2010;</p> <p>(ii) The 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 Remuneration Committee, at the end of the year; and</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>
<b>Standard 6: Appointment of senior corporate officers</b>	
The Board will appoint the senior corporate officers of the Corporation (other than the CEO) and determine their terms of office and compensation.	Senior corporate officers are appointed by the Board and their terms of service and compensation are determined by the Board. In 2010, the Corporate By-Laws were amended to reflect that the Chief Operating Officer (COO), the CRO and the Chief Internal Auditor (CIA) positions are corporate officers reporting to the Board.
<b>Standard 7: Compensation of officers</b>	
<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 Remuneration Committee has the responsibility to report 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 industry salaries to ensure PIDM remains competitive in terms of compensation.</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 meetings attended. A review was carried out in 2010 to ascertain if the Directors' remuneration is commensurate with the time spent by the Directors on PIDM matters and the Board will be making recommendations on the same to the Minister of Finance.</p>
<b>Standard 8: Succession planning</b>	
The Board will plan for the succession of the CEO and review succession plans for key senior management.	The Board considered and approved a plan for CEO succession in 2009 and a COO position was established as part of the CEO succession planning exercise. The succession planning process is a continuous exercise, calling for the development of high potential candidates. In 2010, the Board considered succession plans and coverage for key senior management positions and satisfied itself that appropriate plans were in place.

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DESCRIPTION OF STANDARD	REPORT ON COMPLIANCE IN 2010
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 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. Management reports to the Board on compliance with these Codes annually. All employees undergo training on the Codes and must declare compliance annually. Under the Policy for Disclosure of Information Concerning Wrongdoing in the Workplace, there is also a mechanism to allow employees and other stakeholders to make reports of wrongdoing.</p> <p>There is also a Board-approved formal compliance programme, which can be found on PIDM's website <a href="http://www.pidm.gov.my">www.pidm.gov.my</a> in the section under "How PIDM is Governed". This compliance programme has also included the establishment of a Corporate Compliance Committee in 2009, 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 Remuneration Committee and the Audit Committee) on adherence to these standards, and the General Counsel also provides an assurance on compliance through a formal letter of representation.</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>

DESCRIPTION OF STANDARD	REPORT ON COMPLIANCE IN 2010
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 2010, the Board ensured that appropriate and prudent risk management systems to manage risks were implemented. Amongst others, and in line with its commitment to the ERM Policy Statement, the Board:</p> <ul style="list-style-type: none"><li>• monitored compliance with the ERM programme to ensure consistent application of risk management practices in identifying, assessing, evaluating, monitoring and reporting risks throughout PIDM;</li><li>• 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;</li><li>• noted the results of the ERM effectiveness assessment and identified areas to be enhanced;</li><li>• considered and agreed to the key significant risk profiles; and</li><li>• received a detailed report on each policy.</li></ul> <p>The CRO functionally reports to the Board through the Audit Committee, so as to ensure independence from Management.</p> <p>(ii) During 2010, the Board-approved specific risk policies as described in the article on "Managing Our Risks" on page 40.</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 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 2010
<b>Standard 11: Control environment and internal audit</b>	
<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 assure the integrity of internal controls and management information systems.</p> <p>In this connection, the Board will:</p> <p>(i) allocate resources for, and establish an internal audit group, setting out its mandate;</p> <p>(ii) approve its audit plan each year; and</p> <p>(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>	<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. In this connection:</p> <p>(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.</p> <p>(ii) The Board has put in place a process to approve rolling three-year audit plans each year. In 2010, the Board approved the plan for 2011 to 2013. Performance in accordance with the audit plan is reported and reviewed on a semi-annual basis.</p> <p>(iii) The Corporation's internal control framework was completed in February 2007. In February 2010, 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 Audit Committee and the Board. (See the Statement on Internal Control on page 61).</p>
<b>Standard 12: In control</b>	
<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 2010, 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 40).</p>

DESCRIPTION OF STANDARD	REPORT ON COMPLIANCE IN 2010
<b>Standard 13: Strategic management process</b>	
<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> <p>(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;</p> <p>(ii) adopt a strategic planning process;</p> <p>(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;</p> <p>(iv) regularly evaluate the Corporation's performance in implementing its approved plans and budgets; and</p> <p>(v) obtain, on a regular basis, reasonable assurance that the Corporation has an effective strategic management process.</p>	<p>Each year, a Strategic Planning session is scheduled to consider the strategic direction of PIDM. In September 2010, 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 2011 to 2013. A risks and opportunities analysis was also carried out. The Board thereafter approved the Corporate Plan 2011 – 2013 at its December 2010 meeting.</p> <p>The Board annually assesses PIDM's objects to ensure its continued relevance. The announcement of the Enhanced Financial Consumer Protection Package by the Minister of Finance in May 2010 led to the drafting of the MDIC Act, the main thrust of which was to expand PIDM's mandate to provide protection in the event of the failure of insurance companies and takaful operators and to expand PIDM's powers.</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 Audit Committee.</p> <p>The strategic management process is a Board-approved process and it is used annually to develop the Board-approved Corporate Plan.</p>
<b>Standard 14: Effective communication</b>	
<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. 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 exists 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 an active participant in the International Association of Deposit Insurers (IADI). In 2010, the annual dialogue with stakeholders was held on 6 May, and PIDM held its first "Hari Raya Open House" with invited stakeholders on 30 September in conjunction with its fifth anniversary celebration.</p> <p>The Board also continued to monitor public communications efforts by Management in 2010 and quarterly reports are provided to the Board.</p>

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DESCRIPTION OF STANDARD	REPORT ON COMPLIANCE IN 2010
Standard 15: Review of Board Governance Policy	
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 to, the Corporation's mandate, guidance on matters of governance specific to statutory bodies and recognised best practices.	In its review of the Board Governance Policy in July 2010, the Board found that the Board Governance Policy was current and relevant to the needs and circumstances of PIDM. The only changes made to the Board Governance Policy were the addition of the COO and the CRO in Standards No. 1 and 10 respectively, to reflect organisation changes. The Board also noted the governance arrangements were satisfactory, benchmarked against the International Federation of Accountants' checklist in its report "Governance in the Public Sector – A Governing Body's Perspective" (August 2001). Additionally, the Board through the Governance Committee also reviewed its governance arrangements against several publications on corporate governance in the private sector, including the research report by Professor Bob Tricker titled "Twenty Practical Steps to Better Corporate Governance" (March 2010), and found our practices in line with the relevant parts of these recommendations.

Reliability of Information

To ensure that the Board has information to ensure the reliability of the information on which the management of a company is based, the Board receives comprehensive representation letters from Management that addresses 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, the issues to consider and expects Management to provide quality assessment and 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, and is prepared to question Management and conducts detailed enquiries to fulfil their responsibilities. The CRO does not only report directly to the Board, but the Board can ask the CRO to confirm whether the CRO has different views and opinions on significant matters brought forward to the Board, and can question 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 Board meetings.

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

Members and Meeting Attendances

The Audit Committee held five Audit Committee meetings in total in 2010. Attendances of Audit Committee members at meetings were:

AUDIT COMMITTEE	MEETING ATTENDANCES
Datuk Dr. Abdul Samad Haji Alias <i>(Chairman)</i>	5/5
Tan Sri Dato' Sri Dr. Sulaiman Mahbob <i>[Retired on 14 August 2010]</i>	4/4 meetings held during his tenure
Mr. Lim Tian Huat <i>(Vice-Chairman)</i> <i>[Appointed on 14 August 2010]</i>	1/1 meeting held during his tenure
Mr. Michael Wong Kuan Lee <i>[Retired on 14 August 2010]</i>	4/4 meetings held during his tenure
Mr. David Dass	5/5
Dato' Halipah Esa <i>[Appointed on 14 August 2010]</i>	1/1 meeting held during her tenure

In 2010, the Board appointed two additional members on the Audit Committee. For succession planning purposes, Mr. Lim Tian Huat was appointed by the Board as Vice-Chairman of the Audit Committee on 4 October 2010.

Audit Committee Charter

The Audit Committee Charter, which was amended in 2010 to accommodate the position of a Vice-Chairman, is set out in the Appendix on page 184. The Audit Committee 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 Audit Committee also plays a significant risk oversight function and its role in this regard is well documented within the ERM Framework and Guidelines.

Summary of Activities in 2010

The following is a summary report of the Audit Committee's key areas of work in 2010:

**Internal audit:** In 2010, the Audit Committee considered four internal audit reports issued by the ACS Division. These included the annual review on PIDM's internal control compliance; the audit on PIDM's financial reporting for the year ended 31 December 2009; the audit carried out on the controls over PIDM's systems, policies, procedures and processes governing its media relations initiatives and activities; and the audit on risk assessment and monitoring functions related to member institutions.

The Audit Committee 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 Audit Committee 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 2010, it held two sessions *in camera* 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 Audit Committee. In 2010, the Audit Committee continued to review reports on their performance of their respective functions.

**Financial reporting:** The Audit Committee 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 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, within three months after year end (31 December).

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

- accounting policies and significant changes in accounting policy for 2010;
- 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 adoption of the principles recommended by Management, which included making the appropriate disclosures on contingent liabilities when there is no loss event.

Strategic and financial management oversight:

In 2010, the Audit Committee fulfilled its responsibilities with regard to financial management oversight, including management of annual budgets and investments. The Audit Committee received regular reports on progress against the Corporate Plan 2010 - 2012 and considered and recommended the Corporate Plan 2011 - 2013 that included the annual operating budget and capital plan.

**Risk management:** In relation to risk management, the Audit Committee provided advice and support to the Board in respect of the matters reported against Standards No. 10 to 12 of the Board Governance Policy, on pages 53 to 54 of the Annual Report. The Audit Committee also carried out an internal risk assessment review in 2010 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 Audit Committee 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. The various risks facing the Corporation are identified and assessed routinely at all levels and within all functions in the Corporation. Control activities and other mechanisms have been designed to address and mitigate the significant risks. Information critical to identifying risks



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and meeting the Corporation's objectives is communicated through established channels within the Corporation and with external parties. Employees are given the appropriate communication channel to escalate issues or problems to the top level. In addition, Management also monitors the entire system of internal control continuously and addresses issues or problems on a timely basis.

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

**Ethical and legal compliance:** The Audit Committee 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 Audit Committee also noted the report on activities in relation to PIDM's compliance programme.

**Review of Charter:** In February 2010, certain amendments to the Audit Committee Charter were made, including an amendment to clarify that the Audit Committee Chairperson should be consulted before the appointment or termination of the CIA. The next annual review of the charter will take place in 2011.

### Remuneration Committee

#### Remuneration Committee Members and Meeting Attendances

The Remuneration Committee held two regular meetings in total in 2010. Attendances of the Remuneration Committee members at meetings in 2010 were as follows:

REMUNERATION COMMITTEE	MEETING ATTENDANCES
Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz <i>(Chairman)</i>	2/2
Mr. Michael Wong Kuan Lee <i>[Retired on 14 August 2010]</i>	1/1 meeting held during his tenure
Mr. David Dass	2/2
Dato' Halipah Esa <i>[Appointed on 14 August 2010]</i>	1/1 meeting held during her tenure
Mr. Lim Tian Huat <i>[Appointed on 14 August 2010]</i>	1/1 meeting held during his tenure

#### Remuneration Committee Charter

The Remuneration Committee Charter is set out in the Appendix on page 182. The Remuneration Committee Charter requires the Remuneration Committee 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. One amendment was made to the Remuneration Committee Charter in 2010, to reflect the fact that Management would bring forward recommendations on the bonus policy to the Remuneration Committee for its consideration.

#### Summary of Activities of the Remuneration Committee

Some of the key matters carried out or reviewed by the Remuneration Committee in 2010 are outlined below. The Remuneration Committee:

- (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 Code of Business Conduct and Ethics for Employees;
- (c) assessed the 2010 CEO performance against the approved objectives and KPIs and made appropriate recommendations to the Board. The Remuneration Committee also considered the 2011 statement of objectives and KPIs for the CEO and recommended the same for Board approval;
- (d) considered the market competitive study to benchmark current compensation against the existing market. It also developed a bonus framework which was approved by the Board. The Remuneration Committee also approved the bonus policy for 2010 and bonus awards in line with the Board-approved bonus framework;
- (e) 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; and
- (f) monitored the implementation of the Board-approved scholarship programme for Malaysians in need of financial assistance. This programme commenced in July 2010 with the award of scholarships to five candidates.

### Governance Committee

#### Governance Committee Members and Meeting Attendances

The Governance Committee held three regular meetings in total in 2010. Attendances of the Governance Committee members at meetings in 2010 were as follows:

GOVERNANCE COMMITTEE	MEETING ATTENDANCES
Tan Sri Dato' Abdul Aziz bin Haji Taha <i>(Chairman)</i>	3/3
Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz	3/3
Tan Sri Dato' Sri Dr. Wan Abdul Aziz Wan Abdullah	1/3

#### Governance Committee Charter

The Governance Committee Charter is set out in the Appendix on page 180. The Governance Committee Charter requires the Governance Committee to meet at least twice a year. The Governance Committee'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 Governance Committee supported the work of the Board on corporate governance, as highlighted above. The following are some of the key highlights in relation to the Governance Committee's work in 2010:

- (a) 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;
- (b) the implementation of the Board objectives for 2010, which was to focus on enhancing the effectiveness of the operations of the Board;
- (c) the review of the current membership of all three Board Committees;
- (d) the review of 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) monitored the succession planning for corporate officers; and

(f) reviewed the Board profiles, both collectively and individually, and undertook a skills gap analysis, as well as the implementation of the Board succession plan.

The Governance Committee 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.

#### 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 7.

# CORPORATE GOVERNANCE

## STATEMENT ON GOVERNANCE

PIDM endeavours to be transparent and provide quality reporting in its Annual Reports. PIDM's Annual Reports have been recognised and received NACRA 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 administer two distinct and separate deposit insurance systems, one for conventional banks and the other for Islamic banks. We account and report on these deposit insurance funds separately.

The Directors' Report on the financial statements for the financial year ended 31 December 2010 and the accompanying Statement of Directors are found on page 96 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 40 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 Audit Committee meetings. NAD representatives receive, as a matter of course, all Audit Committee reports and documentation prior to the Audit Committee meetings. In this regard, they attended three of the five Audit Committee meetings held in 2010. Their annual fees can be found on page 128 of this Annual Report.

### ISLAMIC DEPOSIT INSURANCE

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. The arrangements and salient features of the Islamic deposit insurance operations have been endorsed by the Council.

Premiums collected from Islamic member banks are managed separately and invested according to Shariah principles. These premiums and income from the

investments are pooled in the Islamic Deposit Insurance Fund. The fund, together with the Conventional Deposit Insurance Fund, are used to finance the Corporation's activities, and only Shariah permissible expenses incurred will be charged to the fund. Any surplus will be used to meet future obligations in respect of Islamic insured deposits. In the event the Corporation is required to raise liquidity 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 new organisation chart is found on page 28. 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 all required to provide formal representation letters. Management also provides a comprehensive representation letter to the Board and the NAD 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 100 of this Annual Report.

Directors have access to company 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:

- (a) Executive Management Committee;
- (b) ERM Committee supported by the PERM Working Committee;
- (c) Asset and Liability Management Committee;
- (d) Information Technology Steering Committee;
- (e) Corporate Compliance Committee; and
- (f) Safety and Health 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 (Statement) is intended to provide our stakeholders 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 good corporate governance practice to make such a statement. 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 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 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 Audit Committee, Management, the ERM Division, the ACS Division and PIDM's external auditors as follows:

#### (a) Audit Committee

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

Further details about the Audit Committee are set out in the Statement on Governance on page 56.

#### (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 who holds corporate responsibilities as well. 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 functionally to the Audit Committee and directly to the Board of Directors.

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.

During the financial year under review, Management continued 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 forth 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



# CORPORATE GOVERNANCE

## STATEMENT ON INTERNAL CONTROL

an appropriate and sound internal control system is established and to facilitate 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 continuous monitoring process.

### (c) Enterprise Risk Management Division

The Board-approved ERM Charter details the responsibilities, authority and accountability requirements of the Board, Audit Committee, CRO, ERM Committee, PERM Working Committee and employees in respect to ERM. The Charter is subject to periodic review to ensure 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 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 the risks.

During the year, the ERM Division implemented the ERA system which automates the risk reporting processes.

### (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 and compliance with the codes. An orientation programme is organised by the Human Capital (HC) Division for new employees to introduce them to PIDM's structure, work practices, culture, and policies and procedures.

Through the HC Division, Management reinforces corporate values through employee-related activities such as Management and employee team-building activities, health and safety awareness talks, in-house training such as the CPR (cardiopulmonary resuscitation) First Aid Certification course and the employee annual dinner.

Management is receptive to employees' suggestions of ways to enhance productivity, quality or other similar improvements through the Internal Customer Satisfaction Survey, which is conducted by each division to gauge the effectiveness of the services that each division provides to users in other divisions.

Management recognises that information is pertinent for the purpose of effecting controls that improve business processes and operations. In this respect, Management ensures that there are proper and adequate communication channels for all employees. The first phase of PIDM's Enterprise Portal has been implemented to enable employees to access the latest business news, archived business information, employee events and relevant published articles to ensure that employees are kept informed of the latest developments in the financial system. In addition, all employees have access to the Internet, subject to the E-mail and Internet Usage Policy. The Information Technology (IT) Department restricts access to unauthorised sites, social networking sites and controls incoming emails from unknown sources.

### (e) Audit and Consulting Services Division

#### Board's responsibilities 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 information systems. Standard No. 12 of the Board Governance Policy refers to the Board responsibility to obtain, on a regular basis, reasonable assurance that the Corporation is "in control".

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

The ACS Division assists the Board to comply with these Board Governance Policy standards by supporting the oversight role of the Audit Committee. Further details on the Audit Committee are set out in the Statement on Governance on page 56.

The CEO and Management have ultimate responsibility for the adequate design and effective operations of the system of internal control. The ACS Division, on the other hand, plays a significant role in verifying and validating whether Management has met its responsibility. This is by evaluating controls, risk management, business and governance processes as well as monitoring whether Management has undertaken the agreed action plans to implement the recommended improvements in controls, risk management, business and governance processes. The ACS Division provides an update on the status of the implementation of recommended improvements to the Audit Committee twice a year.

#### Risk-based audit planning

The ACS Division continues to adopt a risk-based approach to audit planning, and the Division's 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 2010, the ACS Division also met internal demands for consulting and advisory services. A significant proportion of its audit-person days were allocated to providing consulting and advisory services to various working committees, taskforces and individual divisions in relation to PIDM's projects or the Corporate Plan initiatives.

#### The effectiveness of the ACS Division

In 2010, the Audit Committee 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 auditee's feedback and recommendations on each audit performed, so that it might enhance the Division's performance. The survey results for 2010 have also been reviewed by the Audit Committee.

### (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 and continued, in 2010, to cooperate for efficiency and effectiveness. The representatives from the NAD are invited to all Audit

Committee meetings and the NAD has access to all audit reports prepared by the ACS Division.

### INTERNAL CONTROL ENVIRONMENT OF PIDM IN 2010

#### Information Technology

Management continued with its efforts to strengthen its information security infrastructure. Following the relocation of PIDM's office from 1 Sentral to Quill 7, PIDM's networking system infrastructure has been upgraded. The enhanced networking system infrastructure is more cost efficient and provides full support for scalability to keep pace with PIDM's continued growth and future deployment of new or any collaboration applications. In addition, Management has also reinforced PIDM's security posture against external threats by upgrading the network security system and infrastructure.

#### Awareness of Risks and Controls

PIDM continued to promote an internal control culture, as described earlier in paragraph (d) on page 62.

In particular, PIDM organised 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 programme was also intended to motivate and remind employees of PIDM's expectations for employees in ensuring PIDM's information is adequately secured and protected.

A self-assessment survey on risk management and internal control was conducted in December 2010. The objective of the survey is to gauge the level of employees' awareness of risk management and internal control system and practices in PIDM. The results of the survey will be evaluated jointly by the CIA and CRO and will be tabled to Management and the Audit Committee in May 2011.

# CORPORATE GOVERNANCE

## STATEMENT ON INTERNAL CONTROL

### Key Systems, Policies, Practices and Processes

In 2010, the following key systems, policies, practices and processes were established as part of our system of internal control:

- In developing the Corporate Plan, PIDM continues to adopt a comprehensive strategic management framework, which incorporates the external environment scan of PIDM's operating environment and the identification and assessment of PIDM's significant risks using the ERM framework. With that, the planning assumptions on which the Corporate Plan is based may be adjusted to meet the current environment.
- PIDM's annual budget was prepared based on the Corporate Plan and tabled to the Board for approval. The corporate initiatives for the year have been implemented within the Board-approved financial plans and targets. Financial results are monitored and reported to the Board and the Audit Committee on a quarterly basis.
- Reporting of progress against Divisional Scorecards was carried out on a quarterly basis. The Strategic Planning Division, in turn, provides Management and the Board with updates on the Corporate Scorecard on a quarterly basis.
- PIDM's key policies and operational policies and procedures have been implemented and these include the policies and procedures with financial implications or related to financial management processes.
- Outstanding policies and procedures are largely those that are currently being reviewed and updated following the office relocation to Quill 7 and these include the Emergency and Evacuation Procedures, the Office Access and Security Procedures, as well as employee-related policies and procedures which are currently in the final stage of review.
- Existing key financial and operational policies and procedures were reviewed and updated from time to time to ensure that PIDM's financial and operational capabilities and integrity continued to be strengthened and remained consistent with the applicable standards of best practices.
- During the year under review, the ERM Division developed several Board Risk Policies, namely Insurance Powers Risk, Market Risk and Liquidity Risk. The ERM continues to develop the remaining Board Risk Policies and will provide the draft policies to the

Audit Committee for deliberation and direction and thereafter, for tabling to the Board for its approval.

- A comprehensive Authority Matrix has been developed. The Authority Matrix is a summary compilation of strategic and operational authorities that reside within the respective instruments for delegation of authorities including by-laws, charters, and policies and procedures. The Authority Matrix is in its final stage of review and will be implemented in the first quarter of 2011.
- A Working Group on Policies and Procedures has been established to keep track of outstanding policies and procedures and oversee the streamlining, centralisation and integration of key and operational policies and procedures.
- The selection of accounting policies and principles in relation to PIDM's financial management and reporting is in accordance with the requirements of applicable laws, standards and Shariah principles, and these policies and principles are consistently applied.
- PIDM strives to be operationally ready. In this regard, a Business Continuity Plan and a Haze and Infectious Disease Plan have been developed to ensure continuity of business processes in the event of a disaster or pandemic. A desktop exercise on the Business Continuity Management is carried out on an annual basis to prepare employees for a disaster.
- The assessment of a suitable disaster recovery site and infrastructure has been completed and the disaster recovery site is expected to be implemented by mid-2011.
- Management continues to develop its core operation systems. The development of the second phase of the Payout systems comprising the Payout Payment Management System and the Product Registry System commenced in the third quarter of 2010.
- PIDM has implemented the first phase of the Enterprise Portal. The objective of the Enterprise Portal is to enhance PIDM's document management system, tasks and enterprise calendar management system and to centralise corporate contacts. The Enterprise Portal also serves as the platform to control access to information based on the information classification in the Information Classification Policy.

- The Crisis Communications Manual has been developed. It provides detailed 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 Audit Committee of PIDM's financials; 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.
- The Board considered, on a quarterly basis, (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 charter, and Management's proposed action plans for Management to support the Committee to fulfil its key responsibilities. The progress was 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 2010 has been assessed by Management and validated by the ACS Division 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 2010, the Board is pleased to report that a sound system of internal control within PIDM exists. 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) 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 2010 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 23 February 2011.



Section 3:  
MANAGEMENT'S DISCUSSION AND ANALYSIS

*Harnessing our true potential to  
achieve greater goals...*



# MANAGEMENT'S DISCUSSION AND ANALYSIS

## OUR OPERATING ENVIRONMENT

In 2010, the Malaysian economy registered a growth of 7.2%, supported by the strength of domestic economic activity amidst a weak global economic environment. While the slowdown in external demand will likely extend into the first half of 2011, economic activity will be sustained mainly by robust domestic demand.

In particular, domestic investment, spurred by new investment commitments, an expected pick-up in investment in the oil and gas sector and the implementation of the Economic Transformation Programme by the Government, is expected to strengthen and become a key engine of economic growth in 2011. Coupled with resilient consumer demand and a possible modest but uneven turnaround in global economic activity in the second half, the Malaysian economy is expected to grow by 5%<sup>1</sup> in 2011. However, with a possible turnaround in economic activity in the second half, combined with high commodity and fuel prices, inflation risks could pose a challenge to Malaysia in 2011.

The outlook for our operating environment, therefore, will remain somewhat cautious. There is still uncertainty surrounding the sustainability of global economic recovery. And the huge and volatile capital inflows present a major challenge to central banks in emerging markets in the conduct of macroeconomic policy. PIDM will continue to closely monitor these external risks.

## REVIEW OF 2010 OPERATIONS AND ACHIEVEMENTS

Within a relatively short period of five years, PIDM has made significant progress towards being recognised as a best practice deposit insurer. Our efforts were focused on raising public awareness, ensuring operational effectiveness and readiness as well as having in place strong governance policies and practices. We also focused on human capital development to ensure that we build the necessary skills, expertise and capabilities to fulfil our mandate. Accordingly, we continue to build a strong foundation and we promote a high performance culture.

This section provides a review of our operations for 2010 and our achievements against our Corporate Plan 2010 – 2012. Our three-year rolling Corporate Plan sets out our strategic direction, objectives and priorities that will help us to fulfil 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.



<sup>1</sup> Economic Report 2010/2011, Ministry of Finance

## OUR ACHIEVEMENTS IN 2010

Our strategic thrusts remain the promotion of public confidence in the financial system and operational excellence. Our 2010 KPIs and initiatives are aligned to the corporate objectives and strategic thrusts to achieve our vision and mission and ultimately, to fulfil our mandate. Our corporate objectives, which also remain broadly the same, are described by the 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 (TIPS). 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 (BNM), 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 and Resolution Capability

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 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 TIPS, 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 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.

For 2010, we focused on raising public awareness on deposit insurance and understanding of PIDM, ensuring operational effectiveness and readiness to manage intervention and failure resolution activities including intensifying risk assessment and monitoring activities. We also continued to enhance our governance practices as well as our risk management and internal control system and embarked on initiatives to develop talents in core competencies.

Overall, we completed our planned key initiatives within the approved financial plan and undertook two major initiatives beyond those planned for the year.

Highlights of our achievements are summarised in the 2010 Corporate Scorecard in the following pages.



## SNAPSHOT OF 2010 CORPORATE SCORECARD

<b>P</b>	Progressing as scheduled; and / or within budget	<b>F</b>	Not yet initiated / future date	<b>N</b>	Target not achieved, slippage- time to completion; and / or below target; and / or >±10% (full year) budget variance
<b>A</b>	Target achieved, initiative completed	<b>D</b>	Initiatives deferred due to reprioritisation		

Corporate Objectives		Key Performance Indicators	Target 2010	Results Dec 2010
Stakeholders	A Educated and informed stakeholders	1. Public awareness index (general awareness of deposit insurance)	35%	N <sup>1</sup>
		2. Engagement and responsiveness to other stakeholders' needs	100% responsiveness	A
		3. Successful completion of key initiative(s):		
		a. Review and implement Integrated Communications Plan (including meeting the objectives of the Government Deposit Guarantee):		
		i. Implement advertising programme	Complete	A
		ii. Implement public relations programme	Complete	A
		iii. Implement stakeholder engagement programme	Complete	A
		b. Implement education programme	Implement	A
		c. Implement and administer scholarship programme	Implement	A
		d. Develop and implement transition package to exit Government Deposit Guarantee (GDG) including review of deposit insurance limit and coverage	Develop & implement	A
		e. Develop and implement policies and procedures on information regulations	Develop	A
	B Effective partnerships	4. PIDM's relationship with:		
		a. Bank Negara Malaysia	Strong	A
		b. Member institutions and other guaranteed financial institutions	Satisfactory	A
		c. Suppliers	Strong	A
		d. Other deposit insurers	Strong	A
		5. Participate in international fora	Active participation	A
		6. Number of strategic partners:		
		a. Establish and maintain base of key strategic partners	Increase base	A
Governance and Internal Processes	C Sound governance	7. Board assessment on:		
		a. Best practices of governance adopted and complied with	High satisfaction level	A
		b. Significant policies and practices adopted and complied with	High satisfaction level	A
		c. Timeliness and relevance of information and quality of recommendation provided by Management for the Board to make informed decisions and fulfil responsibilities	High satisfaction level	A
		8. Successful completion of key initiative(s):		
		a. ERM Board Risk policies and practices	Develop & implement	P <sup>2</sup>
		b. Recommend amendments to MDIC Act and related laws	Recommend package of legislative amendments	A
		c. Involvement in the Financial Institutions Directors' Education (FIDE) Programme	Active participation	A

Corporate Objectives		Key Performance Indicators	Target 2010	Results Dec 2010
Governance and Internal Processes	D Robust risk assessment, monitoring and resolution capability	9. Successful completion of key initiative(s):		
		a. Review Differential Premium Systems (DPS) and Total Insured Deposits frameworks including validation process	Review & enhance	A
		b. Review and enhance comprehensive Risk Assessment and Monitoring framework	Review & enhance	A
		c. Develop Early Warning System (EWS)	Develop Phase 1	A
		d. Develop and implement components of Intervention and Failure Resolution framework including processes, policies and procedures	Develop	P <sup>3</sup>
		e. Develop and implement policies and regulations for members:		
		i. Interest and dividend payable guidelines / rules	Develop & implement	D
		ii. Premium surcharge	Develop & implement	P <sup>4</sup>
		iii. Research the need for core principles for sound business and financial practice for member institutions	Research	D
		f. Develop and implement Payout system, policies and procedures:		
		i. Phase 1: Develop Depositor Liabilities Information Management System and Depositor Support Management System	Simulate & enhance	A
		ii. Phase 2: Develop Payout Payment Management System and Product Registry System	Develop & implement	P <sup>5</sup>
		iii. Phase 3: Develop Dynamic Deposit Database	-	F
		g. Compliance programme for member institutions to comply with MDIC Act and regulations	Develop	D
		h. Establish an Asset Management Company	Develop	D
	E Sound business and financial practices	10. Actual vs. approved expenditure budgets	±10% variance	A <sup>6</sup>
		11. Successful completion of key initiative(s):		
		a. Develop and implement funding framework:		
		i. Phase 1: Government borrowings	Complete Phase 1 & develop Phase 2	P <sup>7</sup>
		ii. Phase 2: Funding from capital market		
		b. Develop and implement frameworks for:		
		i. Target Fund and Provisioning	Develop & implement	A
		12. Internal control compliance	Strong	A
		13. Internal customer satisfaction survey	75%	A
		14. Successful completion of key initiative(s):		
		a. Implement annual Information Technology Strategic Plan initiatives	Complete	P <sup>8</sup>
		b. Develop and implement Business Continuity and Disaster Recovery Plans:		
		i. Business Continuity Plan	Test & enhance	A
		ii. Disaster Recovery Plan and infrastructure	Develop & implement	P <sup>9</sup>

Corporate Objectives		Key Performance Indicators	Target 2010	Results Dec 2010
Governance and Internal Processes	E	Sound business and financial practices		
		c. Develop Crisis Communications Manual	Complete	A <sup>10</sup>
		d. Develop and implement Human Resource Information System	Implement Phase 2 & develop Phase 3	D
		e. Develop and implement Knowledge Management framework and system:		
		i. Phase 1: Develop and implement Knowledge Management framework	Develop & implement	D
		ii. Phase 2: Develop and implement Knowledge Management policies, processes and infrastructure	-	F
		f. Implement a Corporate Enterprise Portal	Develop & implement Phase 2	A
		g. Develop executive information management system	Develop	D
Learning and Growth	F	h. Acquire additional infrastructure (office space, IT systems, processes and other organisational requirements)	Acquire	A
		15. Implementation of annual learning and development plan	80% completion against plan	A
		16. Successful completion of key initiative:		
	G	a. Continue to implement succession planning based on the Board-approved framework which is integrated with the competency model	Implement	A
		17. Employee satisfaction index	75%	D
		18. Successful completion of key initiative:		
		a. Implement employee-related programmes to promote a conducive corporate environment	Complete	A

<sup>1</sup> The awareness level of deposit insurance at the end of 2010 maintained at 21% (2009: 21%). In addition, among those who are aware of deposit insurance, their understanding of deposit insurance has dropped to 47% (2009: 53%). The decrease in awareness level of deposit insurance was expected due to the reduced advertising and marketing activity during the year, given the planned exit from the Government Deposit Guarantee arrangements.

<sup>2</sup> The development of the Board Risk Policies is progressing as scheduled. We will continue to develop the remaining Board Risk Policies in 2011.

<sup>3</sup> This three-year project to develop the policies and procedures for the Intervention and Failure Resolution framework is progressing as scheduled. To date, we have completed the documentation for seven of the 13 areas identified with the remaining six to be completed in 2011.

<sup>4</sup> The draft premium surcharge framework will be presented to the Board for approval in 2011.

<sup>5</sup> The development of the Payout Payment Management System and Product Registry System is in progress. Both systems will be implemented in 2011.

<sup>6</sup> We achieved positive variance for both operating and capital expenditures. More details on financial results are described on pages 84 to 91.

<sup>7</sup> The draft facility agreement with the Government has been completed and forwarded to Treasury for their consideration. We have commenced the development of Phase 2 of the funding framework which is expected to be completed in 2011.

<sup>8</sup> We have completed the majority 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 in light of recent developments in the operating environment:

- Develop and implement a Human Resource Information System; and
- Develop an executive information management system.

<sup>9</sup> We are in the midst of implementing our Disaster Recovery Plan and infrastructure, which will take place by mid-2011.

<sup>10</sup> The draft Crisis Communications Manual will be finalised by 2011.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## REVIEW OF 2010 OPERATIONS AND ACHIEVEMENTS

### DIVISIONAL OPERATIONS REVIEW

All of the key initiatives in 2010 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 2010, including their ongoing and new initiatives.

DIVISION	KEY ACHIEVEMENTS IN 2010	GOING FORWARD
<b>Audit and Consulting Services Division (ACS)</b> 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><b>Audit:</b> Completed the 2010 audits in accordance with the Board-approved Audit Plan 2010 - 2012 which includes audit on Media Relations; Risk Assessment and Monitoring function; Procurement and Supplier Management; and the Financial Reporting and Disclosure for the year ended 31 December 2010. 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, developed audit manuals for Phase 1 (Depositor Liabilities Information Management System and Depositor Support Management System) of the project.</p> <p><b>Risk and control self-assessment:</b> In collaboration with ERM Division, conducted the survey on risk management and internal control to assess the understanding and awareness of employees on risks and controls.</p> <p><b>Effectiveness assessment:</b> Commenced preparation for Quality Assurance Review (QAR) of the division in 2011.</p> <p><b>Effective partnerships:</b> Participated in knowledge-sharing sessions with Nigeria Deposit Insurance Corporation, Central Bank of Afghanistan, Zimbabwe Deposit Protection Board and Credit Guarantee Corporation of Nepal. Continued to build relationship with accounting and advisory firms.</p> <p><b>Consulting services:</b> Continued to support the relevant divisions in PIDM's key projects, including Intervention and Failure Resolution (IFR), Payout and Target Fund framework.</p>	<p><b>Audit:</b> Continue to implement the Board-approved Audit Plan using the risk-based auditing approach. In relation to Payout, ACS will implement the audit programme to ensure the integrity of the data, systems and processes.</p> <p><b>Effectiveness assessment:</b> Appoint a consultant to conduct the QAR assessment.</p> <p><b>Consulting services:</b> Continue to provide consulting services for IFR, Payout and Claims Management System projects.</p> <p><b>Knowledge sharing:</b> Organise and host an international knowledge-sharing seminar on internal auditing, governance and risk management.</p>



# MANAGEMENT'S DISCUSSION AND ANALYSIS

## REVIEW OF 2010 OPERATIONS AND ACHIEVEMENTS

DIVISION	KEY ACHIEVEMENTS IN 2010	GOING FORWARD
<b>Communications and Public Affairs Division (COMMS)</b> 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 deposit insurance protection and the role of PIDM in contributing to the stability of the Malaysian financial system.	<p><b>Transition from the temporary GDG to a limited-coverage deposit insurance system:</b> Conducted briefing sessions for various stakeholders following a press release issued by the Government on GDG exit and the Enhanced Financial Consumer Protection Package. With the exit plan in place, much of our efforts for the year were focused on the development of communications initiatives to roll out the enhanced package. We also developed a new tagline, revised logo and new public information brochures.</p> <p><b>Advertising and public relations:</b> In its efforts to enhance public awareness of deposit insurance and PIDM, COMMS conducted briefings for member banks and various stakeholders, dialogue sessions with liaison officers as well as participated in exhibitions and road shows. We also featured a series of five advertorials in major print dailies in three languages in conjunction with PIDM's fifth anniversary. For a smooth and effective transition back to a limited-coverage deposit insurance system, we produced and ran radio commercials and print advertisements in the final quarter of 2010.</p> <p><b>Education programme:</b> Officially launched the PIDM Project MoneySmart, an education programme for secondary schools and tertiary students throughout Malaysia. Successfully implemented the programme in 200 secondary schools and 50 higher learning institutions.</p> <p><b>Stakeholder engagement:</b> Developed and implemented the Contact Centre Management system as part of upgrading the Call Centre to address a significant increase in the number of enquiries from the public and various stakeholders.</p> <p>More details can be found in Section 7, page 158.</p>	<p><b>Advertising and public relations:</b> With our expanded role to administer TIPS, we will continue to implement the final year initiatives of the 2007 - 2011 Integrated Communications Plan and refocus our communications strategy and efforts to reach a new target audience. In publicising the enhanced financial consumer protection measures including the increased deposit insurance limit, the implementation of TIPS and the Provision of Information on Deposit Insurance Regulations, COMMS will carry out a comprehensive communications campaign.</p> <p><b>Education programme:</b> Review, enhance and continue to implement the education programme in secondary schools and institutions of higher learning.</p> <p><b>Stakeholder engagement:</b> Continue to enhance the readiness of various communications channels such as revamping the public information website.</p>

DIVISION	KEY ACHIEVEMENTS IN 2010	GOING FORWARD
<b>Enterprise Risk Management Division (ERM)</b> 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><b>Leading practices:</b> Benchmarked our ERM practices against ISO31000:2009, the first international standard for risk management, to ensure our framework and practices remain current and relevant.</p> <p><b>Effectiveness assessment:</b> Implemented the action plans based on the results of the self-assessment of the effectiveness of our ERM Framework that includes an enhanced annual ERM process to enable more cross-functional discussions, and implemented the Enterprise Risk Assessor (ERA) system to automate the ERM process.</p> <p><b>Board Risk Policies:</b> Developed and implemented three Board Risk Policies, namely Market Risk Policy, Liquidity Risk Policy and Insurance Powers Risk Policy.</p> <p><b>Risk and control self-assessment:</b> As mentioned under the key achievements of ACS Division, conducted the survey on risk management and internal control jointly with ACS Division.</p> <p><b>Business Continuity Management:</b> Engaged a consultant to review and enhance our Business Continuity Plan. The consultant also conducted a corporate-wide business continuity awareness briefing and desktop exercise to test our plan.</p> <p><b>Risk advisory services:</b> Continued to support the relevant divisions in PIDM's key projects including IFR, Payout and Target Fund framework.</p> <p>More details on key achievements, the ERM Oversight Structure and how PIDM manages its significant risks are described in Section 2, pages 40 to 45.</p>	<p><b>ERM process:</b> 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 Framework and Charter. Following the implementation of the ERA system, ERM will integrate the ERM process into the system.</p> <p><b>Board Risk Policies:</b> For 2011, ERM will continue to develop the remaining Board Risk Policies.</p> <p><b>Business Continuity Management:</b> Continue to test and enhance the Business Continuity Plan.</p> <p><b>Risk advisory services:</b> Continue to support and provide risk advisory services to all divisions and relevant key projects.</p>

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## REVIEW OF 2010 OPERATIONS AND ACHIEVEMENTS

DIVISION	KEY ACHIEVEMENTS IN 2010	GOING FORWARD
<b>Finance and Administration Division (FINAD)</b> 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><b>Funding and provisioning:</b> Completed the draft facility agreement and forwarded the same to Treasury for their consideration. We have commenced the development of Phase 2 (funding from capital market) of the funding framework. We also completed the development of Target Fund framework to achieve an optimal level of funds, giving consideration to the operating environment.</p> <p><b>IT strategy:</b> Completed the majority of the strategic and operational initiatives as set out in PIDM's Information Technology Strategic Plan except for two corporate initiatives which have been deferred in light of recent developments in the operating environment. Further details can be found on page 72 of this Annual Report.</p> <p><b>Administration:</b> Relocated our office to Quill 7, KL Sentral.</p> <p><b>Disaster recovery plan and infrastructure:</b> Commenced the planning and development of the Disaster Recovery Centre.</p> <p><b>Organisation and methods:</b> Reviewed and enhanced key policies and procedures for operational efficiency and effectiveness including Procurement, Contracting and Outsourcing Policy, Investment Policy and Information Classification Policy. We also centralised the safekeeping of the approved policies and procedures in the Corporate Enterprise Portal.</p>	<p><b>Financial management:</b> Review and enhance the financial management processes to improve effectiveness of the operations as well as ensure effective administration of the new Takaful and Insurance Protection Funds.</p> <p><b>Funding:</b> Finance will also review and revalidate Target Fund framework against updated data and develop procedures for implementation including relevant disclosure in the financial statements.</p> <p><b>IT strategy:</b> From the IT perspective, FINAD will continue to implement the strategic and operational initiatives as set out in the Information Technology Strategic Plan including integrating Payout Payment Management System (PPMS) with Depositor Liabilities Information Management System (DLIMS), Depositor Support Management System (DSMS) and payment agents, upgrading and enhancing financial accounting-related systems to cater for the two protection systems, enhancing the Corporate Information Management System as well as implementing information security infrastructure.</p> <p><b>Disaster recovery plan and infrastructure:</b> For 2011, FINAD will implement the Disaster Recovery Centre and proceed to review and test the disaster recovery plan and infrastructure.</p>

DIVISION	KEY ACHIEVEMENTS IN 2010	GOING FORWARD
<b>Human Capital Division (HC)</b> HC is responsible for the full spectrum of PIDM's human capital management.	<p><b>Talent management:</b> Continued to develop our talents through a comprehensive Learning and Development needs analysis, as well as integration of the competency model into key human capital functions such as recruitment, performance management, succession planning and leadership development including the opportunities for lateral transfers. In relation to performance management, off-site meetings for all employees were organised to cascade the initiatives or KPIs based on a top-down approach. As for learning and development, we used a blended approach encompassing various types of training such as leadership, soft skills related and technical skills through different channels i.e. study visits, external seminars and briefings, conferences, internal training sessions and on-the-job training. The average external and internal training days per employee as at end of December 2010 totalled six days.</p> <p>In PIDM, we believe that 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. PIDM also ensures equal employment opportunity for all qualified candidates as the criteria in offering employment are based on the ability to fulfil the requirements of the job position without any bias against gender, religion or race. Our employees respect the diverse range of values, culture and work philosophies, in line with our corporate values, and are committed to collaborate towards fulfilling our mandate. As at 31 December 2010, we have a total of 45% male employees and 55% female employees, out of which 59% are Bumiputera<sup>2</sup>, 30% are Chinese followed by 10% of Indians and 1% others.</p>	<p><b>Talent management:</b> In line with our objective to focus on human capital development, HC will continue to review our competency model and implement the key initiatives which include talent management and succession planning programmes, comprehensive learning and development programmes and implementation of a Knowledge Management framework.</p>

<sup>2</sup> This group comprises 'Malays' and 'Other Bumiputera'



# MANAGEMENT'S DISCUSSION AND ANALYSIS

## REVIEW OF 2010 OPERATIONS AND ACHIEVEMENTS

DIVISION	KEY ACHIEVEMENTS IN 2010	GOING FORWARD
<b>Human Capital Division (HC)</b>	<p><b>Scholarship programme:</b> As part of our Corporate Social Responsibility (CSR) efforts, we implemented the multi-year Scholarship Programme, which includes an ongoing mentoring or coaching programme for the deserving scholars.</p> <p><b>Employee relations:</b> Promote a conducive work environment through various activities such as organising the CPR First Aid Certification course, talk on and on-site vaccination for H1N1, the first off-site teambuilding session for employees, a refresher briefing on the Work Life Coaching (WLC) programme, <i>Hari Raya</i> Gathering for employees and their family members as well as the Annual Dinner. We continued to implement the Recognition and Rewards Programme and presented the rewards to the deserving employees. In relation to the Safety and Health Committee, we recruited new members into the committee following the expiration of the term of the previous members. As for the CSR Committee, we also recruited new members.</p>	<p><b>Scholarship programme:</b> Continue to administer the programme for undergraduates in Malaysia.</p> <p><b>Employee relations:</b> Continue to organise various activities to promote employee interaction and engagement as well as a safe, healthy and conducive work environment.</p> <p><b>Automation of human capital processes:</b> Continue to develop Phases 2 and 3 of the Human Resource Information System which focuses on automating the recruitment and employee performance management process as well as the learning and development and succession management processes respectively.</p>
<b>Intervention and Failure Resolution Division (IFR)</b> 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 the management and conduct of the intervention and failure resolution-related activities of PIDM, when required, in the least costly manner to the financial system.	<b>IFR:</b> Completed the documentation for seven of the 13 IFR areas identified. Conducted the first simulation exercise on IFR to stress-test the framework, policies and procedures. In order to build capability of PIDM in terms of intervention readiness, we also conducted two corporate-wide employees training on the IFR Framework, Contingency Plan and two resolution options.	<b>IFR:</b> Complete the documentation of final components of the IFR policies, processes and procedures. Given our expanded mandate to administer TIPS, we will make the relevant amendments to take into consideration matters relating to insurance companies and takaful operators. In preparation for intervention readiness, we will conduct annual training and simulation exercises on Payout and IFR as well as develop a roadmap which entails the development of the infrastructure required for an effective intervention such as IFR-related checklists, least-cost model and system, amongst others.

DIVISION	KEY ACHIEVEMENTS IN 2010	GOING FORWARD
<b>Intervention and Failure Resolution Division (IFR)</b>	<p><b>Payout:</b> Completed the enhancement to Phase 1 (DLIMS and DSMS) of the project which automates the process of computing depositors' payout entitlement and captures the relevant key information for communication with the public. We also issued the Guidelines on Deposit Information System and Submission to the member banks to facilitate the provision of necessary deposit information for total insured deposits validation and depositor reimbursement purposes. In addition, we commenced the development of Phase 2 which includes PPMS and Product Registry System (PRS) to capture the payout amount of respective depositors and the insurability status of member banks' deposit products.</p>	<p><b>Payout:</b> Integrate PPMS with DLIMS, DSMS and payment agents to facilitate an effective payout in the event of a failure of a member bank.</p> <p><b>Claims management system:</b> Research on the development of a system for claims to be received from insurance companies and takaful operators.</p>
<b>Insurance, Assessment and Monitoring Division (INRAM)</b> 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><b>Risk assessment and monitoring:</b> Continued to enhance the Risk Assessment and Monitoring Framework, including the ratios used for risk assessment, and developed the enhanced Differential Premium Systems (DPS) framework and regulations, through a consultation process with BNM and member banks, following regulatory developments in the banking industry. We also completed Phase 1 of the Early Warning System (EWS) which encompasses the economic and financial data gathering and validation stage. The EWS, once completed, will serve as a forward looking and predictive system.</p> <p><b>Effective partnerships:</b> Continued to maintain a strong and collaborative relationship with key stakeholders including BNM and member banks. Conducted knowledge-sharing sessions on Risk Assessment Framework and System with delegates from the Central Bank of Kenya and Deposit Protection Agency (DPA) Thailand as well as on Islamic deposit insurance with delegates from Nigeria Deposit Insurance Corporation.</p>	<p><b>Risk assessment and monitoring:</b> In ensuring a robust risk assessment and monitoring capability, INRAM will continue to enhance its Risk Assessment and Monitoring Framework and System for the deposit insurance system and develop the same for TIPS. We will also develop and implement DPS and Return of Total Protected Benefits (TPB) framework for TIPS as well as develop the rating prediction model for EWS.</p> <p><b>Policies and regulations:</b> Develop the interest and dividend payable guidelines for member banks which will be implemented in the event of a payout. In 2011, we will also implement the revised Guidelines on Total Insured Deposits and DPS for the deposit insurance system, whereas for TIPS, we will implement the Guidelines on TIPS: Submission of Returns on Calculation of Premium for Takaful and Insurance Business.</p>

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## REVIEW OF 2010 OPERATIONS AND ACHIEVEMENTS

DIVISION	KEY ACHIEVEMENTS IN 2010	GOING FORWARD
<b>Insurance, Risk Assessment and Monitoring Division (INRAM)</b>	<b>Islamic deposit insurance:</b> Completed the development of the Discussion Paper on "Deposit Insurance from the Shariah Perspective" and the information paper on "Survey of Islamic Deposit Insurance" for the Islamic Deposit Insurance Group (IDIG) of the International Association of Deposit Insurers (IADI).	<b>Islamic deposit insurance:</b> Continue to be the reference point on Islamic deposit insurance matters through active participation in IDIG and organise a seminar on Islamic deposit insurance to reinforce PIDM's leading role in the development of Islamic deposit insurance globally.
<b>Legal Division (LEGAL)</b> LEGAL provides legal advisory support in a manner that protects PIDM'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><b>Legislation:</b> Undertook a comprehensive review of the MDIC Act 2005 (and certain related legislation) and revamped the Act in view of PIDM's expanded mandate to include the effective administration of TIPS. The new MDIC Act came into operation on 31 December 2010. We also drafted several regulations to implement new powers in the new Act.</p> <p><b>Legal advisory services:</b> Reviewed, advised on and drafted contracts for the Corporation. In relation to the Compliance Programme, conducted the first Compliance Test which is made compulsory for all employees. We also continued to certify the deposit products offered by member banks. In this regard, to facilitate the certification process, we developed the Product Registry System (PRS) which will generate deposit product codes to be issued to the member banks and issued the Guidelines on Submission of Deposit Product Information. In relation to PIDM's key projects including IFR, Payout and funding framework, we continued to provide legal advisory support to the relevant divisions.</p> <p><b>Corporate governance:</b> Continued to maintain a strong accountability and reporting regime and effective working relationship with the Board, supporting the Board in its corporate governance work. Recommended the appointment of two new directors to the Minister of Finance to replace the directors whose term has ended. In addition, two Board education sessions were conducted for the directors in 2010. See page 46 for more details in the Statement on Governance.</p>	<p><b>Legal advisory services:</b> 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><b>Corporate governance:</b> 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><b>Automation of legal processes:</b> Complete the development and implementation of the PRS and research on the development of a similar system for insurance companies and takaful operators. LEGAL will also embark on developing a Legal Knowledge / Legislation Management System.</p>

DIVISION	KEY ACHIEVEMENTS IN 2010	GOING FORWARD
<b>Legal Division (LEGAL)</b>	Supported the Financial Institutions Directors' Education (FIDE) Programme and the establishment of a company limited by guarantee for the FIDE Alumni as well as the transfer of the FIDE Programme to The ICLIF Leadership and Governance Centre.	Active participation in the FIDE Programme.
<b>Policy and International Division (POLICY)</b> 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><b>Policy:</b> In view of PIDM's expanded mandate, we developed a comprehensive policy and compendium (documentation of policy decisions and rationale) for the administration of TIPS.</p> <p><b>Educated and informed stakeholders:</b> Developed the Provision of Information on Deposit Insurance Regulations 2011 to ensure that member banks provide depositors with accurate, relevant and timely information on deposit protection and coverage for deposit products.</p> <p><b>Effective partnerships:</b> Continued to maintain good relationships with 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 between PIDM, DPA Thailand and Indonesia Deposit Insurance Corporation (IDIC) in a Tripartite Meeting between the three organisations.</p> <p><b>International fora:</b> Led the capacity building on resolution of problem banks for central banks and deposit insurers in South East Asia and Africa through the design and development of a comprehensive training programme. We co-hosted the resolution training with The SEACEN (South East Asian Central Banks) Centre and IADI. On the international front, we chaired the IADI Subcommittee on payout process and developed case studies as well as researched to identify impediments to an effective payout process. We also participated in 15 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 the local, regional and international levels.</p>	<p><b>Educated and informed stakeholders:</b> Provide guidance to member banks to implement the Provision of Information on Deposit Insurance Regulations 2011.</p> <p><b>Effective partnerships:</b> Continue to build PIDM's credibility and reputation through the development of sound and robust policies. In addition, 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><b>Policies and regulations:</b> Develop policies to anchor the premium surcharge regulations for banks and develop the terms and conditions of membership for insurance companies and takaful operators.</p> <p><b>International fora:</b> As the chair of the IADI Subcommittee on payout process, we will continue to develop the guiding principles for an effective payout system.</p>



# MANAGEMENT'S DISCUSSION AND ANALYSIS

## REVIEW OF 2010 OPERATIONS AND ACHIEVEMENTS

DIVISION	KEY ACHIEVEMENTS IN 2010	GOING FORWARD
<b>Strategic Planning Division (SP)</b> SP is responsible for the implementation of PIDM's strategic planning process and assists the Board and Management in the setting of PIDM's strategic direction and the development of a strategic plan.	<b>Strategic planning:</b> Facilitated and assisted the divisions to develop their respective divisional strategic plans and aligned the plans to the corporate objectives, mission and vision. Conducted the annual Strategic Planning Workshop for employees and facilitated discussions of corporate and divisional KPIs and initiatives. Conducted the annual Board Strategic Planning session.  <b>Performance management:</b> 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 Audit Committee and circulated to the Board.  <b>Corporate publications:</b> Developed the Corporate Plan 2011 – 2013 which highlights PIDM's objectives, priorities, initiatives and budgets. In collaboration with COMMS and FINAD, coordinated and managed the development and publication of PIDM's Annual Report.  <b>Effective partnerships:</b> Continued to maintain good relationships with key stakeholders and participated in knowledge-sharing sessions with Nigeria Deposit Insurance Corporation and Zimbabwe Deposit Protection Board.	<b>Strategic planning:</b> 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.  <b>Automation of performance management:</b> Develop 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.

### BEYOND THE CORPORATE SCORECARD 2010

During the year, we completed additional key initiatives which were not identified in the Corporate Scorecard 2010, following the announcement by the Minister of Finance in May 2010 on the Enhanced Financial Consumer Protection Package. Among them:

1. We developed and recommended a new Act to replace the MDIC Act 2005, including the necessary regulations and orders to implement the new Act.
2. We developed the framework to administer TIPS, including the interim risk assessment and monitoring methodology and framework, recommended the premium rate to be assessed against insurance companies and takaful operators and drafted the Guidelines on Takaful and Insurance Benefits Protection System: Submission of Returns on Calculation of Premium for Takaful and Insurance Business 2011.

In ensuring understanding by the public on the Enhanced Financial Consumer Protection Package, we focused our efforts on developing a comprehensive public awareness and communications programme targeted to reach a larger segment of the public. In the final quarter of 2010, advertisements were placed and aired across key media platforms to facilitate an effective implementation of the package.

We also developed a comprehensive communications programme to publicise the coming into force of our Provision of Information on Deposit Insurance Regulations, which forms part of the Enhanced Financial Consumer Protection Package.

### ENHANCED FINANCIAL CONSUMER PROTECTION PACKAGE

As part of the Government's continued commitment to enhance financial consumer protection and to further promote public confidence in the financial system, the Minister of Finance in May 2010 announced the Enhanced Financial Consumer Protection Package. In response to the announcement, we developed and recommended the new MDIC Act, which came into operation on 31 December 2010, to replace the MDIC Act 2005. Under the new Act, PIDM is mandated to administer a takaful and insurance benefits protection system, the scope of coverage for deposit insurance system was extended to foreign currency deposits and PIDM is also provided with additional powers to deal effectively with troubled member institutions.

TIPS is a system to protect owners of takaful certificates and insurance policies against the loss of their eligible takaful or insurance benefits in the unlikely event of an insurer member failure. Under TIPS, the takaful certificate or insurance policy owners eligible for protection include individuals, sole proprietors, partnerships, trade unions, registered societies, cooperatives, registered charities and corporations. The takaful and insurance benefits protected under TIPS and its related limits are detailed out based on Family Takaful and Life Insurance as well as General Takaful and General Insurance. Further details on the protected benefits and limits can be obtained on page 146 to 147.

PIDM has also implemented a new regulation whereby the deposit insurance limit was increased from RM60,000 to RM250,000, effective 31 December 2010, and a new Provision of Information on Deposit Insurance Regulations 2011 to further strengthen the deposit insurance system. For TIPS, PIDM has implemented three other regulations setting out the limits and scope of coverage in regard to benefits protected, namely Protected Benefits Regulations 2011, Protected Benefits Limit Order 2011 and First Premium and Annual Premium in Respect of Insurer Members Order 2011.

In relation to communications initiatives, we commenced the advertising and stakeholder engagement initiatives to facilitate an effective transition from the GDG to the limited-coverage deposit insurance system and the introduction of TIPS.

The expanded mandate to protect owners of insurance policies and takaful certificates means we now need to monitor a larger number of member institutions. We will continuously assess and monitor closely the risks impacting our expanded member institutions and continue to promote sound risk management practices.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

## 2010 FINANCIAL OVERVIEW

### OPERATING RESULTS

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2010	2010 Actual RM'000	2010 Budget RM'000	Variance (Budget vs. Actual) RM'000	%	Actual 2009 RM'000
Premium revenue	105,687	122,000	(16,313)	(13)	131,795
Investment income	9,314	8,000	1,314	16	7,594
Miscellaneous income	-	-	-	-	28
<b>Total Revenues</b>	<b>115,001</b>	<b>130,000</b>	<b>(14,999)</b>	<b>(12)</b>	<b>139,417</b>
Employee benefits	26,409	29,340	2,931	10	22,209
Public relations and advertising	6,434	8,010	1,576	20	5,708
Depreciation	2,791	3,350	559	17	2,450
Operating lease	3,124	2,850	(274)	(10)	1,080
Other expenses	15,398	21,450	6,052	28	13,429
<b>Total Operating Expenditures</b>	<b>54,156</b>	<b>65,000</b>	<b>10,844</b>	<b>17</b>	<b>44,876</b>
<b>Net Surplus</b>	<b>60,845</b>	<b>65,000</b>	<b>(4,155)</b>	<b>(6)</b>	<b>94,541</b>

### CAPITAL EXPENDITURES

CAPITAL EXPENDITURES CONTRACTED IN 2010	2010 Actual RM'000	2010 Budget RM'000	Variance (Budget vs. Actual) RM'000	%	Actual 2009 RM'000
Furniture, fittings and office refurbishment	7,784	8,850	1,066	12	195
Computer systems and office equipment	5,731	6,250	519	8	8,736
<b>Total Capital Expenditures</b>	<b>13,515</b>	<b>15,100</b>	<b>1,585</b>	<b>10</b>	<b>8,931</b>

### COMMENTARY ON 2010 FINANCIAL PERFORMANCE

Total revenues recorded during the year of RM115.0 million represents a reduction of RM24.4 million or 17.5% compared to the previous financial year. This is primarily due to lower premiums collected from member banks as a result of general overall improvements in the DPS ratings for the member banks as well as lower total insured deposits growth as compared to the previous year.

Operating expenditures for 2010 amounted to RM54.2 million or 20.7% higher than the previous year's expenditures of RM44.9 million. In ensuring operational readiness, we continued to build and enhance the capacity and capabilities of our human capital, processes, systems and infrastructure. The increasing trend in expenditures is expected to continue over the next few years, particularly with our expanded mandate of administering TIPS. Nevertheless, we will continue to practise prudent financial management and sound financial stewardship while achieving our objectives as stated in our Corporate Plan. For 2010, our operating expenditures of RM54.2 million were well below our budget of RM65.0 million or 16.7% lower than budget.

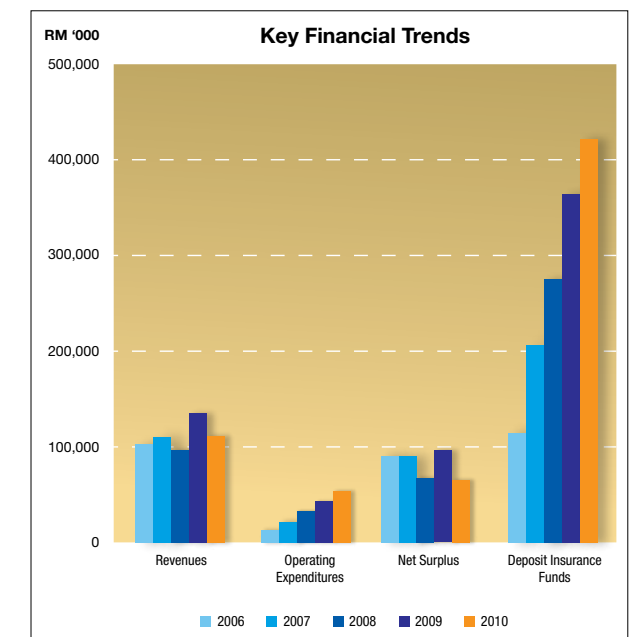
As at 31 December 2010, we contracted RM13.5 million for capital expenditures which represents 89.5% of the capital expenditures budget for 2010 of RM15.1 million.

Net surplus totalled RM60.8 million in 2010, a decline of RM33.7 million or 35.6% compared to 2009 primarily due to the lower premiums.

Total Deposit Insurance Funds (DIF) of RM430.7 million denotes an increase of 16.4% from the previous year, comprising Islamic DIF of RM56.1 million and Conventional DIF of RM374.6 million. The DIFs will be used to cover losses when respective obligations arise.

PIDM's mandate was expanded on 31 December 2010 to include the protection of takaful and insurance benefits. However, during the financial year, no revenues were received or expenditures incurred in relation to the administration of TIPS.

Chart 1: Key Financial Trends from 2006 to 2010



### REVENUES

#### Premium Revenues

Annual premiums are assessed against Total Insured Deposits (TID) held by member banks as at 31 December of the preceding year. The level of TID has been on an increasing trend since PIDM's incorporation in 2005. However, for the assessment year 2010, the growth rate of TID dropped to 3.0% compared with the previous year's growth rate of 5.5%. The TID level for assessment year 2010 was RM207.6 billion and is based on TID held by member banks as at 31 December 2009.

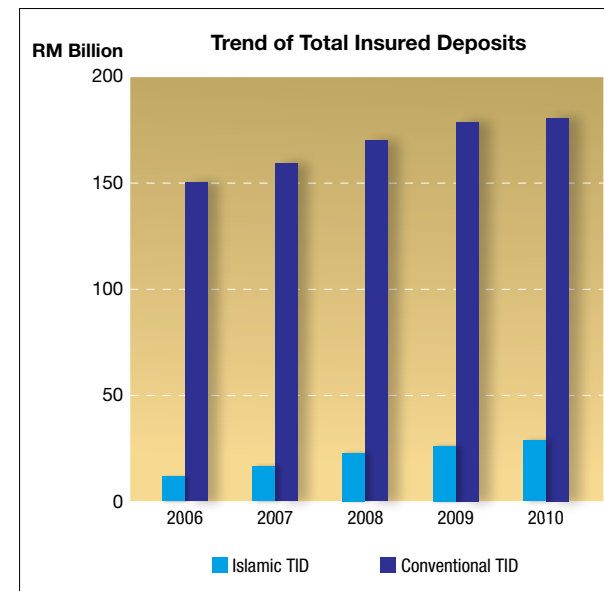
PIDM utilises its premiums to fund its operations and net surpluses are credited annually to its DIFs as reserves to meet any future obligations. PIDM continues to build reserves in the Islamic and Conventional Deposit Insurance Funds through the accumulation of annual net surpluses arising from its operations. Accumulated reserves are held in each Fund to cover losses when respective obligations arise. Accumulated reserves in one Fund cannot be used to cover obligations in another Fund.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

## 2010 FINANCIAL OVERVIEW

Chart 2: Trend of TID from assessment years 2006 to 2010



In 2008, we introduced the DPS. The DPS differentiates member banks according to their risk profiles and classifies them into four premium categories. The premium rates applicable for the four categories are as follows:

PREMIUM CATEGORY	PREMIUM RATE
Category 1	0.03%
Category 2	0.06%
Category 3	0.12%
Category 4	0.24%

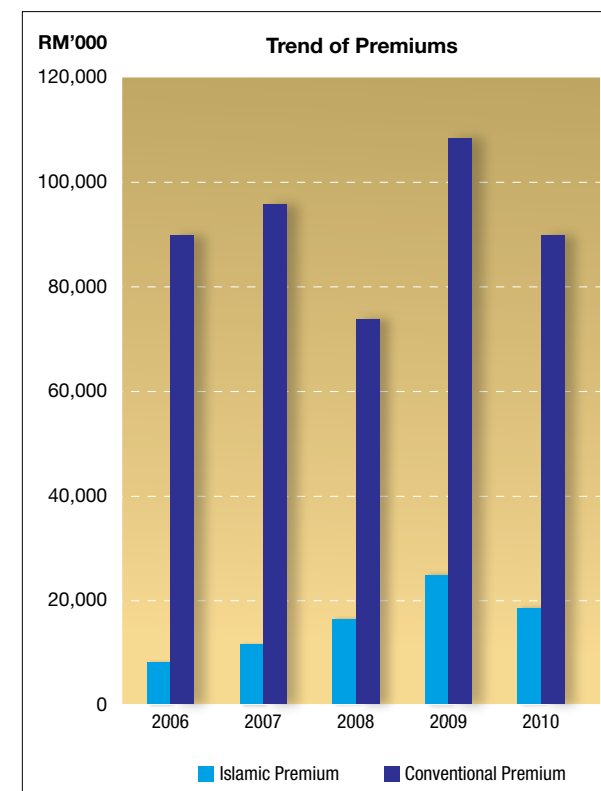
The DPS is aimed at providing incentives to member banks to adopt sound and rigorous risk management practices including maintaining strong capital positions. Under the DPS, member banks with lower risk profiles pay lower premiums than those with higher risk profiles.

In 2010, the overall DPS ratings had generally improved resulting in lower premiums collected of RM105.7 million compared to RM131.8 million in the previous year.

We continued to implement the External Auditor Validation Programme to ensure the accuracy of information provided by member banks on which the DPS score and premiums are calculated. Under this programme, external auditors of member banks are required to provide PIDM independent

validation that the information submitted relating to DPS and TID for the assessment year is accurate.

Chart 3: Trend of Premiums from 2006 to 2010



For 2011, we have budgeted premiums of RM160.8 million for the deposit insurance system, which is RM55.1 million or 52.1% higher than the premiums received in 2010. This is primarily due to the increase in the deposit insurance limit from RM60,000 to RM250,000, increase in scope of coverage, and the expected growth of TID.

Effective 2011, member banks which would have previously paid the minimum premiums of RM250,000 will now be subject to new minimum premiums based on their DPS scores as follows:

PREMIUM CATEGORY	MINIMUM PREMIUM PAYMENT (RM)
Category 1	100,000
Category 2	200,000
Category 3	400,000
Category 4	800,000

In relation to TIPS, we have budgeted premiums of RM81.9 million from the takaful operators and insurance companies. The premium will be calculated based on flat rates applied on Total Protected Benefits.

### Investment Income, Cash and Cash Equivalents

PIDM's investment activities are carried out in line with the approved policies relating to management of financial risks i.e. liquidity, market and credit risks. PIDM continues to invest in short- 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. These are in line with PIDM's investment policy approved by the Board of Directors. It is a policy that PIDM's investments are held to maturity.

Our investment income for 2010 was RM9.3 million, 16.4% higher than budget due to the upward trend of interest rate, with an average yield of 2.32% (Islamic: 2.37% and Conventional: 2.32%).

As at 31 December 2010, our income-generating assets comprising cash, cash equivalents and investments stood at RM53.0 million (2009: RM48.0 million) for Islamic and RM357.4 million (2009: RM313.0 million) for Conventional.

Chart 4: Investment Income from 2006 to 2010

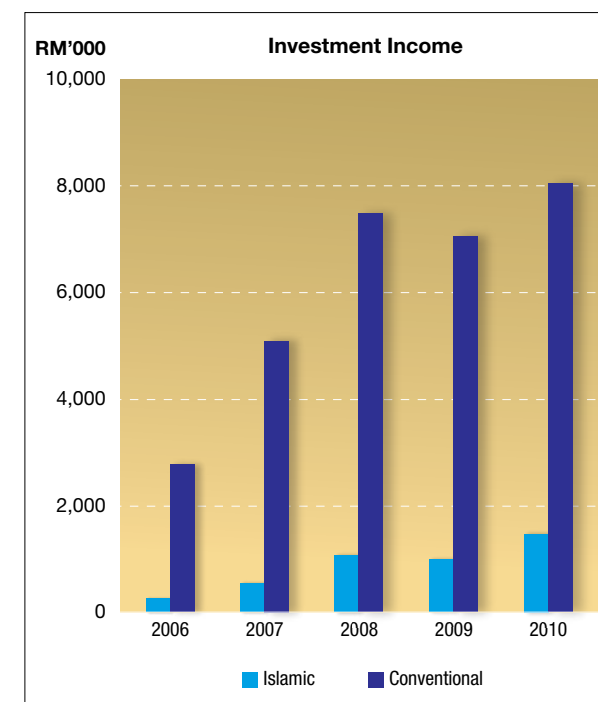


Chart 5: Trend of Weighted Average Yield Rate from 2008 to 2010

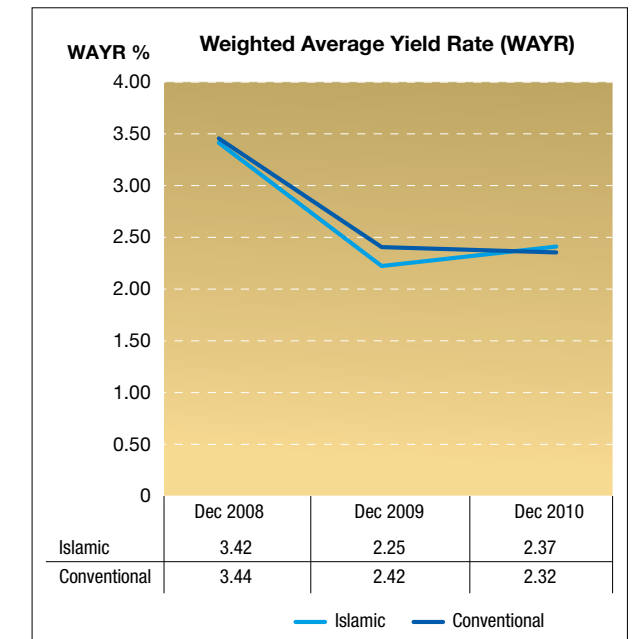
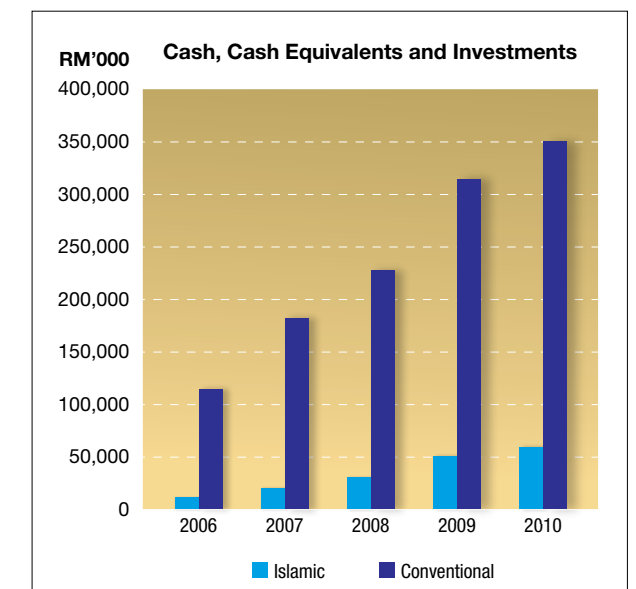


Chart 6: Cash, Cash Equivalents and Investments from 2006 to 2010



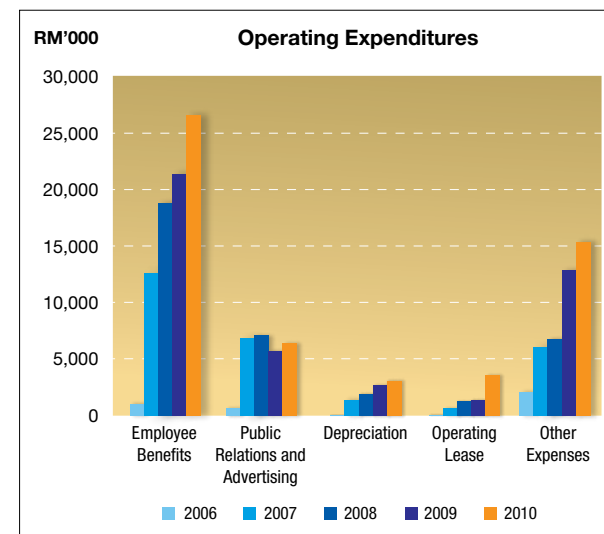
# MANAGEMENT'S DISCUSSION AND ANALYSIS

## 2010 FINANCIAL OVERVIEW

### OPERATING EXPENDITURES

The following chart depicts the trend of our operating expenditures.

Chart 7: Trend of Operating Expenditures from 2006 to 2010

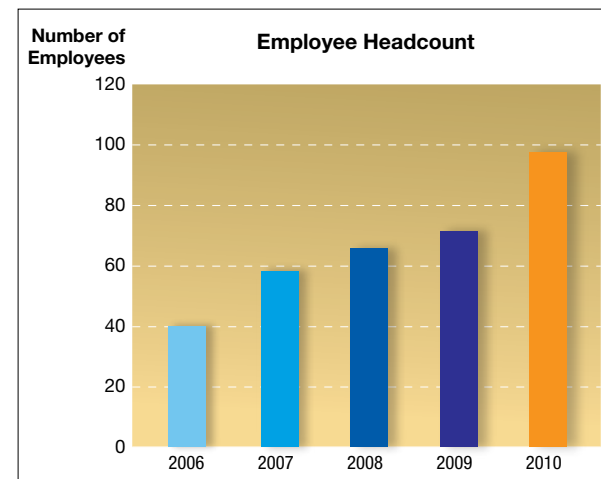


The total operating expenditures up to 31 December 2010 of RM54.2 million was RM10.8 million or 16.7% lower than budget but was RM9.3 million or 20.7% higher compared with 2009. The positive variance against budget is mainly due to the lower expenditures for employee-related expenses, telecommunications and computer systems as well as engagement of consultants and legal advisors. The positive variance was also attributed to the reprioritisation of certain activities relating to public relations and advertising. The increasing trend from prior years is primarily due to PIDM's continued efforts to build its capacity and capabilities including systems, processes and build skills and expertise relating to deposit insurance and insurance protection programmes.

#### Employee Benefits

Our employees are our most important asset. We continued to train and develop our employees to ensure they have the right skills, knowledge, experience and behaviour expected of them. As such, it is key to provide a competitive compensation package to attract and retain our employees. The increase in the number of employees over the years indicates our continued efforts to build capacity and capabilities to ensure operational readiness. We expect this trend to continue, as we strengthen our capacity and capabilities in all areas of our operations so as to be ready to effectively fulfil our mandate as well as for effective succession management.

Chart 8: Employee Headcount from 2006 to 2010



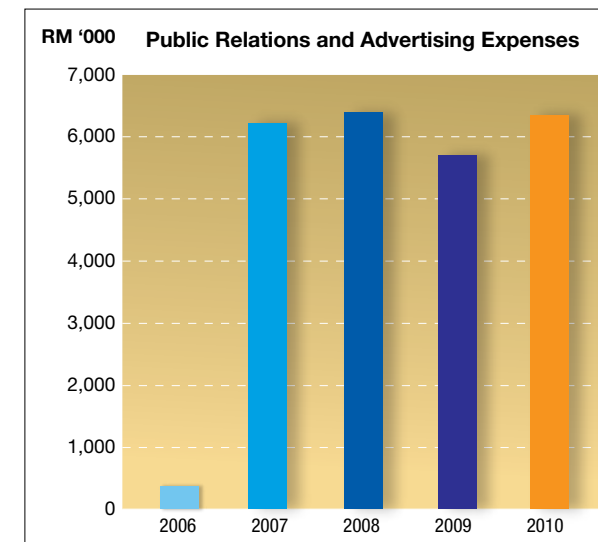
The main increase in the number of employees as at 31 December 2010 was in the key areas of operations including risk assessment and monitoring, intervention and failure resolution, legal functions, as well as finance, administration and information technology. The increase was also attributable to additional resources skilled in the areas of insurance and takaful, in preparation to carry out the expanded mandate. The employee benefits costs for 2010 only reflect partially the costs of additional resources recruited in 2010 as most of the new hires commenced work towards the end of 2010. The full impact of these new hires will be reflected in 2011.

For 2010, employee benefits expenses totalled RM26.4 million, 18.9% higher compared to the previous year. However, it is RM2.9 million or 10.0% lower than budget.

#### Public Relations and Advertising

Communications and public awareness are essential to ensure the effectiveness of our deposit insurance system. Since our establishment in 2005, our focus has been on ensuring effective communications in our continued efforts to increase the level of public awareness of the deposit insurance system and understanding of PIDM. During the year, we continued to implement our five-year Integrated Communications Plan that details our communications activities with various stakeholders, with additional focus on the preparation for exiting the GDG as well as the introduction of TIPS. This includes developing new public information brochures, the publication of articles, conducting media briefings, road shows and interviews. As part of our ongoing initiatives to further enhance public understanding of deposit insurance, we also implemented an education programme for secondary schools and tertiary students.

Chart 9: Public Relations and Advertising Expenses from 2006 to 2010



Public relations and advertising expenses for 2010 totalled RM6.4 million and were 12.7% higher than the previous year. The increase was largely attributable to the preparation for exiting the GDG and introduction of TIPS, as well as implementation of the educational programmes.

However, the overall public relations and advertising expenses for 2010 were still lower by RM1.6 million or 19.7% compared to budget due to reprioritisation of some of the advertising activities. The positive variance was also attributable to cost savings derived from our partnerships with BNM and other government agencies in carrying out road shows as well as various stakeholders' engagement programmes.

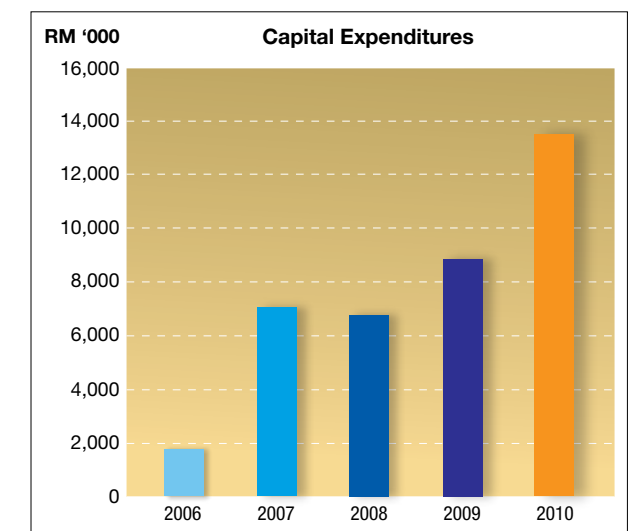
#### Capital Expenditures and Depreciation

We continue to build strong and effective operational infrastructure, in particular Information Technology (IT). In 2010, we continued our focus on enhancing and developing our core IT systems, primarily the Payout systems.

During the year, we completed Phase I of the development of the Corporate Enterprise Portal, which aims to integrate information, people and processes across PIDM. We are on track for the enhancements and development of key IT systems, primarily the Payout systems which consist of the Depositor Liabilities Information Management System, the Depositor Support Management System, the Payout Payment Management System and the Product Registry System. We have completed all the planned upgrades and

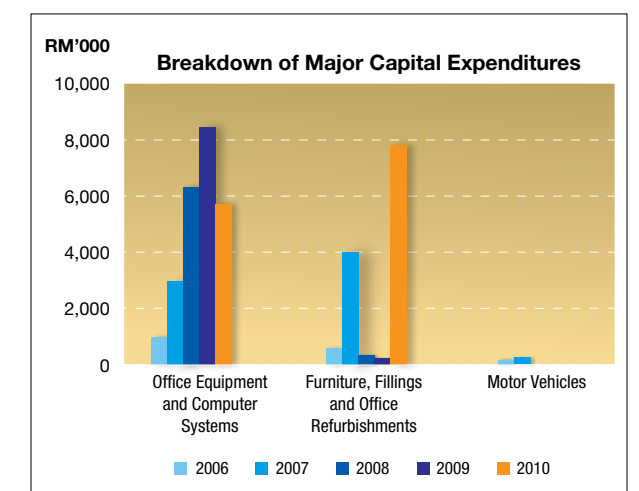
enhancements of our IT operational infrastructure including network and system security. We have also incurred costs on furniture and fittings, as well as commissioning a new data centre for our new office at Quill 7, KL Sentral.

Chart 10: Trend of Capital Expenditures from 2006 to 2010



As at 31 December 2010, PIDM contracted out projects worth RM13.5 million which represents 89.5% of the total capital expenditures budget for 2010 of RM15.1 million. The RM1.6 million positive variance for capital expenditures is attributed to reprioritisation of several IT systems implementation and rescheduling of some initiatives due to readiness activities relating to PIDM's new mandate.

Chart 11: Breakdown of Major Capital Expenditures from 2006 to 2010





# MANAGEMENT'S DISCUSSION AND ANALYSIS

## 2010 FINANCIAL OVERVIEW

Depreciation expenses for the year amounted to RM2.8 million or 13.9% 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, KL Sentral.

### Operating Lease 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, telecommunications costs as well as one-off pre-establishment expenses for TIPS. As our human resources, infrastructure and initiatives increased over the years, our general and administration costs have also increased.

Chart 12: Trend of Operating Lease and Other Expenses from 2006 to 2010

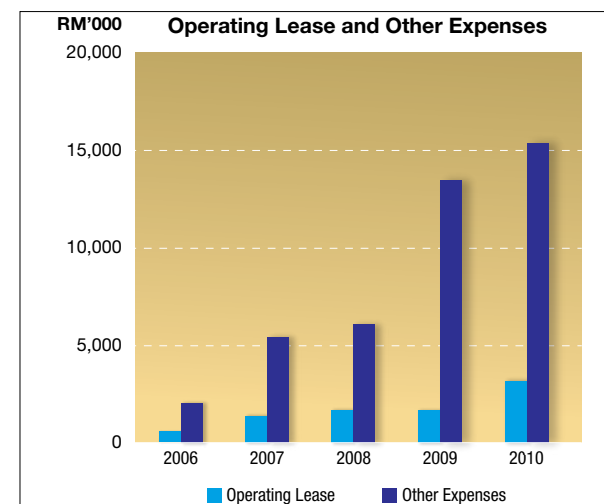
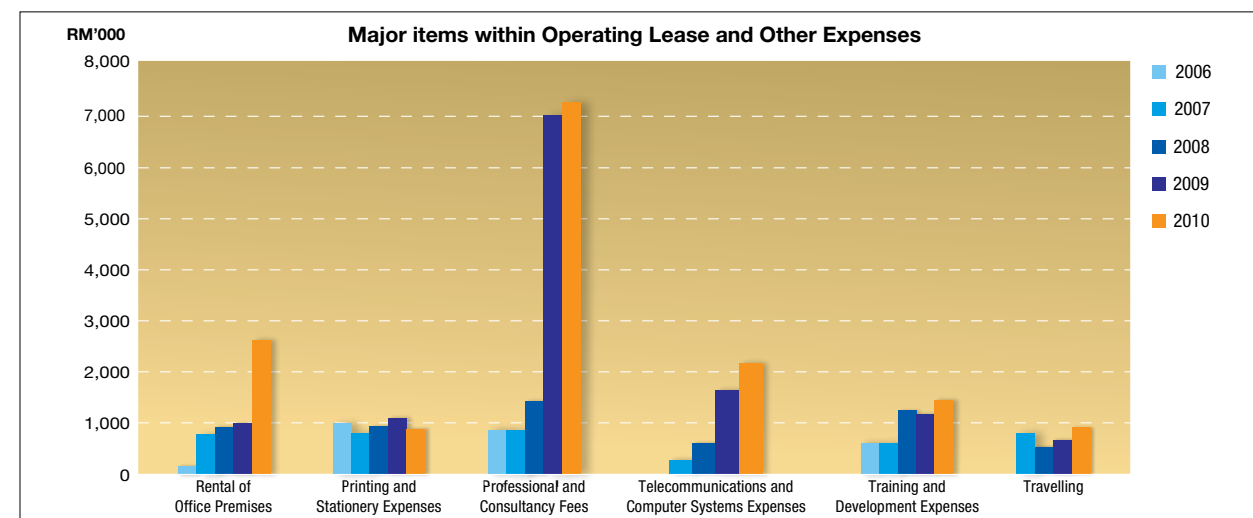


Chart 13: Major items within Operating Lease and Other Expenses from 2006 to 2010

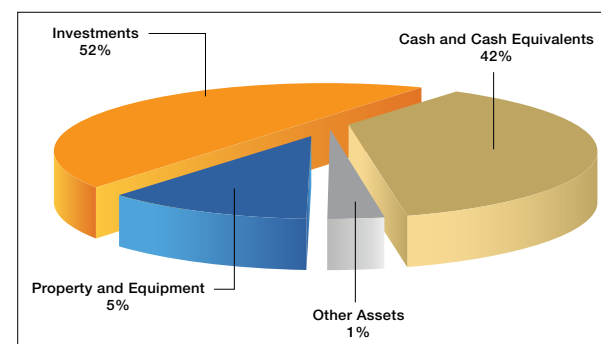


The operating lease which mainly comprises rental of our office premises recorded a significant increase during the year as a result of the relocation to our new office at Quill 7, KL Sentral. The office rental costs for 2010 only reflect partially the rental of the new office which commenced from September 2010. The full impact of the office rental costs will be reflected in 2011.

The increase in other expenses from RM13.4 million in 2009 to RM15.4 million in 2010 was mainly attributed to the increase in engagement of consultants for the development of the Intervention and Failure Resolution framework and processes as well as increase in telecommunications and computer systems expenses. Our overall expenditures within this expense category are below budget by RM6.1 million or 28.2% primarily due to timing of and savings from implementation of several key activities, particularly engagement of consultants as well as lower fees on engagements of legal advisors.

### HIGHLIGHTS FOR THE STATEMENT OF FINANCIAL POSITION

Chart 14: Asset Composition



### Cash, Cash Equivalents and Investments as at 31 December 2010

Our assets remain liquid with cash, cash equivalents and investments representing 93.7% of our total assets.

As at 31 December 2010, our combined cash and cash equivalents which include short-term investments of less than 90 days stood at RM184.0 million. The sources and uses of cash and cash equivalents are described in the Statements of Cash Flows in Section 4 of this Annual Report.

Total investments registered a growth of 11.1% to RM226.4 million, compared with RM203.8 million in 2009. PIDM's investment portfolio as at 31 December 2010 comprised BNM and Government investment securities with short- and medium-term tenures ranging from 91 days to 354 days. Our investment policy prohibits investing or depositing funds with any member banks except for day-to-day operating purposes.

### Property and Equipment and Other Assets as at 31 December 2010

Our property and equipment as at 31 December 2010 amounted to RM24.1 million with an increase (cost less depreciation) of RM10.8 million or 80.4% from the previous year of RM13.3 million. The increase is mainly due to the assets of the new office (primarily furniture and fittings as well as data centre equipment). The increase is also due to IT infrastructure enhancements and technology replacements as well as key IT systems such as Payout Systems and Corporate Enterprise Portal.

Other assets comprised deposits and prepayments, investment income receivables, other assets and other receivables amounting to RM3.6 million. The balance as at 31 December 2010 was 131.2% higher than the previous year's corresponding period primarily due to increase in deposits on rental and utility for the new office at Quill 7 which amounted to RM1.9 million.

### Liabilities as at 31 December 2010

Total liabilities increased by 21.6% to RM7.3 million in 2010. It comprised 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

To administer and fund its financial consumer protection programmes, PIDM assesses and collects annual premiums from its members. Premiums are first utilised to fund its operations and annual net surpluses are credited to the respective reserve Funds.

As detailed in Note 21 of the financial statements regarding Contingent Liabilities, we have an inherent exposure to losses resulting from protecting deposits held by member banks as well as takaful and insurance benefits. However, up to the date of writing this report, there have been no events which would require PIDM to record a specific provision in the financial statements in accordance with Financial Reporting Standard (FRS) 137 Provisions, Contingent Liabilities and Contingent Assets.

As a statutory body, our source of funding and future ability to meet liabilities and commitments as they arise are assured. We are authorised under our enabling legislation to assess annual premiums against member institutions and to set annual premium rates with the approval of the Minister of Finance. Should substantial funding be required, premium rates could, under the MDIC Act, be increased with the approval of the Minister.

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

Our net surpluses of RM60.8 million (Islamic: RM7.1 million and Conventional: RM53.7 million) as at the end of 2010 has been credited to the respective DIFs. Total DIFs as at 31 December 2010 amounted to RM430.7 million, an increase of 16.4% from the previous year. This comprises the Islamic DIF of RM56.1 million and the Conventional DIF of RM374.6 million.

The MDIC Act also empowers us to borrow or raise funds to meet our obligations. We may borrow from the Consolidated Revenue Fund with the approval of the Minister of Finance on such terms and conditions as the Minister determines. We can also raise funds from the capital market as and when required.

Finally, the MDIC Act prohibits the winding up of the business and affairs of PIDM.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## SUMMARY OF OUR CORPORATE PLAN 2011 - 2013

There is a German proverb that says, "What is the use of running if you are not on the right road?" In a nutshell, it means an effective leader establishes the vision for the future and sets the strategy for getting there. The leader then motivates and inspires others to go in the right direction.

In PIDM, every initiative embarked on, from conceptualisation to execution, is a journey that begins with a vision. The strategic direction sets into motion a plan that is developed and implemented to advance the Corporation's mandate, vision and mission and to effectively deliver on the targeted goals.

The following is a summary of our Plan and it should be read in conjunction with our Corporate Plan 2011 – 2013. In developing the Plan, we continued to adopt an integrated approach whereby we identify and assess the challenges and significant risks facing PIDM using the ERM framework. Similar to the previous year, we adopted the scenario planning approach in our strategic planning process with the aim of responding effectively in the unlikely event of an intervention in a troubled member institution which may derail our approved plan. We also ensure that our key focus and initiatives are aligned to our strategic direction and corporate objectives.

### OUR STRATEGY

The next several years will be more challenging for PIDM given the expansion of our mandate. Notwithstanding the challenges, our strategic direction and corporate objectives remain current and relevant. As we progress, we will continue to strategise, prioritise and focus our key efforts on supporting the state of readiness of PIDM in several key areas, including:

- 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
- putting in place the required infrastructure, systems, policies and resources to effectively administer TIPS.

### OUR AREAS OF FOCUS

The following areas will be the focus of our work in the 2011 – 2013 planning period.

#### Building Capacity and Capability in Terms of Operational Readiness

Given our roles, responsibilities and mandate, PIDM will continue to focus on key aspects of readiness including risk assessment and monitoring of our member institutions, intervention and failure resolution capacity, human capital development as well as stakeholder engagements and partnerships. This also includes putting in place the required infrastructure, systems, policies and resources to effectively administer TIPS.

- **Risk Assessment and Monitoring.** It is vital for PIDM to promptly identify and respond to member institutions with potential high risks. 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. We necessarily rely on the supervisory authority to take prompt corrective action to mitigate the possibility of a member institution's failure. We continuously monitor the economic and financial environment, tracking emerging issues and risks that may impact our member institutions. With regard to member institutions, we continuously monitor the industry trends, market position, financial capability, risk management and governance practices. As such, we will continuously enhance our Risk Assessment and Monitoring Methodology, Framework and System as well as Differential Premium Systems framework for our member banks and develop the same for insurance companies and takaful operators.

- **Intervention and Failure Resolution.** PIDM must maintain a state of readiness to intervene quickly in the affairs of a troubled member institution and work collaboratively with BNM supervisors to fulfil our mandate in an efficient and effective manner. We will continue to develop and implement the final components of the Intervention and Failure Resolution policies and procedures for member banks and make amendments required for insurance companies and takaful operators. We will also develop and implement our Least Cost Model approach, a key tool for assessing options for failure resolution. The IFR readiness will be stress-tested through annual simulations. With regard to payouts, we will continue to develop the other phases of the Payout system, policies and procedures and develop the claims management system, policies and procedures for insurance companies and takaful operators.

In view of the importance of funding when PIDM is called upon to intervene in a troubled member institution, we will complete the implementation of the framework from the various funding sources, namely Government borrowings and funding from the capital market. We will also implement the Target Fund framework for member banks in 2011.

- **Human Capital Development.** Our people are our greatest asset and given our expanded mandate coupled with the scarcity of critical talents relevant to PIDM's mandate, our Human Capital strategic plan is to continue to attract, recruit, develop and retain the best talents. Our key initiatives will entail, among others, comprehensive corporate-wide and employees' learning and development programmes which ensure ongoing employee training; robust competency model which includes talent management and succession planning programmes as well as a competitive compensation and benefits strategy; and employee-related programmes to promote a conducive corporate environment.
- **Stakeholder Engagements and Partnerships.** Given our business model and in order to achieve our vision and mission, we depend heavily on effective communications and collaboration with our key stakeholders, strategic partners and our employees. Accordingly, we are committed to building a strong relationship with our key stakeholders and business partners, both in the local and international arena. As set out in our Corporate Scorecard, we shall continue to enhance our governance and management practices; strengthening our ERM practices by developing and implementing the remaining ERM Board Risk Policies; and advance our risk-based auditing and internal control framework. We will also continue to be actively involved internationally through our membership in IADI and other international bodies, including participation in training, seminars and conferences at the local, regional and international levels to transfer knowledge.

#### Promoting Public Awareness

Public awareness of PIDM and advancing knowledge on the deposit insurance system and TIPS are a key priority. Hence, we will intensify our efforts to increase the level of public awareness through our five-year Integrated Communications Plan. In light of our expanded mandate to administer TIPS and changes to the operating environment, we have tailored the communications strategy, messages and initiatives to reach out to our target audience. We will also continue to implement our comprehensive education programme that aims to educate the younger generation in financial matters. We shall publicise the coming into force of our Provision of Information on Deposit Insurance Regulations in 2011 where

depositors will have ready access to information at the bank branches on the insurability of deposit products being offered by their institutions.

#### Improving Operational Efficiency and Effectiveness

PIDM continues to increase its operational capacity as a foundation for all of its work. This includes putting in place the necessary infrastructure, systems and policies for purposes of managing its operations efficiently and effectively and to keep us current in an evolving technology environment. The key initiatives to be undertaken in 2011 include the upgrading of our financial accounting-related systems and processes to manage the respective six Funds; implementing our annual Information Technology Strategic Plan; enhancing security infrastructure to protect our information; and continuous review and stress-test of our Business Continuity Plan and Disaster Recovery Plan and infrastructure.

Details of our key initiatives in support of our corporate objectives are described in our Corporate Scorecard 2011 – 2013 depicted in the Appendix. PIDM's Corporate Plan is available on our website at [www.pidm.gov.my](http://www.pidm.gov.my).

### SUPPORTING FINANCIAL PLAN

The Financial Plan for 2011 has been developed to support the achievement of the 2011 initiatives as well as the management of our day-to-day operations. Premium revenues are budgeted at RM242.7 million, of which RM160.8 million is expected from member banks and RM81.9 million from insurer members. Combined with budgeted investment income of RM11.0 million, PIDM's total revenues are expected to amount to RM253.7 million for 2011. Total operating expenditures are budgeted at RM89.5 million whilst capital expenditures are budgeted at RM7.5 million. At the end of 2011, we expect a net surplus from operations of RM164.2 million, which will increase the total protection Funds administered by PIDM to RM589.9 million comprising RM537.8 million for the Deposit Insurance Funds and RM52.1 million for the Takaful and Insurance Protection Funds.

### GOING FORWARD

The successful completion of our Plan is another step towards being recognised as a best practice insurer. Given our expanded mandate, we have been entrusted with more responsibilities to contribute to the stability of the financial system and to promote public confidence. Towards this end, we will focus our resources in meeting the expectations placed upon us.

## Section 4: FINANCIAL STATEMENTS



*Establishing the ideal balance to optimise  
resources geared for success...*



# 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 2010.

### PRINCIPAL ACTIVITIES

Perbadanan Insurans Deposit Malaysia (PIDM) is a statutory body established under the Malaysia Deposit Insurance Corporation Act 2005 (MDIC Act 2005). With effect from 31 December 2010, the MDIC Act 2005 was replaced by the Malaysia Deposit Insurance Corporation Act 2011 (MDIC Act 2011). The MDIC Act 2011 provisions on 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, provide insurance against the loss of part or all of deposits for which a member bank is liable, to provide incentives for sound risk management in the financial system, and promote or contribute to the stability of the financial system. As of 31 December 2010, PIDM also administers the Takaful and Insurance Benefits Protection System (TIPS), which provides protection against the loss of part or all of takaful or insurance benefits for which an insurer member is liable. PIDM is to carry out its functions and activities in such manner as will minimise the costs to the financial system.

The MDIC Act 2011 provides for separate coverage for Islamic and conventional deposits as well as for protected benefits in relation to family solidarity takaful, general takaful, life insurance and general insurance. To ensure proper governance and compliance with Shariah requirements, PIDM maintains and administers two separate funds for Islamic and conventional deposits. An additional four funds for TIPS will be established and administered in 2011.

The Government Deposit Guarantee was administered by PIDM from 16 October 2008 to 31 December 2010, when it expired.

### FINANCIAL RESULTS

	2010 RM'000	2009 RM'000
<b>Net surplus for the financial year:</b>		
Conventional Deposit Insurance Fund	53,751	77,897
Islamic Deposit Insurance Fund	7,094	16,644
<b>Total net surplus</b>	<b>60,845</b>	<b>94,541</b>

	2010 RM'000	2009 RM'000
<b>Deposit Insurance Funds</b>		
Conventional Deposit Insurance Fund	374,645	320,894
Islamic Deposit Insurance Fund	56,088	48,994
<b>Total Deposit Insurance Funds</b>	<b>430,733</b>	<b>369,888</b>

### DIRECTORS

The names of the Directors of PIDM in office during the financial year ended at 31 December 2010 were:

- Tan Sri Dato' Abdul Aziz Haji Taha (Chairman)
- Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz
- Tan Sri Dato' Sri Dr. Wan Abdul Aziz Wan Abdullah
- Tan Sri Dato' Sri Dr. Sulaiman Mahbob (retired on 14 August 2010)
- Datuk Dr. Abdul Samad Haji Alias
- Dato' Halipah Esa (appointed on 14 August 2010)
- Mr Michael Wong Kuan Lee (retired on 14 August 2010)
- Mr George Anthony David Dass
- Mr Lim Tian Huat (appointed on 14 August 2010)

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. Members of the Board of Directors of PIDM other than *ex-officio* members were appointed by the Minister of Finance in accordance with subsection 11(2) of the MDIC Act.

### 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 Director's 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 Islamic and Conventional Deposit Insurance Funds, there were no transfers to or from reserves and provisions during the financial year.

### BAD AND DOUBTFUL DEBTS

Before the Statement of Comprehensive Income and Statement of Financial Position of PIDM were finalised, the Directors took reasonable steps to ascertain that action had been taken in relation to the writing off of bad debts and the making of provisions for doubtful debts, and have satisfied themselves that there are no known bad debts to be written off or doubtful debts to be provided for.

As at the date of this report, the Directors are not aware of any circumstances that would require any amount to be written off as bad debts or debts which are considered doubtful that need to be provided for to any substantial extent.

### 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

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.

### GOVERNMENT DEPOSIT GUARANTEE

Since 16 October 2008, all Ringgit Malaysia and foreign currency deposits with commercial, Islamic, investment and international Islamic banks as well as deposit-taking

development financial institutions regulated by Bank Negara Malaysia were fully guaranteed by the Government of Malaysia until 31 December 2010. The Government Deposit Guarantee (GDG) covered all deposits not protected by PIDM and extended to all domestic and locally incorporated foreign banking institutions.

Each member bank and non-member financial institution guaranteed under the GDG were required to pay an annual guarantee fee to PIDM which was remitted to the Government for providing such guarantee.

During the period the GDG was in force, there were no calls on the Government guarantee.

In 2010, PIDM assessed guarantee fees totalling RM92 million (Islamic: RM18 million, Conventional: RM74 million) for the year of assessment 2009 and remitted the same to the Ministry of Finance. Guarantee fees for the year of assessment 2010 of RM88 million (Islamic: RM20 million, Conventional: RM68 million) were received and remitted to the Government on 7 February 2011.

### ENHANCED FINANCIAL CONSUMER PACKAGE

The MDIC Act 2011, which came into operation from 31 December 2010, allows the Minister of Finance to prescribe the deposit insurance limit by Order. The Minister of Finance prescribed a new deposit insurance limit of RM250,000 per depositor per member banks, which replaced the earlier limit of RM60,000. The new limit is effective 31 December 2010.

The MDIC Act also extends deposit insurance protection to foreign currency deposits and expands PIDM's mandate to administer a Takaful and Insurance Benefits Protection System which provides protection against the loss of part or all of takaful or insurance benefits for which an insurer member is liable. The MDIC Act 2011 further includes powers for PIDM to intervene in and resolve troubled insurer members.

### CONTINGENT LIABILITIES

#### Exposure to losses from insuring deposits

Under the MDIC Act, PIDM has an inherent exposure to losses resulting from insuring the deposits held by member banks. 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 require PIDM to record a specific provision in the financial statements in accordance with FRS 137 Provisions, Contingent Liabilities and Contingent Assets.

# FINANCIAL STATEMENTS

## DIRECTORS' REPORT

As part of its mandate, PIDM undertakes risk assessment and monitoring of all member banks and work closely with the supervisory authority to ensure that our concerns about the business and affairs of member banks are addressed promptly. However, PIDM necessarily relies on the supervisory authority to take prompt corrective action to mitigate the possibility of a member bank failure. Furthermore, 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. If a member bank is deemed non-viable by the supervisory authority, PIDM is mandated and has the necessary powers to intervene and resolve the member bank in a manner to minimise loss to the financial system.

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

If the relevant Fund was to ever be insufficient to meet obligations to depositors, 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.

### Exposure to losses from protecting takaful and insurance benefits

PIDM's mandate was expanded on 31 December 2010 to include the protection of takaful and insurance benefits. As a result, PIDM now has an inherent exposure to losses in the event of a takaful operator or insurance company failure. However, such inherent exposure to losses cannot be accurately ascertained or estimated with any acceptable degree of reliability. As at the date of the financial statements, there were no events which require PIDM to record a specific provision in accordance with FRS 137 Provisions, Contingent Liabilities and Contingent Assets.

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

If the relevant Fund was to ever be insufficient to meet obligations under TIPS, 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 control 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 and applicable Financial Reporting Standards (FRS) so as to give a true and fair view of the financial position of PIDM as at 31 December 2010, 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.
- ii) The Islamic Deposit Insurance Fund is maintained and administered in accordance with Shariah requirements, and is in compliance with the MDIC Act.

### AUDITORS

In accordance with the MDIC Act, 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 Dato' Abdul Aziz bin Haji Taha**  
Chairman of the Board of Directors



**Datuk Dr. Abdul Samad bin Haji Alias**  
Chairman of the Audit Committee

Kuala Lumpur  
23 February 2011

# FINANCIAL STATEMENTS

## STATEMENT BY DIRECTORS

We, Tan Sri Dato' Abdul Aziz bin Haji Taha and Datuk Dr. Abdul Samad bin Haji Alias, being two of the Directors of Perbadanan Insurans Deposit Malaysia (PIDM), do hereby state that, in the opinion of the Directors, the financial statements are drawn up in accordance with the provisions of the Malaysia Deposit Insurance Corporation Act (MDIC Act) 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 2010, 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 is 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 Dato' Abdul Aziz bin Haji Taha**  
Chairman of the Board of Directors



**Datuk Dr. Abdul Samad bin Haji Alias**  
Chairman of the Audit Committee

Kuala Lumpur  
23 February 2011



# 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 related 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 (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 2010, the results of its operations and its cash flows for the year ended on that date. The Islamic Deposit Insurance Fund is 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.

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 23 February 2011



**Jean Pierre Sabourin**  
Chief Executive Officer



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

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 2010

I have audited the financial statements of the Perbadanan Insurans Deposit Malaysia for the year ended 31 December 2010. 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 2010 and of the results of its operations and its cash flows for the year ended in accordance with the approved accounting standards.



**(TAN SRI DATO' SETIA HAJI AMBRIN BIN BUANG)**  
AUDITOR GENERAL  
MALAYSIA

PUTRAJAYA  
28 FEBRUARY 2011





# FINANCIAL STATEMENTS

## STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER

	Note	2010 RM'000	2009 RM'000
<b>ASSETS</b>			
Cash and cash equivalents	3	184,015	157,177
Investments			
<i>Held-to-maturity investments</i>	4	226,368	203,810
Other assets	5	3,551	1,536
Property and equipment	6	24,059	13,335
<b>Total Assets</b>		<b>437,993</b>	375,858
<b>LIABILITIES</b>			
Payables	7	7,260	5,970
<b>Total Liabilities</b>		<b>7,260</b>	5,970
<b>DEPOSIT INSURANCE FUNDS AND RESERVES</b>			
Conventional Deposit Insurance Fund	8a	374,645	320,894
Islamic Deposit Insurance Fund	8b	56,088	48,994
<b>Total Deposit Insurance Funds</b>		<b>430,733</b>	369,888
<b>Total Liabilities and Deposit Insurance Funds</b>		<b>437,993</b>	375,858

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

# FINANCIAL STATEMENTS

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER

	Note	2010 RM'000	2009 RM'000
Premium revenue	9	105,687	131,795
Investment income from cash and investment securities	10	9,314	7,594
Miscellaneous income		-	28
<b>Total revenues</b>		<b>115,001</b>	139,417
Employee benefits	11	26,409	22,209
Public relations and advertising		6,434	5,708
Depreciation	6	2,791	2,450
Operating leases		3,124	1,080
Other expenses	12	15,398	13,429
<b>Total expenses</b>		<b>54,156</b>	44,876
<b>Net surplus</b>		<b>60,845</b>	94,541

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 2010

	Note	Conventional Deposit Insurance Fund RM'000	Islamic Deposit Insurance Fund RM'000	Total RM'000
As at 1 January 2009	8	242,997	32,350	275,347
Net surplus for the year		77,897	16,644	94,541
As at 31 December 2009	8	320,894	48,994	369,888
<b>As at 1 January 2010</b>	<b>8</b>	<b>320,894</b>	<b>48,994</b>	<b>369,888</b>
<b>Net surplus for the year</b>		<b>53,751</b>	<b>7,094</b>	<b>60,845</b>
<b>As at 31 December 2010</b>	<b>8</b>	<b>374,645</b>	<b>56,088</b>	<b>430,733</b>

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

# FINANCIAL STATEMENTS

## STATEMENT OF CASH FLOWS

### FOR THE YEAR ENDED 31 DECEMBER

	Note	2010 RM'000	2009 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Premium receipts from member institutions		105,687	131,766
Payments in the course of operations to suppliers and employees		(53,167)	(39,871)
Receipts of investment income		7,532	8,503
Miscellaneous income		-	28
<b>Net cash flow from operating activities</b>		<b>60,052</b>	<b>100,426</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of investment securities		528,800	474,857
Purchase of investment securities		(549,013)	(488,784)
Purchase of property and equipment		(13,001)	(5,722)
<b>Net cash flow used in investing activities</b>		<b>(33,214)</b>	<b>(19,649)</b>
<b>Net increase in cash and cash equivalents</b>		<b>26,838</b>	<b>80,777</b>
Cash and cash equivalents at beginning of year		157,177	76,400
<b>Cash and cash equivalents at end of year</b>	3	<b>184,015</b>	<b>157,177</b>

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

# FINANCIAL STATEMENTS

## CONVENTIONAL DEPOSIT INSURANCE FUND

### STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER

	Note	2010 RM'000	2009 RM'000
<b>ASSETS</b>			
Cash and cash equivalents	3	153,200	133,886
Investments			
<i>Held-to-maturity investments</i>	4	204,222	179,129
Other assets	5	3,017	1,413
Property and equipment	6a	20,275	11,510
<b>Total Assets</b>		<b>380,714</b>	325,938
<b>LIABILITIES</b>			
Payables	7	6,069	5,044
<b>Total Liabilities</b>		<b>6,069</b>	5,044
<b>DEPOSIT INSURANCE FUND AND RESERVES</b>			
Conventional Deposit Insurance Fund	8a	374,645	320,894
<b>Total Deposit Insurance Fund</b>		<b>374,645</b>	320,894
<b>Total Liabilities and Deposit Insurance Fund</b>		<b>380,714</b>	325,938

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

# FINANCIAL STATEMENTS

## CONVENTIONAL DEPOSIT INSURANCE FUND

### STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER

	Note	2010 RM'000	2009 RM'000
Premium revenue	9	90,655	109,178
Investment income from cash and investment securities	10	8,078	6,649
Miscellaneous income		-	24
<b>Total revenues</b>		<b>98,733</b>	115,851
Employee benefits	11	21,881	18,720
Public relations and advertising		5,320	4,815
Depreciation	6a	2,433	2,169
Operating leases		2,588	912
Other expenses	12	12,760	11,338
<b>Total expenses</b>		<b>44,982</b>	37,954
<b>Net surplus</b>		<b>53,751</b>	77,897

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



# FINANCIAL STATEMENTS

## CONVENTIONAL DEPOSIT INSURANCE FUND

### STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER

	Note	2010 RM'000	2009 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Premium receipts from member institutions		90,655	109,149
Payments in the course of operations to suppliers and employees		(44,119)	(33,546)
Receipts of investment income		6,683	7,613
Miscellaneous income		-	24
<b>Net cash flow from operating activities</b>		<b>53,219</b>	<b>83,240</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of investment securities		455,622	383,237
Purchase of investment securities		(478,757)	(400,682)
Purchase of property and equipment		(10,770)	(4,827)
<b>Net cash flow used in investing activities</b>		<b>(33,905)</b>	<b>(22,272)</b>
<b>Net increase in cash and cash equivalents</b>		<b>19,314</b>	<b>60,968</b>
Cash and cash equivalents at beginning of year		133,886	72,918
<b>Cash and cash equivalents at end of year</b>	3	<b>153,200</b>	<b>133,886</b>

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

# FINANCIAL STATEMENTS

## ISLAMIC DEPOSIT INSURANCE FUND

### STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER

	Note	2010 RM'000	2009 RM'000
<b>ASSETS</b>			
Cash and cash equivalents	3	30,815	23,291
Investments			
<i>Held-to-maturity investments</i>	4	22,146	24,681
Other assets	5	534	123
Property and equipment	6b	3,784	1,825
<b>Total Assets</b>		<b>57,279</b>	<b>49,920</b>
<b>LIABILITIES</b>			
Payables	7	1,191	926
<b>Total Liabilities</b>		<b>1,191</b>	<b>926</b>
<b>DEPOSIT INSURANCE FUND AND RESERVES</b>			
Islamic Deposit Insurance Fund	8b	56,088	48,994
<b>Total Deposit Insurance Fund</b>		<b>56,088</b>	<b>48,994</b>
<b>Total Liabilities and Deposit Insurance Fund</b>		<b>57,279</b>	<b>49,920</b>

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

# FINANCIAL STATEMENTS

## ISLAMIC DEPOSIT INSURANCE FUND

### STATEMENT OF COMPREHENSIVE INCOME

#### FOR THE YEAR ENDED 31 DECEMBER

	Note	2010 RM'000	2009 RM'000
Premium revenue	9	15,032	22,617
Investment income from cash and investment securities	10	1,236	945
Miscellaneous income		-	4
<b>Total revenues</b>		<b>16,268</b>	23,566
Employee benefits	11	4,528	3,489
Public relations and advertising		1,114	893
Depreciation	6b	358	281
Operating leases		536	168
Other expenses	12	2,638	2,091
<b>Total expenses</b>		<b>9,174</b>	6,922
<b>Net surplus</b>		<b>7,094</b>	16,644

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

# FINANCIAL STATEMENTS

## ISLAMIC DEPOSIT INSURANCE FUND

### STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER

	Note	2010 RM'000	2009 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Premium receipts from member institutions		15,032	22,617
Payments in the course of operations to suppliers and employees		(9,048)	(6,325)
Receipts of investment income		849	890
Miscellaneous income		-	4
<b>Net cash flow from operating activities</b>		<b>6,833</b>	17,186
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of investment securities		73,178	91,620
Purchase of investment securities		(70,256)	(88,102)
Purchase of property and equipment		(2,231)	(895)
<b>Net cash flow from investing activities</b>		<b>691</b>	2,623
<b>Net increase in cash and cash equivalents</b>		<b>7,524</b>	19,809
Cash and cash equivalents at beginning of year		23,291	3,482
<b>Cash and cash equivalents at end of year</b>	3	<b>30,815</b>	23,291

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

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

1. PRINCIPAL ACTIVITIES

Perbadanan Insurans Deposit Malaysia (PIDM) is a statutory body established under the Malaysia Deposit Insurance Corporation Act 2005 (MDIC Act 2005). With effect from 31 December 2010, the MDIC Act 2005 was replaced by the Malaysia Deposit Insurance Corporation Act 2011 (MDIC Act 2011). The MDIC Act 2011 provisions on 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, provide insurance against the loss of part or all of deposits for which a member bank is liable, to provide incentives for sound risk management in the financial system and to promote or contribute to the stability of the financial system. PIDM is to carry out its functions and activities in such manner that will minimise the costs to the financial system. As of 31 December 2010, PIDM also administers a Takaful and Insurance Benefits Protection System (TIPS), which provides protection against the loss of part or all of takaful or insurance benefits for which an insurer member is liable.

The MDIC Act 2011 provides for separate coverage for Islamic and conventional deposits as well as for protected benefits in relation to family solidarity takaful, general takaful, life insurance and general insurance. To ensure proper governance and compliance with Shariah requirements, PIDM maintains and administers two separate funds for Islamic and conventional deposits. An additional four funds for the TIPS will be established and administered in 2011.

The Government Deposit Guarantee was administered by PIDM from 16 October 2008 to 31 December 2010, when it expired. Details are described in Note 19.

The office address of PIDM is at Level 12, Quill 7, No. 9, Jalan Stesen Sentral 5, Kuala Lumpur Sentral, 50470 Kuala Lumpur.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 23 February 2011.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of accounting

The financial statements have been prepared under the historical cost convention and in compliance with the MDIC Act. As a matter of policy, the financial statements are being prepared in accordance with applicable Financial Reporting Standards (FRS), which are the Malaysian Accounting Standards Board Approved Accounting Standards in Malaysia for Entities Other Than Private Entities.

The financial statements incorporate those activities relating to the administration of both Islamic and Conventional Deposit Insurance Funds of PIDM. The Islamic Deposit Insurance Fund is maintained and administered in accordance with Shariah requirements and in compliance with the MDIC Act.

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

2.2 Summary of significant accounting policies

(a) Financial instruments

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

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held at call 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 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) Investments

Investments 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. The amortisation of premiums and accretion of discounts are recognised in the Statement of Comprehensive Income.

(iii) 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.

(iv) 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.

(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 asset 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 period.

(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%



# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

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 taken directly to the Deposit Insurance Funds and Reserves.

### (d) Recognition of income and expenditure

All income and operating expenditures pertaining to the deposit insurance are recognised on an accrual basis. In accordance with the MDIC Act, the expenditures of PIDM which could not be directly attributed to a particular fund, or funds, are apportioned based on the proportion of the Islamic and conventional premiums received against total annual premiums immediately prior to the year in which such expenditures are incurred.

For the current financial year, the apportionment basis for deposit insurance system was determined based on the proportion of actual premiums received from member banks during the financial year ended 31 December 2009. The apportionment basis used for the Islamic Deposit Insurance Fund and the Conventional Deposit Insurance Fund during the financial year was 17.16% (2009: 15.64%) and 82.84% (2009: 84.36%) respectively. During the financial year, no income or expenditures have been assessed and incurred respectively in relation to the administration of TIPS.

Premium revenue is recognised in a financial period in respect of risks assumed during that particular financial period. Member banks pay annual deposit insurance 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 equity. Exchange differences arising from such non-monetary items are also recognised directly in equity.



# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

### 3. CASH AND CASH EQUIVALENTS

	2010		
	Total RM'000	Conventional RM'000	Islamic RM'000
Deposits with Bank Negara Malaysia	835	486	349
Cash on hand and at bank	7,759	7,158	601
Short-term investments: Malaysian Government Securities and Investment Issues	34,284	24,473	9,811
Bank Negara Malaysia Bills and Negotiable Notes	139,022	119,388	19,634
	173,306	143,861	29,445
Add: Accretion of discounts net of amortisation of premium	2,115	1,695	420
	175,421	145,556	29,865
<b>Total cash and cash equivalents</b>	<b>184,015</b>	<b>153,200</b>	<b>30,815</b>
Market values of short-term investments held as at 31 December 2010 are as follows:			
Malaysian Government Securities and Investment Issues	34,161	24,358	9,803
Bank Negara Malaysia Bills and Negotiable Notes	138,201	118,596	19,605
Total market values of short-term investments	172,362	142,954	29,408

	2009		
	Total RM'000	Conventional RM'000	Islamic RM'000
Deposits with Bank Negara Malaysia	820	390	430
Cash on hand and at bank	7,598	3,696	3,902
Short-term investments: Malaysian Government Securities and Investment Issues	82,928	64,162	18,766
Bank Negara Malaysia Bills and Negotiable Notes	65,208	65,208	-
	148,136	129,370	18,766
Add: Accretion of discounts net of amortisation of premium	623	430	193
	148,759	129,800	18,959
<b>Total cash and cash equivalents</b>	<b>157,177</b>	<b>133,886</b>	<b>23,291</b>
Market values of short-term investments held as at 31 December 2009 are as follows:			
Malaysian Government Securities and Investment Issues	83,727	64,764	18,963
Bank Negara Malaysia Bills and Negotiable Notes	64,874	64,874	-
Total market values of short-term investments	148,601	129,638	18,963

Short-term investments that have a term to maturity of less than 90 days are categorised as cash equivalents.

### 4. INVESTMENTS

	2010		
	Total RM'000	Conventional RM'000	Islamic RM'000
Malaysian Government Securities and Investment Issues	124,275	104,806	19,469
Bank Negara Malaysia Bills and Negotiable Notes	100,044	97,571	2,473
	224,319	202,377	21,942
Accretion of discounts net of amortisation of premium	2,049	1,845	204
<b>Total investments</b>	<b>226,368</b>	<b>204,222</b>	<b>22,146</b>
Market values of investments held as at 31 December 2010 are as follows:			
Malaysian Government Securities and Investment Issues	124,303	104,855	19,448
Bank Negara Malaysia Bills and Negotiable Notes	100,008	97,536	2,472
Total market values of investments	224,311	202,391	21,920

	2009		
	Total RM'000	Conventional RM'000	Islamic RM'000
Malaysian Government Securities and Investment Issues	202,612	177,976	24,636
Bank Negara Malaysia Bills and Negotiable Notes	-	-	-
	202,612	177,976	24,636
Accretion of discounts net of amortisation of premium	1,198	1,153	45
<b>Total investments</b>	<b>203,810</b>	<b>179,129</b>	<b>24,681</b>
Market values of investments held as at 31 December 2009 are as follows:			
Malaysian Government Securities and Investment Issues	203,761	179,065	24,696
Bank Negara Malaysia Bills and Negotiable Notes	-	-	-
Total market values of investments	203,761	179,065	24,696

Investments are denominated in Ringgit Malaysia.

The market values of investments in the Islamic and Conventional Deposit Insurance Funds as disclosed above are indicative of their fair values as at the end of the financial year and are determined by reference to indicative market prices as provided by Bank Negara Malaysia.

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

### 5. OTHER ASSETS

	2010		
	Total RM'000	Conventional RM'000	Islamic RM'000
Deposits and prepayments	3,090	2,576	514
Investment income receivables	337	337	-
Other assets	30	27	3
Other receivables	94	77	17
<b>Total other assets</b>	<b>3,551</b>	<b>3,017</b>	<b>534</b>

	2009		
	Total RM'000	Conventional RM'000	Islamic RM'000
Deposits and prepayments	873	758	115
Investment income receivables	571	571	-
Other assets	30	27	3
Other receivables	62	57	5
<b>Total other assets</b>	<b>1,536</b>	<b>1,413</b>	<b>123</b>

### 6. PROPERTY AND EQUIPMENT

2010	Office equipment and computer systems RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Office refurbishments RM'000	Asset under construction* RM'000	Total RM'000
<b>Cost</b>						
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	<b>9,096</b>	<b>3,034</b>	<b>412</b>	<b>9,728</b>	<b>9,424</b>	<b>31,694</b>
<b>Accumulated depreciation</b>						
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	<b>3,730</b>	<b>1,346</b>	<b>305</b>	<b>2,254</b>	<b>-</b>	<b>7,635</b>
<b>Net carrying amount as at 31 December 2010</b>	<b>5,366</b>	<b>1,688</b>	<b>107</b>	<b>7,474</b>	<b>9,424</b>	<b>24,059</b>

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



# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

### 6. PROPERTY AND EQUIPMENT (continued)

2009

	Office equipment and computer systems RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Office refurbishments RM'000	Asset under construction* RM'000	Total RM'000
<b>Cost</b>						
Balance as at 1 January 2009	2,113	1,728	412	3,055	3,846	11,154
Additions	166	-	-	195	7,030	7,391
Reclassifications	2,330	-	-	-	(2,330)	-
Retirements	-	-	-	-	-	-
Balance as at 31 December 2009	4,609	1,728	412	3,250	8,546	18,545
<b>Accumulated depreciation</b>						
Balance as at 1 January 2009	1,215	644	140	761	-	2,760
Charge for the year	1,392	345	83	630	-	2,450
Reclassifications	-	-	-	-	-	-
Retirements	-	-	-	-	-	-
Balance as at 31 December 2009	2,607	989	223	1,391	-	5,210
Net carrying amount as at 31 December 2009	2,002	739	189	1,859	8,546	13,335

\* Asset under construction amounting to RM8,546,563 (2008: RM3,845,937) consists of Payout System of RM6,082,655, Enterprise Portal of RM1,497,238, Risk Assessment System of RM580,075, Human Resource Information System of RM293,945 and System Infrastructure Hardening of RM92,650.

### 6. PROPERTY AND EQUIPMENT (continued)

#### a. Conventional Deposit Insurance Fund

2010

	Office equipment and computer systems RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Office refurbishments RM'000	Asset under construction RM'000	Total RM'000
<b>Cost</b>						
Balance as at 1 January 2010	4,023	1,568	374	2,933	7,286	16,184
Additions	1,299	-	-	-	9,899	11,198
Reclassifications	2,764	1,082	-	5,366	(9,212)	-
Retirements	(332)	-	-	-	-	(332)
Balance as at 31 December 2010	7,754	2,650	374	8,299	7,973	27,050
<b>Accumulated depreciation</b>						
Balance as at 1 January 2010	2,314	897	202	1,261	-	4,674
Charge for the year	1,275	320	75	763	-	2,433
Reclassifications	-	-	-	-	-	-
Retirements	(332)	-	-	-	-	(332)
Balance as at 31 December 2010	3,257	1,217	277	2,024	-	6,775
<b>Net carrying amount as at 31 December 2010</b>	<b>4,497</b>	<b>1,433</b>	<b>97</b>	<b>6,275</b>	<b>7,973</b>	<b>20,275</b>

## FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

## 6. PROPERTY AND EQUIPMENT (continued)

## a. Conventional Deposit Insurance Fund

2009

	Office equipment and computer systems RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Office refurbishments RM'000	Asset under construction RM'000	Total RM'000
<b>Cost</b>						
Balance as at 1 January 2009	1,917	1,568	374	2,769	3,463	10,091
Additions	-	-	-	164	5,929	6,093
Reclassifications	2,106	-	-	-	(2,106)	-
Retirements	-	-	-	-	-	-
Balance as at 31 December 2009	4,023	1,568	374	2,933	7,286	16,184
<b>Accumulated depreciation</b>						
Balance as at 1 January 2009	1,103	584	127	691	-	2,505
Charge for the year	1,211	313	75	570	-	2,169
Reclassifications	-	-	-	-	-	-
Retirements	-	-	-	-	-	-
Balance as at 31 December 2009	2,314	897	202	1,261	-	4,674
<b>Net carrying amount as at 31 December 2009</b>	1,709	671	172	1,672	7,286	11,510

## 6. PROPERTY AND EQUIPMENT (continued)

## b. Islamic Deposit Insurance Fund

2010

	Office equipment and computer systems RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Office refurbishments RM'000	Asset under construction RM'000	Total RM'000
<b>Cost</b>						
Balance as at 1 January 2010	586	160	38	317	1,260	2,361
Additions	269	-	-	-	2,048	2,317
Reclassifications	521	224	-	1,112	(1,857)	-
Retirements	(34)	-	-	-	-	(34)
Balance as at 31 December 2010	1,342	384	38	1,429	1,451	4,644
<b>Accumulated depreciation</b>						
Balance as at 1 January 2010	293	92	21	130	-	536
Charge for the year	214	37	7	100	-	358
Reclassifications	-	-	-	-	-	-
Retirements	(34)	-	-	-	-	(34)
Balance as at 31 December 2010	473	129	28	230	-	860
<b>Net carrying amount as at 31 December 2010</b>	869	255	10	1,199	1,451	3,784

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

### 6. PROPERTY AND EQUIPMENT (continued)

#### b. Islamic Deposit Insurance Fund

2009	Office equipment and computer systems RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Office refurbishments RM'000	Asset under construction RM'000	Total RM'000
Cost						
Balance as at 1 January 2009	196	160	38	286	383	1,063
Additions	166	-	-	31	1,101	1,298
Reclassifications	224	-	-	-	(224)	-
Retirements	-	-	-	-	-	-
Balance as at 31 December 2009	586	160	38	317	1,260	2,361
Accumulated depreciation						
Balance as at 1 January 2009	112	60	13	70	-	255
Charge for the year	181	32	8	60	-	281
Reclassifications	-	-	-	-	-	-
Retirements	-	-	-	-	-	-
Balance as at 31 December 2009	293	92	21	130	-	536
Net carrying amount as at 31 December 2009	293	68	17	187	1,260	1,825

### 7. PAYABLES

	2010		
	Total RM'000	Conventional RM'000	Islamic RM'000
Amount due to Bank Negara Malaysia	421	349	72
Sundry creditors	33	27	6
Other payables	6,134	5,128	1,006
Provision for unutilised leave	672	565	107
<b>Total payables</b>	<b>7,260</b>	<b>6,069</b>	<b>1,191</b>

	2009		
	Total RM'000	Conventional RM'000	Islamic RM'000
Amount due to Bank Negara Malaysia	250	211	39
Sundry creditors	30	25	5
Other payables	5,182	4,379	803
Provision for unutilised leave	508	429	79
<b>Total payables</b>	<b>5,970</b>	<b>5,044</b>	<b>926</b>

### 8. DEPOSIT INSURANCE FUNDS

#### a. Conventional Deposit Insurance Fund:

	2010 RM'000	2009 RM'000
Balance as at 1 January	320,894	242,997
Net surplus	53,751	77,897
Balance as at 31 December	374,645	320,894

#### b. Islamic Deposit Insurance Fund:

	2010 RM'000	2009 RM'000
Balance as at 1 January	48,994	32,350
Net surplus	7,094	16,644
Balance as at 31 December	56,088	48,994



FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

9. PREMIUM REVENUE

	2010		
	Total RM'000	Conventional RM'000	Islamic RM'000
First premiums	250	250	-
Annual premiums	105,437	90,405	15,032
<b>Total premium revenue</b>	<b>105,687</b>	<b>90,655</b>	<b>15,032</b>

	2009		
	Total RM'000	Conventional RM'000	Islamic RM'000
First premiums	-	-	-
Annual premiums	131,795	109,178	22,617
<b>Total premium revenue</b>	<b>131,795</b>	<b>109,178</b>	<b>22,617</b>

Premium revenue from member banks

Under the Malaysia Deposit Insurance Corporation (Annual Premium and First Premium) Order 2008, which took effect from the assessment year of 2008, the rates of Annual Premium are as follows:

(i) Rate for annual premium under the differential premium systems

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 (2) 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 was no lower than RM250,000.

(ii) Rate for first premium

In respect of a new member bank (as defined in Regulation 2 of the Malaysia Deposit Insurance Corporation (Differential Premium Systems) Regulations 2008) 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.

The first premiums payable by a member bank shall not be lower than RM250,000.

Premium revenue from insurer members

The first premium payable by each insurer member shall not be lower than RM250,000 and is due and payable in 2011.

10. INVESTMENT INCOME

	2010		
	Total RM'000	Conventional RM'000	Islamic RM'000
Malaysian Government Securities and Investment Issues	6,004	5,145	859
Bank Negara Malaysia Bills and Negotiable Notes	3,210	2,860	350
Placements in Money Market Repurchase Agreements	100	73	27
<b>Total investment income</b>	<b>9,314</b>	<b>8,078</b>	<b>1,236</b>

	2009		
	Total RM'000	Conventional RM'000	Islamic RM'000
Malaysian Government Securities and Investment Issues	5,378	4,880	498
Bank Negara Malaysia Bills and Negotiable Notes	2,133	1,719	414
Placements in Money Market Repurchase Agreements	83	50	33
<b>Total investment income</b>	<b>7,594</b>	<b>6,649</b>	<b>945</b>

The weighted average yield rates for investment securities that were effective during the financial year were 2.37% (2009: 2.25%) and 2.32% (2009: 2.42%) for the Islamic and conventional portfolio respectively.

11. EMPLOYEE BENEFIT EXPENSES

	2010		
	Total RM'000	Conventional RM'000	Islamic RM'000
Wages and salaries	21,940	18,175	3,765
Contributions to defined contribution plan	2,645	2,191	454
Provision for unutilised leave	92	77	15
Other benefits	1,732	1,438	294
<b>Total employee benefit expenses</b>	<b>26,409</b>	<b>21,881</b>	<b>4,528</b>

	2009		
	Total RM'000	Conventional RM'000	Islamic RM'000
Wages and salaries	18,437	15,553	2,884
Contributions to defined contribution plan	2,275	1,919	356
Provision for unutilised leave	80	45	35
Other benefits	1,417	1,203	214
<b>Total employee benefit expenses</b>	<b>22,209</b>	<b>18,720</b>	<b>3,489</b>

The number of employees at the end of the financial year was ninety nine (99) (2009: 72).

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

### 12. OTHER EXPENSES

	2010		
	Total RM'000	Conventional RM'000	Islamic RM'000
Audit fees	32	27	5
Directors' fees and remuneration*	362	300	62
Parking space rental	345	286	59
Pre-establishment expenses for TIPS	535	443	92
Printing and stationery	834	691	143
Professional and consultancy fees	7,445	6,167	1,278
Subscriptions and memberships	340	282	58
Training and development	1,544	1,279	265
Travelling	860	713	147
Telecommunication and computer systems	2,094	1,737	357
Website development and maintenance	25	21	4
Miscellaneous	982	814	168
<b>Total other expenses</b>	<b>15,398</b>	<b>12,760</b>	<b>2,638</b>

	2009		
	Total RM'000	Conventional RM'000	Islamic RM'000
Audit fees	30	25	5
Directors' fees and remuneration*	433	365	68
Parking space rental	281	237	44
Pre-establishment expenses for TIPS	-	-	-
Printing and stationery	1,065	899	166
Professional and consultancy fees	7,023	5,925	1,098
Subscriptions and memberships	343	291	52
Training and development	1,303	1,102	201
Travelling	548	462	86
Telecommunication and computer systems	1,679	1,419	260
Website development and maintenance	28	24	4
Miscellaneous	696	589	107
<b>Total other expenses</b>	<b>13,429</b>	<b>11,338</b>	<b>2,091</b>

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

### 13. TAXATION

PIDM is exempted from income tax at the statutory level.

### 14. OPERATING LEASES

PIDM has entered into a non-cancellable tenancy contract for the use of office space at Level 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 2 years (Fourth Term), both at a prevailing market rental rate subject to a minimum 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.

During the year, PIDM has 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 the lease commitment until its expiry.

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

	2010 RM'000	2009 RM'000
Future minimum lease payments:		
Not later than 1 year	5,876	999
Later than 1 year and not later than 5 years	18,377	1,349
<b>Total operating lease commitments</b>	<b>24,253</b>	<b>2,348</b>

### 15. CAPITAL COMMITMENTS

Approved and contracted for:  
Property and equipment

**Total capital commitments**

	2010 RM'000	2009 RM'000
Approved and contracted for: Property and equipment	3,169	5,811
<b>Total capital commitments</b>	<b>3,169</b>	<b>5,811</b>

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

16. RELATED PARTY DISCLOSURES

a. Transactions with related parties

- i. During the year, PIDM engaged the legal firm, Shook Lin & Bok (SLB), for the provision of legal advisory services to PIDM. One of PIDM's directors, Mr Michael Wong (retired as Director on 14 August 2010), was a contracted advisor to SLB. The fees charged were RM67,524 which is comparable to market prices. As at 31 December 2010, no amount is due to the firm. The Director was not involved in the selection process, nor did he participate in or deliberate on the decision by Management to contract the chosen firm. The Director also did not obtain or gain any benefits from the contract.
- ii. PIDM's Audit Committee Chairman, Datuk Dr. Abdul Samad is also the chairman of Bank Pembangunan Malaysia Berhad (Bank Pembangunan) since 1 August 2008. Bank Pembangunan was one of the financial institutions guaranteed under the Government Deposit Guarantee.

b. Remuneration of key management personnel

	2010 RM'000	2009 RM'000
Short-term benefits	10,080	7,912
Post employment benefits: Contributions to defined contribution plan	836	657
<b>Total remuneration of key management personnel</b>	<b>10,916</b>	<b>8,569</b>

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 12. Remuneration of key management personnel is also included in the employee benefits disclosure in Note 11.

17. 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 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 deposits.

a. Foreign currency risk

PIDM is currently not exposed to any currency risk as all 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 Investment Issues 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 values 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 values 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.

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 1 month RM'000	1-3 months RM'000	3-12 months RM'000	Total RM'000
<b>31 December 2010</b>						
<b>Fixed rate</b>						
Cash and cash equivalent	3	2.55	7,644	145,556	-	153,200
Investments	4	2.78	-	-	204,222	204,222
<b>31 December 2009</b>						
<b>Fixed rate</b>						
Cash and cash equivalent	3	1.83	4,086	129,800	-	133,886
Investments	4	1.90	-	-	179,129	179,129



FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

17. FINANCIAL INSTRUMENTS (continued)

Islamic Deposit Insurance Fund	Note	WAYR %	Within 1 month RM'000	1-3 months RM'000	3-12 months RM'000	Total RM'000
<b>31 December 2010</b>						
<b>Fixed rate</b>						
Cash and cash equivalent	3	2.63	950	29,865	-	30,815
Investments	4	2.76	-	-	22,146	22,146
<b>31 December 2009</b>						
<b>Fixed rate</b>						
Cash and cash equivalent	3	1.88	4,332	18,959	-	23,291
Investments	4	2.05	-	-	24,681	24,681

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. PIDM also has a funding framework to deal with funding requirements of intervention or failure resolution activities.

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's investments in short-term and medium-term securities 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 only invests in Malaysian Government Securities and Investment Issues, 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 its investment assets as being minimal.

f. Fair values

Generally, the carrying values of financial assets and liabilities of the Islamic Deposit Insurance Fund and the Conventional Deposit Insurance Fund approximate to their fair values, except for the investments in Malaysian Government Securities and Investment Issues; and Bank Negara Malaysia Bills and Negotiable Notes whereby the fair value may be represented by the market values of these securities as noted in Notes 3 and 4.

18. CURRENCY

All amounts are stated in Ringgit Malaysia.

19. GOVERNMENT DEPOSIT GUARANTEE

Since 16 October 2008, all Ringgit Malaysia and foreign currency deposits with commercial, Islamic, investment and international Islamic banks as well as deposit-taking development financial institutions regulated by Bank Negara Malaysia were fully guaranteed by the Government of Malaysia until 31 December 2010. The Government Deposit Guarantee (GDG) covered all deposits not protected by PIDM and extended to all domestic and locally incorporated foreign banking institutions.

Each member bank and non-member financial institution guaranteed under the GDG were required to pay an annual guarantee fee to PIDM which was remitted to the Government for providing such guarantee.

During the period the GDG was in force, there were no calls on the Government guarantee.

In 2010, PIDM assessed guarantee fees totalling RM92 million (Islamic: RM18 million, Conventional: RM74 million) for the year of assessment 2009 and remitted the same to the Ministry of Finance. Guarantee fees for the year of assessment 2010 of RM88 million (Islamic: RM20 million, Conventional: RM68 million) were received and remitted to the Government on 7 February 2011.

20. ENHANCED FINANCIAL CONSUMER PACKAGE

The MDIC Act 2011, which came into operation on 31 December 2010, allows the Minister of Finance to prescribe the deposit insurance limit by Order. The Minister of Finance prescribed a new deposit insurance limit of RM250,000 per depositor per member bank, which replaced the earlier limit of RM60,000. The new limit is effective 31 December 2010.

The MDIC Act also extends deposit insurance protection to foreign currency deposits and expands PIDM's mandate to administer a Takaful and Insurance Benefits Protection System which provides protection against the loss of part or all of takaful or insurance benefits for which an insurer member is liable. The MDIC Act 2011 further includes powers for PIDM to intervene in and resolve troubled insurer members.

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010



### 21. CONTINGENT LIABILITIES

#### Exposure to losses from insuring deposits

Under the MDIC Act, PIDM has an inherent exposure to losses resulting from insuring the deposits held by member banks. 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 require PIDM to record a specific provision in the 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 banks and works closely with the supervisory authority to ensure that our concerns about the business and affairs of member banks are addressed promptly. However, PIDM necessarily relies on the supervisory authority to take prompt corrective action to mitigate the possibility of a member bank failure. Furthermore, 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. If a member bank is deemed non-viable by the supervisory authority, PIDM is mandated and has the necessary powers to intervene and resolve the member bank in a manner to minimise loss to the financial system.

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

If the relevant Fund was to ever be insufficient to meet obligations to depositors, 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.

#### Exposure to losses from protection of takaful and insurance benefits

PIDM's mandate was expanded on 31 December 2010 to include the protection of takaful and insurance benefits. As a result, PIDM now has an inherent exposure to losses in the event of a takaful operator or insurance company failure. However, such inherent exposure to losses cannot be accurately ascertained or estimated with any acceptable degree of reliability. As at the date of the financial statements, there were no events which require PIDM to record a specific provision in accordance with FRS 137 Provisions, Contingent Liabilities and Contingent Assets.

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

If the relevant Fund was to ever be insufficient to meet obligations under TIPS, 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 5:  
OVERVIEW OF MEMBERSHIP

*Boosting foundations for strong and  
effective partnerships...*





# OVERVIEW OF MEMBERSHIP

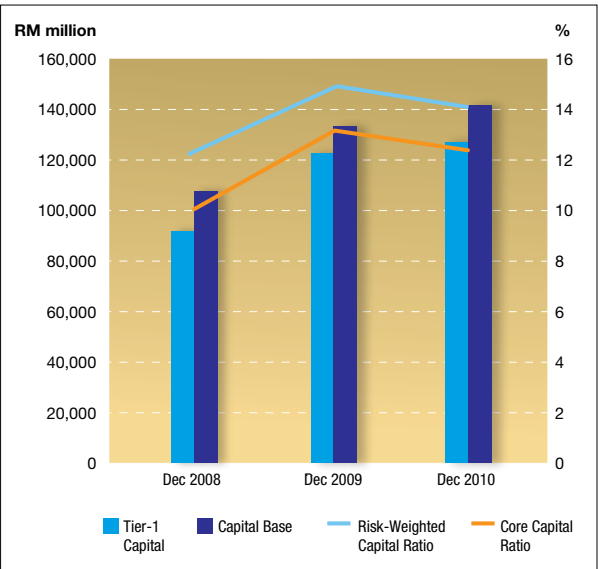
## OVERVIEW OF MEMBERSHIP - 2010

The year 2010 saw a better operating environment with improved business and consumer sentiments. The buoyant operating environment was translated into a double-digit loans growth that contributed to improved profits for most member banks. Overall, we observe gradual improvements in the risk profiles of member banks attributable to the continuous enhancement in risk management practices and vigorous supervision by Bank Negara Malaysia (BNM). Collectively, the member banks remained resilient with solid capitalisation levels, stable asset quality, improved profitability and ample liquidity. The strong performance of member banks has strengthened the confidence of the public in the financial system as a whole.

With the improved sentiments and confidence, some member banks have also been venturing abroad through either acquisitions or expansion of branch network, as part of efforts to strengthen their regional presence and diversification of income. This development is viewed positively as the member banks will be able to tap into the growing markets in the region as the domestic market becomes more competitive. Nevertheless, we are mindful of the risks inherent when operating in any foreign jurisdiction, and these member institutions will be closely monitored.

### STRONG CAPITAL POSITION

Chart 15: Capital Position

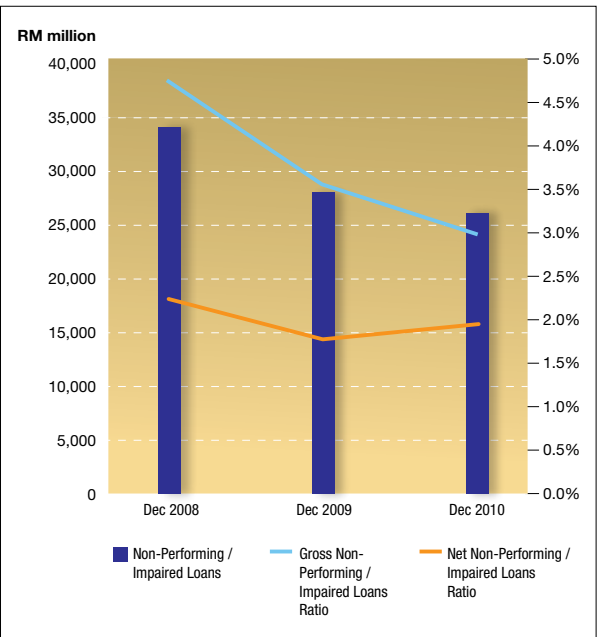


The capital position of member banks remained strong despite a notable increase in risk-weighted assets as a result of loans growth. The common capital adequacy measure, the risk-weighted capital ratio (RWCR), stood at 14.2% as at end-December 2010 (December 2009:

14.9%<sup>1</sup>), well above the minimum regulatory requirement of 8%. In tandem with this, the core capital ratio, which is a measurement of the quality of capital, remained strong at 12.4% as at end-December 2010 (December 2009: 13.3%<sup>1</sup>). Tier-1 capital forms about 82% of the member banks' capital securities. The high core capital also translated into a respectable leverage ratio of 11.7 times the total assets of the membership as at end-December 2010 (end-December 2009: 10.9 times).

### RESILIENT AND STABLE ASSET QUALITY

Chart 16: Selected Asset Quality Indicators



Note: Beginning January 2010, loans are reported based on Financial Reporting Standard (FRS) 139. The adoption of FRS 139 requirement is based on the financial year of the banks.

A well-preserved asset quality is crucial in maintaining a healthy banking system. It is encouraging to see the member banks' overall asset quality remaining stable even with the adoption of the Financial Reporting Standard (FRS) 139 requirement by member banks effective January 2010. The absolute impaired loans reduced by 5.2% year-on-year to stand at RM26.7 billion as at end-December 2010. Gross and net non-performing / impaired loans ratio remained good at 3.0% and 2.0% respectively as at end-December 2010.

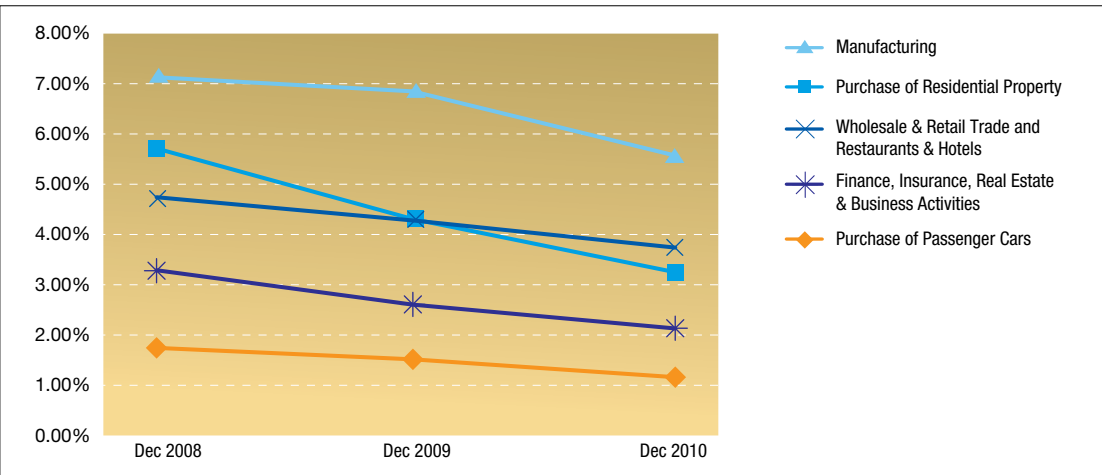
Total loans and advances stood at RM878.8 billion as at end-December 2010 to register a growth of 12.8% year-on-year, higher than the 8.0% growth recorded in 2009. We also note that the composition of loans as a proportion of

<sup>1</sup> Extracted from BNM Monthly Statistical Bulletin December 2010

total assets has increased to 60.1% as at end-December 2010 from 57.6% as at end-December 2009, supported by robust lending activities in 2010. The household sector continued to drive the loan base expansion, contributing close to 60.0% of the overall loans growth. Lending to the household sector recorded a higher growth of 13.4% year-on-year as at end-December 2010, compared with 9.7% in 2009. The growth in the household sector was mainly driven by lending to the residential property segment, which represented close to 50.0% of the household sector.

While the member banks' lending pace has increased, the default rates of the core loan segments remained stable. Nonetheless, the Corporation acknowledges the lag effect of loan growth on asset quality and will continue to monitor the growth trend as well as concentrated lending. Positively, the strong growth has been largely supported by continuous enhancement in credit underwriting standards, monitoring mechanisms for early detection of deteriorating credit, collection systems as well as improving management information systems for better portfolio analysis.

Chart 17: Default Rate of Selected Lending Sectors / Segments

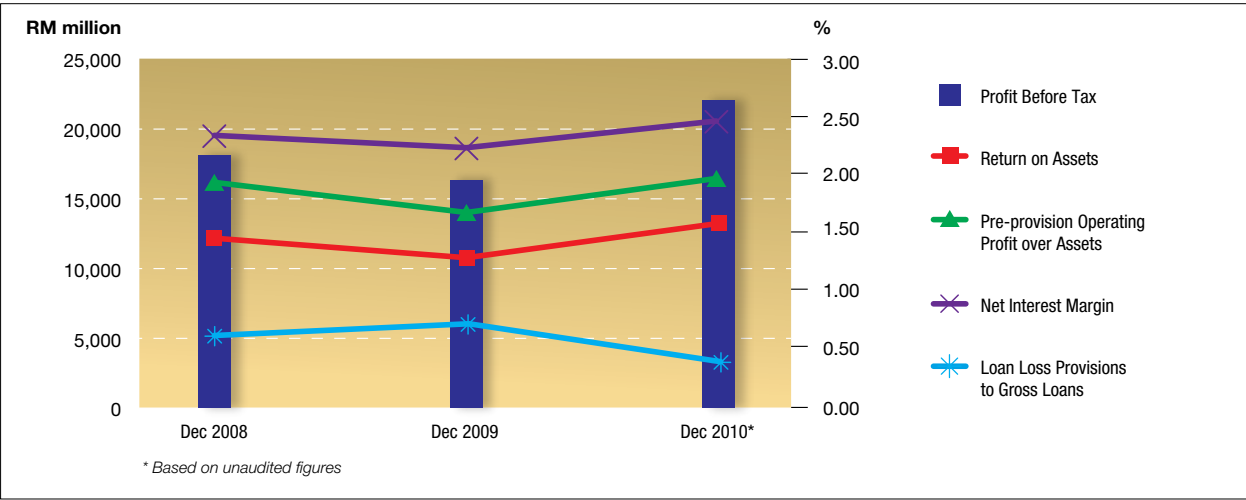


# OVERVIEW OF MEMBERSHIP

## OVERVIEW OF MEMBERSHIP - 2010

### EARNINGS PERFORMANCE TRENDS HIGHER

Chart 18: Trends in Profitability



The improved operating environment in 2010, coupled with stable asset quality, led to sustainable profit trends for the member banks. Some member banks have also reaped the benefits from the favourable economic conditions in other Asian countries that they operate in. The unaudited profit before tax of the membership for 2010 stood at RM22.1 billion, up 37.7% compared with RM16.1 billion in 2009. This was also partly contributed by the lower impairment provisions in 2010 vis-à-vis 2009.

In tandem with the higher absolute profits, the ratio of return on assets (ROA) improved to 1.6% in 2010 from 1.3% in 2009. This is supported by higher net interest income with net interest margin improving slightly to 2.4% from 2.3% previously. The underlying profitability of member banks will be continuously analysed, especially on the level of competition that might affect the margins.

### AMPLE LIQUIDITY AND FUNDING

With ample liquidity in the market presently, there are no immediate concerns on the liquidity of member banks. All member banks met the compliance requirements set by BNM under the New Liquidity Framework.

Deposits from customers registered a growth of 7.4% or RM75.1 billion year-on-year as at end-December 2010. Interest rates during the year [the Overnight Policy Rate (OPR) was revised upwards three times in 2010 from 2.0% to 2.25% in March, 2.5% in May and 2.75% in July] contributed to the increase in deposit levels. Nonetheless, we note that the bigger growth in loans and advances has outweighed the growth in deposits and has resulted in higher loan-to-deposit (LD) ratio of 79.9% as at end-December 2010 (end-December 2009: 76.1%). At this level, the LD ratio is considered good and indicates that the member banks have sufficient deposits to fund future loans expansion.

Despite the overall good liquidity and funding growth, the Corporation will continue to monitor the composition of deposits, especially the concentration of deposits to wholesale depositors. Customer deposits were mainly from individuals (36.6%), domestic business enterprises (36.2%) and the Government (7.2%). Liquidity has become a major area of assessment, especially in light of the global financial crisis in 2008, and good asset liability management is crucial in managing funding and liquidity risks.

### OUTLOOK AND CONCLUSION

2010 was a good year for member banks, with improved profitability and sustained asset quality supported by strong capital. We expect confidence in the overall financial system to be sustained and from our continuous monitoring of the risk profiles of member banks, we do not anticipate any issues that would affect their viability in the intermediate term.

The year 2011 is expected to continue to be a vibrant yet challenging year for member banks. It is essential for our members to remain vigilant and continue with prudent management of the institutions. Continuous monitoring of the developments and the pace of recovery in other external economies is important. The possibility of

increasing interest rate scenario may also be a challenge to the financial sector. In addition, members may also face increased competition in the market with the impending operations of the six new commercial banks that were granted licenses in 2010. We anticipate regulators to continue with measures and initiatives to further strengthen the overall risk management practices of member banks, including the area of capital and liquidity management. The Corporation will remain alert to developments in the financial sector as part of our mandate to promote the stability of the financial system.



Section 6:  
ARTICLES



*Nurturing the environment  
to cultivate future success...*



# ARTICLES

## TRANSITION PACKAGE TO EXIT GOVERNMENT DEPOSIT GUARANTEE

### INTRODUCTION

The Malaysian Government announced a temporary Government Deposit Guarantee (GDG) that took effect from 16 October 2008 to 31 December 2010. PIDM was responsible for administering the GDG. The full guarantee covered all Ringgit and foreign currency deposits with commercial, Islamic and investment banks, and deposit-taking development financial institutions regulated by Bank Negara Malaysia (BNM). The guarantee was extended to all domestic and locally incorporated foreign banking institutions.

Malaysia implemented the GDG as a pre-emptive and precautionary measure to prevent potential contagion stemming from cross-border capital flows, the possibility of deposit insurance arbitrage and the likelihood of competitive distortions among banks across jurisdictions.

When the GDG was implemented, the Malaysian economic conditions were fundamentally sound, with depositors' confidence intact. The flow of capital was not significantly large or unusually volatile, and there was still ample liquidity in the financial system to support economic growth. The banking institutions were also sound and well capitalised. They were well regulated and supervised by BNM with PIDM reinforcing financial discipline and sound business practices. PIDM's Differential Premium Systems, powers to impose premium surcharge for non-compliance and regulations such as the Terms and Conditions of Membership provided incentives for sound risk management.

The distortionary effects and potential fiscal risks that come with a GDG required that the guarantee be removed as soon as economic conditions permit. However, the transition or exit from a blanket guarantee can be complex. As it involves managing public perception, careful planning and execution was required. The primary objective in a transition from a blanket guarantee to normal conditions is to ensure that public confidence in the safety of their deposits and the stability of the financial system is maintained.

This article describes PIDM's plans for a smooth exit from the GDG and the execution of these plans.

### PLANNING FOR A SMOOTH TRANSITION

Recognising the importance of early planning for a smooth exit, PIDM first broadly devised the transition plans at about the same time as the conception of the GDG, as part of a comprehensive approach to the design of the GDG. Three key elements of our transition plan were identified and initiatives were built around them.

#### *Element 1: The credibility of PIDM with the public will be maintained during the period of the GDG*

Being the agency responsible for the transition out of the GDG, it was critically important for PIDM to be credible in the eyes of the public. Without depositors having confidence in the capability of PIDM, as the national deposit insurer, to ensure the safety of their deposits, it would be challenging to successfully manage and execute the transition plans. A strategic part of our efforts revolved around promoting and reinforcing depositors' understanding of the role of PIDM within the safety net framework throughout the period of the GDG. Measures implemented to maintain and promote the role of PIDM included:

- An official press statement by the Minister of Finance announcing that PIDM was responsible for administering the GDG on behalf of the Government. Hence, in the eyes of the public, PIDM was the official face or guarantor for all the guaranteed deposits. This required depositors to deal with PIDM on all matters relating to the GDG;
- PIDM continued to administer the explicit limited deposit insurance system and insure deposits up to RM60,000 while the Government provided a blanket guarantee for deposits over and above the deposit insurance limit and for other deposits not protected by PIDM. Transitioning would then be easier as Malaysia would be reverting to an existing explicit deposit insurance system;
- A comprehensive public awareness campaign to educate the public on the GDG was also conducted, which also helped to maintain PIDM's visibility with depositors; and
- The responsibility for PIDM to recommend the Enhanced Financial Consumer Protection Package and to handle all media enquiries.

#### *Element 2: Mitigating moral hazard to ensure the GDG would not affect the soundness of member banks*

Government guarantees are often associated with moral hazard problems. The belief that the authorities will always step in to rescue companies and banks may encourage them to take excessive risk. To manage this, PIDM incorporated several design features into the GDG plan. First, member banks were subjected to heightened oversight and supervision by BNM and PIDM to prevent excessive risk taking. Second, guaranteed institutions were prohibited from using the GDG as a marketing device to attract deposits. Third, an annual guarantee fee was imposed on all guaranteed institutions. The fee was computed based on the amount of deposits protected under the GDG. PIDM also entered into a loss-coverage agreement with the Government to administer the GDG. Under this agreement, PIDM would collect the guarantee fee on behalf of the Government and in the event of a failure of a member bank during the GDG period, PIDM would be responsible for resolution costs and losses to the extent of the deposit insurance limits and the Government would cover the same for deposits covered under the GDG. Fourth, while announcing the GDG, the Government made it clear that the guarantee was temporary and that it would expire on 31 December 2010. This fact was reinforced by PIDM's communications programmes during the GDG period.

#### *Element 3: Establishing a strong culture of collaboration with key safety net players*

The effectiveness of any transition plan is dependent on the support and coordination of all key safety net players, especially the supervisor. The transitioning was made easier because PIDM and BNM had established a strong culture of collaboration since PIDM's establishment in 2005. PIDM and BNM had developed the features of the GDG jointly. PIDM was also entrusted by the Government to develop and drive the transition process and the management of the GDG. All safety net parties recognised that maintaining financial stability was the key objective in the implementation of the GDG.

### THE TRANSITION PACKAGE

Work began on the Exit Plan within six months after the implementation of the GDG. Central to the Exit Plan was a transition package designed to mitigate public concerns about the expiry of the GDG. The transition package included an enhanced financial consumer protection package and measures.

#### (i) The Enhanced Financial Consumer Protection Package

Deciding what would replace the GDG was one of the most critical transitioning issues. Hence, PIDM invested much time and thought in developing an appropriate financial consumer protection package and the key messages to be conveyed to depositors during the transition. It was important that depositors should not perceive that a benefit was being removed with the expiry of the GDG. The Enhanced Financial Consumer Protection Package had four components:

- (a) The first component was to raise the deposit insurance limit. To exit the GDG successfully, we thought it was important to provide for a higher limit and scope of coverage and to keep in tandem with the growing economic wealth of Malaysian depositors. The aim was to provide a limit that would exceed the public's expectations. Also, the new limit would need to meet depositors' needs for the next five years since the limit would not be reviewed until 2016. The previous RM60,000 deposit insurance limit implemented in 2005 covered about 96% of depositors in full and 30% of the value (total insured deposits over total insurable deposits) in 2008. Under the proposed new limit of RM250,000, the coverage, in terms of depositors and value, would increase to 99% and 49%, respectively.
- (b) The second component was to expand the scope of coverage to include foreign currency deposits in support of a broader plan to develop a more vibrant foreign currency market in Malaysia.
- (c) The third component was to extend protection to owners of takaful certificates and insurance policies. The explicit Takaful and Insurance Benefits Protection System (TIPS) provides protection against the loss of part or all of takaful or insurance benefits in the unlikely event of a failure of a takaful operator or an insurance company. The primary aim is to ensure takaful certificate and insurance policy owners enjoy government-backed financial consumer protection similar to that provided for depositors. The implementation of TIPS is also expected to promote the growth of the insurance and takaful industry. The insurance industry in Malaysia plays an important economic role as intermediaries for mobilising savings and Malaysians are increasingly using insurance policies as a savings option.

ARTICLES

TRANSITION PACKAGE TO EXIT GOVERNMENT DEPOSIT GUARANTEE

TIPS is patterned along the same lines as the deposit insurance system with adjustments to cater to the unique nature and features of insurance and takaful business. This is to ensure a level playing field between banks, insurance companies and takaful operators. Consistent with the deposit insurance system, TIPS also ensures equitable treatment of takaful certificate and insurance policy owners.

To ensure fairness between the banking and insurance sectors, TIPS was designed to protect over 95% of all insurance policy and takaful certificate owners based on the limit and scope of coverage set out in Tables 1 and 2.

Table 1: Protected Benefits for General Takaful and General Insurance

GENERAL TAKAFUL AND GENERAL INSURANCE	
Protected Benefits	Limits (Policies / Plans)
1. Loss of or damage to an immovable property located in Malaysia	RM500,000 per property
2. Loss of or damage to a movable property transit in or out of Malaysia (other than motor vehicle, waterborne vessel and aircraft)	RM500,000 per property
3. Loss of or damage to third-party property located in Malaysia (indemnifiable pursuant to public liability or product liability policy)	RM500,000 per property
4. Loss of or damage to a motor vehicle registered in Malaysia or damaged while in Malaysia	RM500,000 per property
5. Loss of or damage to third-party property (indemnifiable pursuant to motor vehicle policy)	RM500,000 per property
6. Loss of or damage to waterborne vessel and aircraft	RM500,000 per property
7. Loss of or damage to third-party property (indemnifiable pursuant to waterborne vessel and aircraft policy)	RM500,000 per property
8. Death and related benefits	RM500,000
9. Permanent disability	RM500,000
10. Critical illness	RM500,000
11. Disability income	RM10,000 per month
12. Medical expenses	100% of expenses incurred
13. Refundable prepaid premiums	100% of amount prepaid
14. Death of a third party	RM500,000
15. Permanent disability of a third party	RM500,000
16. Illness or bodily injury of a third party	RM500,000
17. Disability income of a third party	RM10,000 per month
18. Medical expenses of a third party	100% of expenses incurred
Persons eligible: Covers certificate and policy owners of Ringgit-denominated Malaysian policies	

Table 2: Protected Benefits for Family Solidarity Takaful and Life Insurance

FAMILY SOLIDARITY TAKAFUL AND LIFE INSURANCE	
Protected Benefits	Limits (Individual or Group Policies / Plans)
1. Death and related benefits	RM500,000
2. Permanent disability	RM500,000
3. Critical illness	RM500,000
4. Maturity value (excluding unit portion of investment-linked policies)	RM500,000
5. Accumulated cash dividend	RM100,000
6. Surrender value	RM500,000
7. Disability income	RM10,000 per month
8. Annuity income	RM10,000 per month
9. Medical expenses	100% of expenses incurred
10. Refundable prepaid premiums	100% of amount prepaid
Persons eligible: Covers certificate and policy owners of Ringgit-denominated Malaysian policies	

(d) The fourth component was the introduction of a new Provision of Information on Deposit Insurance Regulations 2011 that enhances financial protection through greater product transparency and disclosure. PIDM has an obligation to ensure depositors receive accurate, relevant and timely information on deposit insurance matters. These Regulations, among other things, require member banks to deliver clear representations about their membership in PIDM in their advertisements; disclose, at the point of sale, whether a deposit product is eligible for deposit insurance protection; provide accurate information on deposit insurance and its benefits to depositors; and provide depositors with a copy of PIDM's information brochure on the opening of a new bank account.

The underlying key considerations for the Regulations are to ensure product transparency for depositors and to give them easy access to relevant and timely deposit insurance information. For this purpose, member banks are required to provide information about the features of their new deposit products to PIDM before they are marketed so that PIDM can determine whether the products are eligible for deposit insurance coverage or not. All such information is captured by our Product Registry System and provides a record of all deposit products offered by member banks that have been certified by PIDM as eligible for deposit insurance. Depositors will be able to request, at any point in time, the list of eligible deposit insurance products offered by their bank. Hence, there will be less confusion about which products are insured and which are not.

ARTICLES

TRANSITION PACKAGE TO EXIT GOVERNMENT DEPOSIT GUARANTEE

(ii) Enhancing the capacity and capability of PIDM to meet its mandate

We have an internal policy to stress-test our legislation to ensure we are able to meet our mandate effectively and efficiently. For this purpose, a comprehensive review of the Malaysia Deposit Insurance Corporation Act (MDIC Act) was conducted, leading to the tabling of the new MDIC Bill 2010 in Parliament on 30 November 2010 to expand PIDM's mandate and also to provide additional intervention and resolution tools.

It proved to be a timely review as the 2008 global financial crisis highlighted one important lesson, which is that depositors lack confidence in deposit insurers that cannot demonstrate their capacity and capability to meet their mandate, whether in reimbursing depositors or in resolving troubled banks. The new MDIC Act provides PIDM with adequate powers, a wider toolkit and greater flexibility to fulfil its mandate of maintaining and promoting public confidence and the stability of the financial system.

The new legislation also includes a package of stabilisation measures aimed at providing flexibility to respond to the needs of depositors in the event of a crisis. The key provisions of MDIC Act are highlighted below:

- Authority to increase deposit insurance beyond the approved deposit insurance limit. This authority enables PIDM to recommend to the Minister of Finance a new limit by way of subsidiary legislation. The objective is to provide a quick mechanism to respond to and neutralise any emerging threats to financial stability. In line with this authority, the new MDIC Act no longer specifies a statutory deposit insurance limit;
- Financial institutions which are not member institutions of PIDM can be prescribed as members of the deposit insurance system. Under the repealed Act, "member institutions" referred only to commercial and Islamic banks. There are, however, other financial institutions which could conceivably become systemically important. To maintain public confidence in the overall stability of the financial system, it may be necessary to provide deposit insurance for such institutions. Hence, there are now legislative provisions for the Minister of Finance to prescribe other financial institutions as member institutions on the recommendation of PIDM and BNM;

- Authority for the Minister of Finance to prescribe the rate of annual premiums. The repealed Act provided for the annual premium rate to be capped at 0.5% of the total insured deposits held by a member bank. Given the lessons learnt from the recent financial crisis with regard to challenges in rebuilding deposit insurance funds, the cap for the premium rate was removed so that PIDM can recommend to the Minister of Finance any premium rate or rates, for greater flexibility; and
- Authority for PIDM to establish and implement a bridge institution, as part of its powers to deal with troubled member banks so that it may fulfil its mandate more effectively and efficiently. Under the repealed Act, PIDM was conferred with certain intervention and resolution powers in respect of a troubled member bank. These powers included the authority for PIDM or its appointed person to assume control of the member bank, to appoint a receiver, or to apply to the court for a winding-up order.

Under the bridge institution option, PIDM is empowered to transfer certain assets and liabilities from the troubled member bank to a bridge institution, which will operate as a bank. The bridge institution will be stabilised and rehabilitated to be returned to the private sector in due course.

IMPLEMENTATION STRATEGIES

PIDM also focused considerable efforts on formulating the exit strategies for implementing the Transition Package. From PIDM's perspective, the execution strategies were an integral component of the Exit Plan and the most critical part of the Transition Package. Without a set of well-thought-out strategies, the objective of a smooth transition could be undermined.

Our first strategy involved an early announcement by the Prime Minister of Malaysia on 11 May 2010 on the Enhanced Financial Consumer Protection Package. The purpose of making the announcement more than seven months before the expiry of the GDG was to reiterate the Government's commitment to exit the blanket guarantee by 31 December 2010 and to announce the Enhanced Financial Consumer Protection Package. This provided certainty for depositors so that they would be better prepared and have enough time to assess the benefits of the enhanced package, ahead of the exit. The early announcement of the enhanced package also afforded PIDM a good opportunity to monitor public sentiments on the proposed package.

Understanding and acceptance by the public is key to public confidence during the transition and after the exit date. To achieve this, PIDM implemented a comprehensive public awareness and communications programme targeted to reach a large segment of the public. The communications approach adopted was to position the enhanced package as a "good news" story, with strong emphasis on its benefits. Another key message was the importance of an effective deposit insurer in contributing to the stability of the country's financial system at all times.

The public were encouraged to provide their views on the proposed enhanced deposit insurance limit and scope of coverage as well as the benefits proposed under TIPS. This was achieved through communications with the public via our Call Centre and website at [www.pidm.gov.my](http://www.pidm.gov.my) and through focus group sessions held in several parts of the country. The feedback received greatly helped PIDM in testing and managing public perception and fine-tuning the Transition Package and the Exit Plan strategies.

Various channels of communications were used, including media and print advertisements. Hence, in conjunction with PIDM's fifth anniversary in September, a five-part advertorial was also featured in Bahasa Malaysia, English and Chinese dailies to highlight PIDM's role and its achievements. In the last quarter of 2010, radio commercials were also aired to reinforce awareness on the role of PIDM as the protector of deposits. The communications and public awareness programmes on the Transition Package will be intensified in the first quarter of 2011 to reinforce consumer confidence. These will include advertisements across key media platforms to highlight the new limit and the launch of TIPS. New information brochures and handbooks on deposit insurance and TIPS as well as corporate information video and posters will be distributed in conjunction with the implementation of the new package.

Our second strategy was to adopt a quick exit from the GDG. This was preferred over a gradual or staggered exit because of the long-tail challenges as well as the moral hazard risks of such an option. Furthermore, Malaysia's strong economic fundamentals allow the adoption of a quick exit. Malaysia's economic environment, and the banking sector in particular, had ample liquidity and our member banks were well capitalised. In addition, the central bank's foreign exchange reserves were strong and the financial safety net framework was credible in the eyes of the public.

The third strategy involved determining whether economic and financial conditions were conducive to support the transition to the existing explicit limited deposit insurance system. PIDM and BNM remained vigilant to potential emerging financial risks and economic challenges throughout the GDG period, but more so during the run-up to the expiry of the GDG. PIDM and BNM monitored the economic and financial conditions closely as well as the movement of deposit liabilities in the financial system.

A smooth transition out of a blanket guarantee cannot be achieved solely by one safety net player. While the design of the Exit Plan was PIDM's responsibility, its execution required team work from the other safety net players. As different safety net players were responsible for different tasks, close coordination and cooperation among the financial safety net players was a critical element of our execution strategies. This was the fourth strategy. To ensure that the transition was carried out effectively, PIDM needed buy-in from the other safety net players to the Exit Plan. Hence, PIDM worked closely with BNM and the Minister of Finance by keeping them posted on the Exit Plan and the execution strategies. Working in collaboration helped minimise conflicting signals and messages, which not only could seriously undermine public confidence, but, in turn, affect the credibility of the safety net players.

CONCLUSION

Planning and executing an exit plan from a blanket guarantee can be complex. However, it can be successfully implemented with good planning, an effective public awareness campaign and close collaboration with other safety net players, as the Malaysian experience has demonstrated. And central to the successful execution of the Exit Plan by PIDM was a credible Transition Package which was well received and delivered, hence, mitigating public concerns about the expiry of the GDG. The successful execution of the Exit Plan and the subsequent public awareness initiatives undertaken would maintain public confidence in the financial system and further enhance the visibility and credibility of PIDM as an integral component of the effective financial safety net in Malaysia.



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## ENSURING OPERATIONAL READINESS IN INTERVENTION AND FAILURE RESOLUTION

The financial crisis of 2008 required many governments and safety net players to take unprecedented actions to restore or preserve public confidence and maintain financial stability. This recent crisis has shown that success in achieving this objective depended on the clarity of roles and responsibilities and on the readiness of safety net players to fulfil their mandates effectively.

As part of Malaysia's Financial Sector Masterplan announced in 2001, a deposit insurance system was proposed to further enhance depositors' confidence in the financial system. PIDM was established in August 2005 to undertake this key function of depositor protection, which forms an integral component of the financial safety net in Malaysia. Since PIDM's establishment, we have focused resources on developing a comprehensive framework for Intervention and Failure Resolution (IFR) and ensuring our operational readiness and capabilities to promptly deal with troubled member institutions (MIs) in a manner that minimises costs to the financial system.

### THE INTERVENTION AND FAILURE RESOLUTION FRAMEWORK (IFRF)

PIDM developed a framework, as depicted in the diagram below, to conceptualise the building blocks for effective management of troubled MIs.



The IFRF recognises the interrelationships among the different safety net players and institutionalises the mandate, legislative powers, guiding principles, policies, procedures, resources and infrastructure required to ensure that the IFR processes achieve the objectives of promoting public confidence in the financial system. In line with our mandate, the IFRF aims to provide a structure in which the resolution of troubled MIs can be conducted in an effective and least costly manner to the financial system, and entails the development and operationalisation of IFR activities that identifies troubled MIs early and provides appropriate IFR options that considers the wider impact on the stability of the financial system.

The ensuing paragraphs explain each in detail.

#### Mandate and Powers

Clear legislated mandate is critical as it provides the basis for defining our role within the financial safety net as well as the powers required to fulfil our mandate. To this end, a full review of PIDM's powers was undertaken in 2010 to ensure that we have adequate powers to intervene early and to carry out failure resolutions promptly and effectively.

Our statutory mandate is to:

- (a) Administer a deposit insurance system and a takaful and insurance benefits protection system;
- (b) Provide insurance against the loss of part or all deposits and provide protection against the loss of part or all of takaful or insurance benefits;
- (c) Provide incentives for sound risk management in the financial system; and
- (d) Promote or contribute to the stability of the financial system.

In achieving our objects under paragraphs (b) and (d), we are required to act in such manner as to minimise costs to the financial system.

To fulfil our mandate, we have been provided with the following powers:

- **Examination powers** that allow for detailed assessment and investigation to be undertaken early when the MI shows signs of distress. These powers are fundamental in facilitating PIDM's readiness to determine and implement the least costly IFR option. These examinations include, but are not limited to, carrying out special and preparatory examinations of MIs for the purpose of due diligence, viability assessment and evaluating possible resolution options.
- **Loss mitigation powers** that allow for corrective intervention actions to be undertaken with the objective of reducing or averting a risk to the financial system or a threatened loss to PIDM. These powers allow for PIDM to, amongst other things, provide financial assistance in the form of loans, advances or guarantees, make deposits, acquire shares or capital instruments of the MI, purchase assets of the MI, and to do all such other things as may be necessary in the circumstances.
- **Failure resolution powers** that allow for the execution of resolution actions to resolve troubled MIs promptly. These powers allow PIDM to:
  - require a MI to take or not to take any actions that PIDM may consider necessary or expedient; to cease soliciting, taking or repaying deposits; or to restructure the whole or part of the business;
  - acquire shares of the MI from its existing shareholders;
  - assume control of the MI;
  - appoint receivers and / or managers to manage the assets, liabilities, businesses and affairs of the MI;
  - transfer such assets and liabilities of the MI to a bridge institution; or
  - wind up the MI.

Exercise of these powers will typically involve some changes to the legal, financial, operational and ownership structure of the MI and are taken with the objective of maintaining public confidence, promoting stability and minimising cost to the financial system. These powers are consequential to the issuance of a non-viability notice by BNM.

#### Guiding Principles, Policies and Procedures

PIDM's guiding principles, policies and procedures were adopted to provide us with a sound foundation in the conduct of effective management of troubled MIs in line with our objects.

Our guiding principles were designed to provide us with a road map to be used for any IFR actions we undertake.

Our main guiding principles are:

- (i) Intervening early and promptly  
An effective resolution strategy requires prompt action while the MI still possesses franchise value. Early identification of problems, supported by timely and speedy intervention and resolution action before a troubled MI becomes insolvent substantially reduces losses to PIDM and the financial system.
- (ii) Shareholders first loss principle  
If PIDM provides any financial assistance in resolving a troubled MI, shareholders should first bear any losses and if the existing shareholders maintain an interest in the MI, their residual interest should be subordinated to the rights of PIDM. Any financial assistance provided should aim to reduce or avert a risk to the financial system or a threatened loss to PIDM.
- (iii) Due diligence to precede all IFR actions  
Where PIDM believes that it may be called upon to intervene and resolve a troubled MI, PIDM will undertake a due diligence on the business and affairs of the MI for purposes of identifying solutions that may be available to resolve the troubled MI. This includes various going concern solutions to liquidation.
- (iv) Twin-track approach  
All IFR options where PIDM is financially exposed to losses, will be evaluated on a twin-track approach, i.e. concurrently on a going concern basis and on a liquidation basis following an independent due diligence and viability assessment of the troubled MI's business and affairs. The twin-track evaluation will be carried out to determine the option that is least costly to the financial system, taking into account factors such as financial cost and the stability of the financial system.

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- (v) Transact only with capable third parties
- In implementing any going concern resolution option, PIDM shall only provide financial assistance or enter into IFR transactions with credible third parties who, in the opinion of PIDM, have the financial and operational capacity and capability to complete the transaction and to sustain and manage the business and affairs of the MI successfully.
- (vi) Options implemented must result in a permanent solution
- The IFR actions taken by PIDM should result in a permanent solution to address the issues faced by the troubled MI. In other words, the options will be assessed on the probability of success in the medium to long term. In this regard, the resolution must be structured in a way to ensure that PIDM's financial exposures can be ascertained.

Policies and procedures, on the other hand, are important to provide clarity of approach to our employees during an IFR. We commenced a major project in 2007 called Project Eveready to develop a total of 15 policies and procedures for the various aspects of IFR. The policies and procedures document the step-by-step approaches in dealing with the various aspects of an IFR. Besides serving as operational guides, the policies and procedures are also used as training manuals for our employees and service providers to help them understand the processes as well as their roles and responsibilities when dealing with a troubled MI. We expect to complete the development of our policies and procedures in mid-2011.

**Competencies and Infrastructure**

Resolution of troubled MIs is a core but unique function of PIDM which requires specialised skills, expertise and experience. In this respect, PIDM has invested heavily in the development of competencies and resources. PIDM's organisational structure is premised upon maintaining a core capacity of skills and expertise to manage IFR actions and putting in place mechanisms to be able to quickly mobilise a larger workforce should the need arise. This will be done through the development of a virtual organisation comprising a network of experienced professionals such as lawyers, accountants, investment bankers, asset management specialists, receivers and liquidators. Such an approach ensures optimal utilisation of internal resources while allowing us access to external skills and expertise as and when needed.

**Financial Capacity**

A robust funding arrangement is another critical factor for any effective financial institution resolution. Adequate funding must be available to prepare for and to undertake IFR actions, including prompt reimbursement of depositors' claims. PIDM has adopted a hybrid funding structure that combines both *ex-ante* and *ex-post* funding.

**Ex-ante funding** enables PIDM to smooth out premiums over time and is more equitable as failed MIs would have borne part of the costs of their own resolution through premium contributions. Furthermore, PIDM adopts a risk based premium assessment system which differentiates the premium rate applicable to MIs by their risk profile.

**Ex-post funding** allows us access to additional funding sources should the need arise through PIDM's authority to impose levies, and to borrow or raise funds in such manner as it thinks fit. PIDM has the powers to borrow from the Government or issue debts in the capital market. The external funding is meant to address any liquidity needs to undertake a failure resolution. We are currently putting in place arrangements with the Government to allow PIDM access to liquidity funding should the need arise.

In 2008, we embarked on an initiative to develop a funding framework. The funding framework guides PIDM on how we fund our operations and build reserves to carry out our mandate effectively. Part of the funding framework entails the development of a target fund, which essentially refers to the level of financial resources that PIDM seeks to maintain in order to cover future losses in meeting depositors' obligations.

**Financial Safety Net**

An effective financial system with clear mandates and well defined roles and responsibilities for each safety player is the bedrock of a stable system. An effective financial safety net also ensures that prompt corrective action is taken by the relevant players when financial institutions face emerging problems. Clear roles and responsibilities also lead to clear accountability.

BNM is the primary supervisor and regulator of MIs and is responsible for maintaining the stability, safety and soundness of the financial system. Working in collaboration to promote public confidence in the stability of the financial system, PIDM, on the other hand, complements the regulatory role of BNM by administering an effective deposit insurance system for the benefits of depositors and TIPS for policy owners and by providing clear financial incentives that promote prudent risk management in MIs.

PIDM has implemented the Differential Premium Systems (DPS) that assesses annual premiums based on the risk profile of each member bank. The higher the risk profile of a member bank, the higher the premiums. The DPS assesses the member banks based on both quantitative and qualitative criteria. One such highly weighted criteria is BNM's supervisory ratings of member banks. Thus, PIDM supports the supervisor by providing a mechanism which incentivises member banks to adopt prudent risk management practices as their supervisory ratings will have a strong bearing on the amount of premiums they would pay.

### OUR OPERATIONAL READINESS IN INTERVENTION AND FAILURE RESOLUTIONS

As mentioned earlier, operational readiness to intervene in a failing MI has been a key focus for PIDM since our inception in 2005. To this end, several initiatives have been undertaken to ensure our operational readiness to intervene and resolve troubled MIs.

The table below details the three phases of the Payout project and the respective status.

PHASE	DESCRIPTION	STATUS
Phase 1	Involved the development of the Depositor Liability Information Management System (DLIMS). This system generates the payout payment list and is linked to the Depositor Support Management System (DSMS) that assists PIDM's Call Centre in providing information to depositors on the status of the payout.	Completed.
Phase 2(a)	Involves the development of the Payout Payment Management System (PPMS) and the Product Registry System (PRS). The function of PPMS is to facilitate payout payment processes whereas PRS facilitates PIDM's product certification process for deposit insurance determination.	In progress. PPMS to be completed by end 2011 and PRS to be implemented in mid-2011.
Phase 2(b)	Involves integration of PPMS with identified service providers who could act as our payment agents.	In progress. To be completed in 2011.
Phase 3	Involves integration between PIDM's Payout System with loan and financial information in BNM's Central Credit Reference Information System (CCRIS) for the purpose of determining total exposure of each depositor. This will involve the creation of a Dynamic Deposit Database, which will allow PIDM to analyse deposit trends and conduct comprehensive simulation to test the readiness of the Payout System.	To commence in 2013.

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With the completion of Phase 1, the core of the Payout System was tested using simulated data that conforms to the required format and the result demonstrated that the Payout System has the capacity to process 20 million accounts within 15 hours.

### Training and Simulation

In line with our IFRF objectives to build competencies and infrastructure, we have also invested considerable resources in the conduct of training and simulation sessions in 2010. These training sessions were designed to provide a fundamental understanding of the policies and procedures and help employees understand their roles and responsibilities during an IFR event. Following a series of corporate-wide training and knowledge sharing sessions, a day-long simulation exercise was conducted on 12 August 2010. The simulation was designed to:

- (i) provide experiential learning to employees of PIDM in responding to a bank crisis; and
- (ii) test the understanding and application of policies and procedures covered in the training sessions.

The simulation exercise highlighted various strengths and identified areas where improvements were necessary. Following the simulation exercise, several debriefing

sessions were conducted with participants and other employees to seek feedback. We plan to schedule several mini-simulations in 2011 and 2012 to further train our employees and enhance our intervention readiness.

### Collaboration with BNM

PIDM executed a Strategic Alliance Agreement (SAA) with BNM in 2006 to build the foundation for close cooperation and collaboration between the two agencies. One of the areas identified is how the two agencies will work together in the event of an IFR. For example, both agencies exchange information on the MIs on a regular basis. Such a dual monitoring system provides for checks and balances and ensures that early warning signals of a troubled MI are addressed. BNM would notify PIDM when a troubled MI ceases or is likely to cease to be viable. At this point, PIDM is empowered to take whatever actions necessary to resolve the troubled MI in such a manner as to minimise costs to the financial system. In such circumstances, BNM remains responsible for the supervision of the troubled MI, while PIDM is responsible for the IFR actions. Both agencies would work collaboratively throughout the IFR process. PIDM and BNM are currently working together to enhance the SAA in order to incorporate PIDM's expanded mandate to protect policy owners and to ensure the SAA remains current and relevant.

### CONCLUSION

Formulating a robust IFRF and ensuring PIDM's operational readiness is critical in minimising the impact of MI failures on public confidence as well as on the economy at large. Operational readiness is an ongoing process and must be constantly tested against the prevailing environment to ensure that it continues to be current and relevant. At PIDM, we continuously enhance our readiness by developing and testing our systems and competencies to be able to promptly address troubled MIs. In addition, we will also be implementing new initiatives to support the expanded mandate on TIPS. These initiatives include enhancing and amending our current framework, policies, procedures and systems in order to extend our IFR operational readiness to the takaful operators and insurance companies.

Our work continues!



A close-up photograph of a hand holding a carving knife, meticulously shaping a piece of weathered, gnarled wood. The wood has a rich, textured appearance with various knots and hollows. The background is a soft, out-of-focus light blue and white, suggesting an outdoor setting. The lighting is natural, highlighting the textures of the wood and the hand.

## Section 7: PUBLIC AWARENESS INITIATIVES AND CORPORATE SOCIAL RESPONSIBILITY

*Defining our vision and values  
to share with society...*



# PUBLIC AWARENESS INITIATIVES AND CORPORATE SOCIAL RESPONSIBILITY

## PUBLIC AWARENESS INITIATIVES



### FIVE YEARS OF DEPOSIT INSURANCE AWARENESS

As deposit insurance entered its fifth year in Malaysia in 2010, PIDM continued to place strong emphasis on creating public awareness and understanding of the system for protecting deposits. As the administrator of the national deposit insurance system since its launch, PIDM believes that public awareness of deposit insurance is key to promoting confidence in the financial system and contributing to the stability of the financial system.

It continues to be an imperative for PIDM to ensure that the general public, particularly depositors, have direct and easy access to information about deposit insurance protection in their language of choice.

From the first day of operations, we established a toll-free Call Centre to handle public enquiries in the four main languages of Malaysia (Bahasa Malaysia, English, Chinese and Tamil). The task of the Call Centre is to provide clear information on the features of deposit insurance as well as the role of PIDM in the financial safety net.

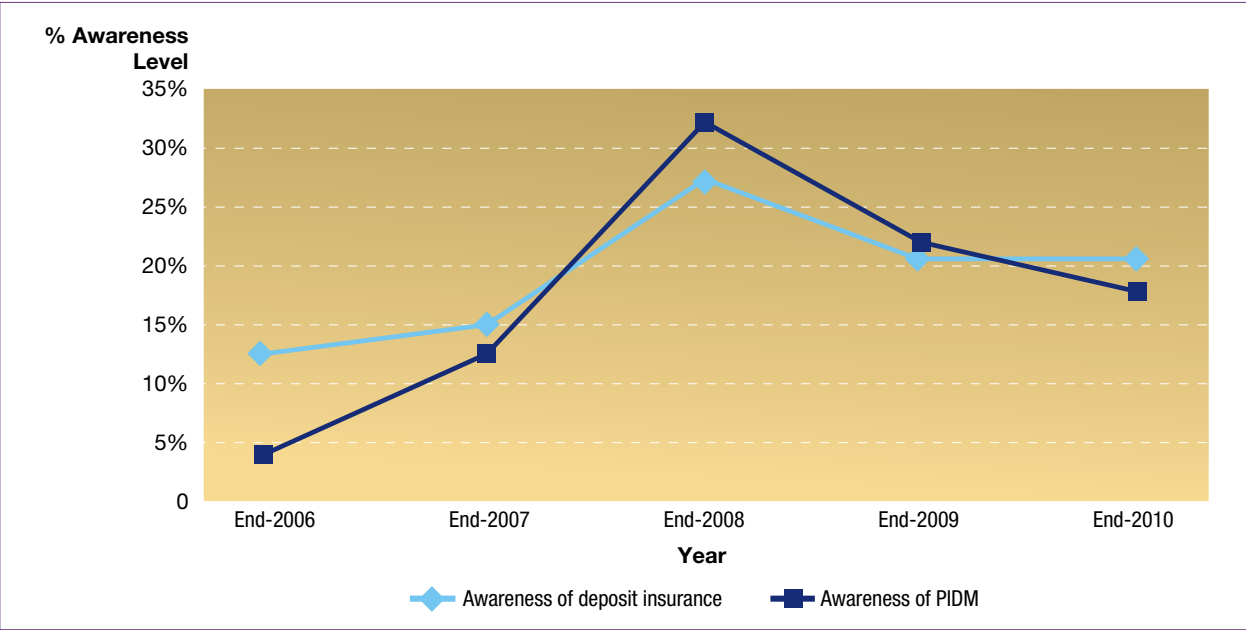
It is also essential for us to put information directly into the hands of the general public in the form of printed materials. We publish and circulate public information brochures in

the four main languages and two additional languages, Kadazandusun and Iban, used by major ethnic groups in Sabah and Sarawak respectively.

Recognising the effectiveness of technology in disseminating accurate information in a timely manner, we launched a public information website ([www.pidm.gov.my](http://www.pidm.gov.my)) in the four main languages in the early months of PIDM's operations. The PIDM website serves the information needs of all stakeholders, from basic information on deposit insurance and PIDM to the publication of guidelines, policies and consultation papers for public comments and feedback, Corporate Plans and Annual Reports.

As an annual practice, we commission a nationwide consumer survey to assess the yearly levels of public awareness and understanding of deposit insurance and PIDM. The surveys also allow us to evaluate our efforts to generate deposit insurance awareness and enhance the effectiveness of our future communications initiatives. Over the five years since PIDM's establishment, we have registered an average of 19.4% for deposit insurance awareness level, while the level of awareness of PIDM averages at 17.6%.

This graph shows the level of awareness of deposit insurance and PIDM from 2006 to 2010.



Following the implementation of our five-year Integrated Communications Plan initiatives beginning 2007, the public awareness levels of deposit insurance and PIDM recorded a significant increase in the 2007 and 2008 consumer survey results. Nevertheless, the awareness levels subsequently showed a moderate decline, which was attributable to the existence of the temporary Government Deposit Guarantee (GDG) during 2009 and 2010, and the resulting public perception that deposit insurance protection is administered by the Government given that PIDM is a Government agency.

For further information, you may refer to PIDM's Annual Reports, which can be accessed from PIDM's website at [www.pidm.gov.my](http://www.pidm.gov.my)

### AN OVERVIEW OF OUR INITIATIVES IN 2010

In 2010, we continued to implement key initiatives towards strengthening public awareness and understanding of deposit insurance and PIDM as outlined in our Integrated Communications Plan 2007 - 2011. The implementation of the temporary GDG in late 2008 and its expiry on 31 December 2010 necessitated some modification to the strategy and design of our communications plans and initiatives as all deposits were guaranteed during the GDG period. The key strategic thrusts of "creating awareness" and "building confidence" remained the focus of all our communications initiatives and key messages throughout the year.

In preparation for the transition from the temporary GDG back to a limited-coverage deposit insurance system, a package of legislative initiatives aimed at enhancing financial consumer protection was announced by the Prime Minister of Malaysia on 11 May 2010. The Enhanced Financial Consumer Protection Package included a proposed new deposit insurance protection limit of RM250,000 and the introduction of an explicit Insurance Compensation Scheme (ICS) for takaful certificate and insurance policy owners. The ICS was launched on 31 December 2010 as the Takaful and Insurance Benefits Protection System (TIPS).


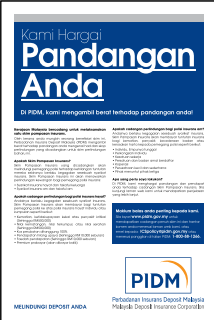

With the GDG exit plan in place, much of our efforts for the year were focused on the development and preparation of communications initiatives to roll out the enhanced financial consumer protection package and ensure an effective transition back to a limited-coverage deposit insurance system.


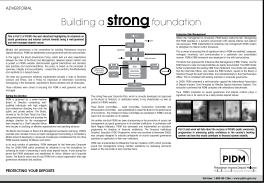
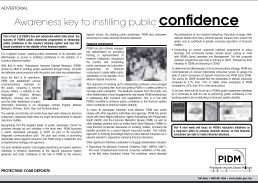


# PUBLIC AWARENESS INITIATIVES AND CORPORATE SOCIAL RESPONSIBILITY

## PUBLIC AWARENESS INITIATIVES

Highlights of Our Initiatives in 2010

INITIATIVE	ACHIEVEMENT
<b>ENHANCED FINANCIAL CONSUMER PROTECTION (MAY 2010)</b>	<p>In conjunction with the announcement of the enhanced financial consumer protection package on 11 May 2010, PIDM conducted special briefing sessions for the media, member institutions, takaful operators and insurance companies, guaranteed financial institutions and other stakeholders to provide details on the proposed package.</p> <p>A set of Frequently Asked Questions and fact sheet on the enhanced financial consumer protection package were developed to provide further explanation to the public.</p> <p>There was wide media coverage on the proposed new deposit insurance limit of RM250,000 and the ICS in various print, broadcast and electronic media.</p> <p>In anticipation of an increase in public enquiries, the Call Centre operation hours were extended during the week of 11 to 14 May 2010 with two additional phone lines put in place.</p>

INITIATIVE	ACHIEVEMENT
<b>ISSUANCE OF CONSULTATION PAPER ON THE INSURANCE COMPENSATION SCHEME (JUNE 2010)</b>	<p>PIDM launched a special publicity campaign in conjunction with the issuance of the Consultation Paper on the Insurance Compensation Scheme (ICS) on 24 June 2010.</p> <p>The objective of this campaign was to create public awareness of the ICS and its proposed features as well as promote public response to the proposals outlined in the consultation paper.</p> <p>Under the publicity campaign, the following activities were carried out:</p> <ul style="list-style-type: none"><li>• Print advertisements in major dailies in Bahasa Malaysia, English and Chinese</li><li>• Online advertisements in selected media websites in Bahasa Malaysia, English and Chinese (The Star, Utusan and Sin Chew)</li><li>• Radio commercials in selected Bahasa Malaysia, English, Chinese and Tamil radio channels (Sinar FM, MY FM, THR Gegar, THR Raaga and Lite FM)</li><li>• 'Live' TV interviews with the Chief Executive Officer (CEO) and Chief Operating Officer (COO) of PIDM on NTV7 and RTM1 <i>Selamat Pagi Malaysia</i> morning talk shows</li><li>• Radio interview with the CEO on Lite FM breakfast show</li></ul> <div><div></div><div></div><div></div></div>

INITIATIVE	ACHIEVEMENT
<b>ADVERTISING AND PUBLICITY (ONGOING)</b>	<p>In conjunction with PIDM's fifth anniversary, a series of print advertorials were published in three languages, namely Bahasa Malaysia, English and Chinese.</p> <p>The advertorials underscored our achievements in the following aspects:</p> <p><b>Advertorial 1: "A new era in financial consumer protection"</b> PIDM's primary role of promoting public confidence in the country's banking system and contributing to its financial stability</p> <p><b>Advertorial 2: "Building a strong foundation"</b> PIDM's sound governance and internal controls towards becoming a well-governed and well-managed deposit insurer</p> <p><b>Advertorial 3: "Awareness key to instilling public confidence"</b> The success of PIDM's public awareness programmes in enhancing public confidence in the Malaysian banking system</p> <p><b>Advertorial 4: "Promoting financial literacy with a long-term view"</b> PIDM's education initiatives as a long-term effort to contribute to the enhancement of national financial literacy enabling financial consumers to make informed decisions</p> <p><b>Advertorial 5: "Looking ahead with confidence"</b> PIDM's achievements and continued focus on its vision to be a best practice deposit insurer</p> <p>In the final quarter of 2010, new radio commercials on deposit insurance protection and the role of PIDM were aired in four languages – Bahasa Malaysia, English, Chinese and Tamil.</p> <p>The print advertorials and radio commercials can be downloaded from PIDM's website at <a href="http://www.pidm.gov.my">www.pidm.gov.my</a></p> <div><div></div><div></div><div></div><div></div><div></div></div>



PUBLIC AWARENESS INITIATIVES AND CORPORATE SOCIAL RESPONSIBILITY

PUBLIC AWARENESS INITIATIVES

INITIATIVE	ACHIEVEMENT
<b>BRIEFINGS FOR MEMBER INSTITUTIONS AND VARIOUS STAKEHOLDERS (ONGOING)</b>	<p>In the first half of 2010, we continued to conduct training sessions for bankers in cities and towns across Malaysia, covering the following locations:</p> <ul style="list-style-type: none"><li>• Kuala Lumpur</li><li>• Shah Alam, Selangor</li><li>• Bukit Mertajam, Pulau Pinang</li><li>• Sungai Petani, Kedah</li><li>• Johor Bahru, Johor</li><li>• Seremban, Negeri Sembilan</li><li>• Melaka</li><li>• Sitiawan, Perak</li></ul> <p>The briefings were organised in collaboration with Institut Bank-Bank Malaysia (IBBM) and Bank Negara Malaysia (BNM) branches.</p> <p>Following the announcement of the Enhanced Financial Consumer Protection Package by the Minister of Finance on 11 May 2010, the briefings were deferred to 2011 for the implementation of the enhanced package.</p> <p>PIDM continued to conduct dialogue sessions with liaison officers (LOs) of member banks in our ongoing efforts to engage and strengthen our working relationship with member banks.</p> <p>For a complete listing of our briefings and dialogues, please refer to our Calendar of Events for 2010 (pg 172).</p> <p>In the second half of 2010, we commenced planning for training sessions and briefings for 2011 when the new deposit insurance limit and scope of coverage as well as TIPS are implemented.</p>

INITIATIVE	ACHIEVEMENT
<b>INTERNATIONAL DEPOSIT INSURANCE WEEK (3 TO 7 MAY 2010)</b>	<p>This year two initiatives were carried out during the International Deposit Insurance Week, which are:</p> <ul style="list-style-type: none"><li>• Release of PIDM Annual Report 2009</li><li>• Briefing for bankers in Sitiawan, Perak</li></ul> <p><b>Release of PIDM Annual Report 2009</b></p> <p>PIDM conducted its fourth Annual Dialogue with financial institutions on 6 May 2010 in conjunction with the release of the PIDM Annual Report 2009.</p> <p>At the Annual Dialogue, PIDM presented highlights of its financial performance and achievements to directors and senior management of financial institutions. The Annual Dialogue is a platform for engagement and discussion with member institutions and guaranteed financial institutions on industry matters.</p> <p>Following the Annual Dialogue, PIDM conducted a press conference on the release of the PIDM Annual Report 2009.</p> <p><b>Briefing for bankers</b></p> <p>PIDM conducted a briefing session for some 25 bankers in Sitiawan, Perak on 5 May 2010.</p> <div></div>

INITIATIVE	ACHIEVEMENT
<b>PARTICIPATION IN EXHIBITIONS AND ROAD SHOWS (ONGOING)</b>	<p>PIDM continued to collaborate with BNM and relevant agencies in various national road shows including the Malaysian Unit Trust Week (<i>Minggu Saham Amanah Malaysia</i>) and the Financial Awareness Week (<i>Minggu Kesedaran Kewangan</i> or M2K), in which PIDM participated as co-organiser and exhibitor.</p> <p>This year the M2K was held from 18 to 24 October 2010 in Kota Kinabalu, Sabah. The M2K is an annual financial awareness event organised by BNM for the general public. Besides PIDM, participating agencies include BNM, the Credit Counselling and Debt Management Agency (AKPK), the Financial Mediation Bureau (FMB) and the Securities Commission.</p> <p>During the week, PIDM representatives conducted public talks at various schools, colleges, universities, the Royal Malaysian Police, the Royal Malaysian Navy, special schools for the handicapped as well as in two districts, Papar and Penampang.</p> <p>PIDM participated in the M2K exhibition from 22 to 24 October 2010 at Suria Sabah, which attracted 37,200 visitors. The exhibition was officially launched by Datuk Donald Peter Mojuntin, Sabah's Assistant Minister of Finance 2.</p> <p>For a complete listing of our participation in exhibitions and road shows, please refer to our Calendar of Events for 2010 (pg 172).</p> <div></div>

# PUBLIC AWARENESS INITIATIVES AND CORPORATE SOCIAL RESPONSIBILITY

## PUBLIC AWARENESS INITIATIVES

INITIATIVE	ACHIEVEMENT
<b>MEDIA RELATIONS (ONGOING)</b>	<p>PIDM values its partnership with the media as a highly effective and important communications channel. PIDM continued to enhance its profile as the national deposit insurer through media engagement initiatives including press conferences, interviews, articles and press releases.</p> <p>In 2010, PIDM issued the following press releases in Bahasa Malaysia, English, Chinese and Tamil:</p> <ul style="list-style-type: none"><li>• “PIDM appoints Chief Operating Officer” on 18 March 2010 in conjunction with the appointment of PIDM’s Chief Operating Officer, Encik Md. Khairuddin Hj. Arshad</li><li>• “PIDM releases 2009 Annual Report” on 6 May 2010 in conjunction with the press conference on the release of PIDM Annual Report 2009 on the same day</li><li>• “PIDM seeks public feedback on proposed Insurance Compensation Scheme” on 24 June 2010 in conjunction with the issuance of a Consultation Paper on the Insurance Compensation Scheme</li><li>• “PIDM awards five scholarships to deserving Malaysians” on 7 July 2010 in conjunction with the scholarship award ceremony held on the same day</li><li>• “PIDM launches education programme for students” on 28 September 2010 in conjunction with the launch of PIDM’s Education Programme, PIDM Project MoneySmart, on the same day</li><li>• “New Deposit Insurance Limit At RM250,000” on 30 December 2010 on the enhanced scope of coverage, effective 31 December 2010</li></ul> <p>PIDM conducted the following media events in 2010:</p> <ul style="list-style-type: none"><li>• Press conference on the release of PIDM Annual Report 2009 on 6 May 2010</li><li>• Media briefing on the Enhanced Financial Consumer Protection Package on 11 May 2010</li><li>• Press conference on the launch of PIDM’s education programme on 28 September 2010</li><li>• A gathering with media representatives for the breaking of fast on 17 August 2010 to strengthen our working relationship with the media</li></ul> <p>The Malaysia Deposit Insurance Corporation Bill 2010 was tabled for first reading in the House of Representatives (Dewan Rakyat) on 30 November 2010. There was wide coverage in various print and broadcast media on the tabling of the Bill. The Bill was subsequently passed in the Dewan Rakyat on 15 December and the Dewan Negara on 22 December.</p> <div><div><p><b>PIDM: Tell depositors what's insured</b></p><p>MAJLIS Insurans Deposit (PIDM) telah mengumumkan bahawa insurans deposit yang ditawarkan oleh PIDM kepada pemegang deposit di bank-bank di Malaysia adalah RM250,000. PIDM juga mengumumkan bahawa insurans deposit yang ditawarkan oleh PIDM kepada pemegang deposit di bank-bank di Malaysia adalah RM250,000.</p></div><div><p><b>PIDM rangka pakej baru perlindungan pendeposit</b></p><p>PIDM mengumumkan bahawa insurans deposit yang ditawarkan oleh PIDM kepada pemegang deposit di bank-bank di Malaysia adalah RM250,000. PIDM juga mengumumkan bahawa insurans deposit yang ditawarkan oleh PIDM kepada pemegang deposit di bank-bank di Malaysia adalah RM250,000.</p></div><div><p><b>Play and learn about finance</b></p><p>PIDM mengumumkan bahawa insurans deposit yang ditawarkan oleh PIDM kepada pemegang deposit di bank-bank di Malaysia adalah RM250,000. PIDM juga mengumumkan bahawa insurans deposit yang ditawarkan oleh PIDM kepada pemegang deposit di bank-bank di Malaysia adalah RM250,000.</p></div><div><p><b>PIDM seeks feedback on ICS proposals</b></p><p>PIDM mengumumkan bahawa insurans deposit yang ditawarkan oleh PIDM kepada pemegang deposit di bank-bank di Malaysia adalah RM250,000. PIDM juga mengumumkan bahawa insurans deposit yang ditawarkan oleh PIDM kepada pemegang deposit di bank-bank di Malaysia adalah RM250,000.</p></div></div>

INITIATIVE	ACHIEVEMENT
<b>NATIONWIDE CONSUMER RESEARCH (YEAR-END)</b>	<p><b>Quantitative research</b></p> <p>PIDM commissioned a consumer survey in the final quarter of 2010. The comprehensive year-end survey, using the quantitative approach, was conducted from November to December, involving face-to-face interviews with some 1,000 respondents.</p> <p>Apart from measuring the awareness levels of deposit insurance and PIDM, the survey also gauged public understanding of the features and benefits of deposit insurance protection as well as the effectiveness of our ongoing communications initiatives in enhancing deposit insurance awareness.</p> <p><b>Qualitative research</b></p> <p>The proposed advertising materials and key messages for the implementation of the proposed deposit insurance limit and TIPS were tested using focus group discussions in November 2010.</p> <p>Conducted in Bahasa Malaysia, English and Chinese, the discussions were to gauge the general public's initial understanding, interest and acceptance of the materials and key messages.</p> <p>The research findings and insights were applied towards enhancing PIDM's ongoing advertising strategy, initiatives, materials and key messages.</p>

### SPECIAL FOCUS OF 2010: PIDM EDUCATION PROGRAMME - PIDM PROJECT MONEYSMART

An effective deposit insurer informs and educates the public to help them make informed financial decisions. In line with our mandate as the national deposit insurer and our belief that deposit insurance knowledge should be inculcated from a young age, we have enhanced our communications efforts by developing a specific and comprehensive education programme that aims to increase financial literacy and to create an understanding of deposit insurance among the younger generation.



#### Development

Development of PIDM's Education Programme, known as PIDM Project MoneySmart, began in the final quarter of 2009. Specifically designed for students in secondary schools and institutions of higher learning in Malaysia, a creative approach was taken in developing learning materials for the programme to ensure a captive student audience on the importance of savings and deposit insurance protection. As a result, three main learning elements were designed for PIDM's Education Programme – the MoneySmart Online Game, the MoneySmart Board Game and the *Bijak Wang* Comic Book.

The MoneySmart Online Game is in English, which is a common language used in most online games played by the younger generation today. The MoneySmart Board Game and the *Bijak Wang* Comic Book are in Bahasa Malaysia as these items are distributed to school students and used in school activities.

#### MoneySmart Online Game

The MoneySmart Online Game ([www.pidmmoneysmart.com.my](http://www.pidmmoneysmart.com.my)) is an interactive online game website designed to link a person's various life stages with changing financial needs at each life stage:

- Stage 1 – Pursuing education
- Stage 2 – Joining the work force and pursuing a career
- Stage 3 – Getting married
- Stage 4 – Raising children
- Stage 5 – Preparing for retirement



# PUBLIC AWARENESS INITIATIVES AND CORPORATE SOCIAL RESPONSIBILITY

## PUBLIC AWARENESS INITIATIVES



Throughout the Online Game, a total of 200 questions must be answered correctly by participants in order to advance to the next life stage and earn a higher income towards eventual retirement. The significance of PIDM's role in protecting deposits placed in banks was emphasised throughout the Online Game.

The Online Game is fun and easy to play, giving students an opportunity to gain knowledge and win prizes. A total of RM60,000 worth of prizes comprising cash and desktop computers were awarded to winners of the Online Game. Students participated as individuals or in groups with their teachers, parents, siblings and friends.

The Online Game attracted over 6,000 participants as at its closing date on 30 November 2010. Winners of the Online Game will be announced in early 2011.

### MoneySmart Board Game

A replication of the Online Game, the MoneySmart Board Game also enables participants to experience the five life stages. At each life stage, the participants must use different knowledge and skills in personal financial management and planning to advance in the Board Game and reach the finishing point.

### Comic Book

The *Bijak Wang* Comic Book presents financial education through the lives of four friends from different socio-economic backgrounds – Azman, Vijay, Su Lin and Dayang. They learn about the importance of sound and prudent financial decisions, especially in cultivating the habit of savings and how deposit insurance works in protecting their savings in the bank.

### Facilitators and Teachers

We also developed a Guidebook for Facilitators and Teachers as a reference material for teachers who would like to conduct and deliver this programme to their students as part of the school's curricular or extra-curricular activities.

### Implementation

A pilot implementation of PIDM Project MoneySmart was conducted in April 2010 covering 24 secondary schools and five institutions of higher learning. The pilot phase was carried out to gauge the effectiveness of the programme approach and learning materials prior to full implementation.

Based on interviews conducted with students, teachers and parents following the pilot implementation, we received positive feedback on the benefits and effectiveness of the programme approach and learning materials.

We commenced full implementation of PIDM Project MoneySmart on 12 July 2010 through talks held in secondary schools and road shows held in institutions of higher learning throughout Malaysia. By November 2010, we successfully covered 200 secondary schools and 50 higher learning institutions, a 100% achievement of our target for the PIDM Education Programme this year.

PIDM Project MoneySmart was officially launched on 28 September 2010 in a ceremony officiated by Dr. Khair bin Mohamad Yusof, Deputy Director General of Education (Policy Development and Education Sector), Ministry of Education. A press conference for some 37 members of the media who were present at the launch was also conducted on the same day. The event received wide media coverage from the print media and electronic broadcast media, EduWeb TV.



### MOVING FORWARD: COMMUNICATIONS STRATEGY FOR THE ENHANCED FINANCIAL CONSUMER PROTECTION PACKAGE

In 2011, PIDM will carry out a comprehensive communications campaign to educate the public on the Enhanced Financial Consumer Protection Package, which includes 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.

Following the announcement of the Enhanced Financial Consumer Protection Package in May 2010, PIDM worked on enhancing the operational readiness of its various communications channels including our Call Centre and website.

The implementation of the PIDM-administered TIPS entails the development of a communications strategy to reach a new target audience. The target audience now comprises consumers of takaful and insurance products, who would display different perspectives, behaviours and preferences compared to consumers of banking and deposit products. Taking cognisance of this, PIDM has incorporated takaful and insurance product consumers into the focus group discussions conducted in November 2010 to test the effectiveness of the proposed communications materials and messages.

The communications initiatives planned for implementation in 2011 include:

- Advertisements in the print, broadcast and electronic media, including advertorials on the Enhanced Financial Consumer Protection Package initiatives
- Briefings for member institutions and various stakeholders
- Participation in relevant exhibitions and road shows
- Review, enhancement and implementation of the education programme in secondary schools and institutions of higher learning
- Distribution of new public information materials including brochures in six languages on the deposit insurance system, TIPS and Provision of Information on Deposit Insurance Regulations 2011 as well as handbooks on the deposit insurance system and TIPS
- Media relations initiatives such as press briefings, interviews and articles
- Revamp of public information website

In the years to come, PIDM shall continue to focus on maintaining and increasing depositor awareness and confidence by carrying out public awareness initiatives through a specific and long-term approach, building on past initiatives and reviewing our strategy based on current research findings and changes in the external environment.



# PUBLIC AWARENESS INITIATIVES AND CORPORATE SOCIAL RESPONSIBILITY

## CORPORATE SOCIAL RESPONSIBILITY

### PIDM'S SCHOLARSHIP PROGRAMME FOR DESERVING MALAYSIANS

#### Background

Education initiatives underpin PIDM's Corporate Social Responsibility (CSR) Policy of conducting its business and affairs in a socially responsible, sustainable and meaningful way.

Thus, the launch of PIDM's Annual Undergraduate Scholarship Programme in July 2010 not only took our education activities to another level but also fulfilled a core theme of our CSR endeavours, namely to reach out and give back to the community.

#### Philosophy

The inaugural award of PIDM scholarships to five deserving Malaysians is a strategic extension of our education programme, PIDM Project MoneySmart, to complement our efforts in promoting financial literacy. Apart from fulfilling a social need to help outstanding students realise their academic ambitions, the Scholarship Programme will also widen the talent pool for the employment market, especially in the financial services sector. At the same time, the programme will create greater awareness of PIDM and its role as a financial institutions' regulator and independent statutory body.

Several other education-related initiatives had been implemented ahead of the Scholarship Programme. These include:

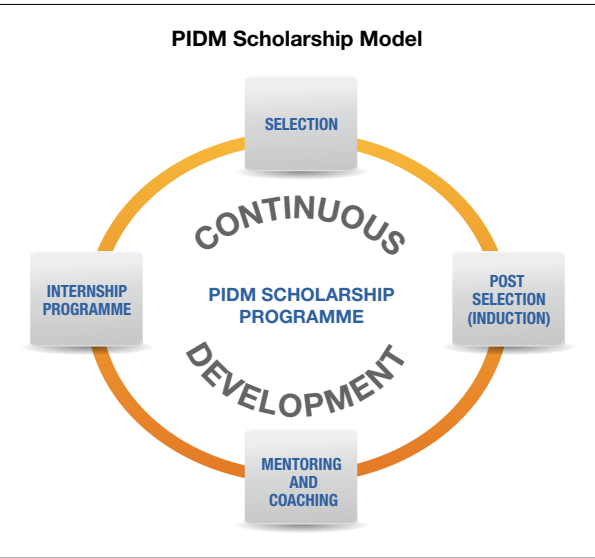
- (i) Education assistance for PIDM employees;
- (ii) PIDM Project MoneySmart for secondary school and tertiary-level students; and
- (iii) Stakeholder briefings.

#### Objectives

The objectives of the Scholarship Programme are to:

- (i) support deserving Malaysians who have achieved excellent academic results to further their education and be successful in life;
- (ii) attract individuals who wish to enrol in undergraduate programmes to register for programmes relevant to the financial services industry including insurance, banking, finance, human capital and related fields as approved by PIDM; and
- (iii) create greater awareness of PIDM and deposit insurance through public awareness of its Scholarship Programme.

### Scope Of Scholarship Programme



Apart from financial assistance, the programme incorporates a platform for the following:

#### • Post-Selection – Induction Programme

An induction programme is provided to all recipients of the PIDM Scholarship Award. This is to ensure the recipients understand the role and mandate of PIDM, its mission and values, and the details of the Scholarship Programme so that they can reap the maximum benefits from the programme.

#### • Mentoring and Coaching

Each recipient is assigned a "mentor" from the Executive Management Committee (EMC). The mentor will provide consistent and continuous mentoring and coaching throughout the programme. This is to ensure that the recipients have the necessary support and are able to leverage on the experience that we have in-house, for guidance in fulfilling study requirements and in coping with the demands of the programme. The recipients are encouraged to write their theses, project papers or any other studies on activities related to PIDM or deposit insurance.

#### • Post-Scholarship – Internship Programme

As part of the strategic design of the programme, the recipients are encouraged to go through an internship programme in order to enable them to apply what they have learnt in the context of an operation like PIDM. All recipients are guaranteed a placement in PIDM for a six-month period. This is to ensure that they are given the opportunity to acquire the necessary exposure and experience, in order to make an informed decision on their career choices.

It is envisaged that the internship programme will create an alumni for PIDM, with the participants of the programme acting as our ambassadors and creating better awareness of PIDM and deposit insurance. In addition, this initiative is a testimony of our commitment to enhance our long-term contributions to the community.

The basic terms and conditions for acceptance, eligibility, selection process and the details of the scholarship are available at the PIDM website.

#### Our First Batch of Scholars in 2010

Applications were received from all over the country and 11 shortlisted candidates were interviewed in June 2010. The following five scholars were selected:

- (i) Farah Afiza binti Salmanfarsi  
Bachelor of Accountancy,  
Universiti Teknologi MARA (UITM)
- (ii) Firdaus Ally bin Zulkifli  
Bachelor of Information Technology,  
Universiti Tun Abdul Razak (UNITAR)
- (iii) Leong Zhi Cong  
Bachelor of Actuarial Science,  
Universiti Tunku Abdul Rahman (UTAR)
- (iv) Phang Jai Juet  
Bachelor of Law, Multimedia University (MMU)
- (v) Vichneshwaran a/l Bala  
Bachelor of Actuarial Science, UTAR

#### Official Launch and Scholarship Award Presentation

The official launch was held in Kuala Lumpur on 1 and 2 July 2010, and the selected recipients went through the following:

- Briefing and signing of scholarship contract;
- Induction programme roll-out;
- Introduction of the mentoring programme and assigning of mentors; and
- Presentation of scholarship awards by our Chairman.



### OTHER CSR EFFORTS

PIDM actively encourages our employees to contribute towards improving the lives of the underprivileged through community efforts and we are pleased to find our employees very much engaged in these endeavours.

PIDM employees contribute in cash and kind – monthly and during festive occasions – to different charitable organisations, orphanages and welfare homes. Other than providing financial contributions, the employees were involved in, amongst others, organising an educational trip for an orphanage to an elephant sanctuary and volunteering as caretakers during the trip (168 hours); supporting a charitable organisation as Deputy Treasurer, on the financial aspects of its operations and activities (60 hours); visiting orphanages and welfare homes as well as participating in activities for children with special needs (24 hours); supporting a community as Deputy Chairman of the housing community association, to create togetherness and enhance relationships among its members and society (250 hours); providing tuition classes to orphans (24 hours); and teaching at Sunday school (12 hours).

### CONCLUSION

PIDM will continue to implement the Scholarship Programme and other education-related initiatives in the future in line with our mandate to promote and contribute to public confidence in the country's financial system. Such initiatives are also consistent with our philosophy of investing in the present for the future. We will also continue to encourage our employees to support the communities in various aspects and means, in line with our CSR philosophy relating to community involvement.

A close-up photograph of a hand wearing a brown leather glove using a pair of red-handled pruning shears to trim a branch of a tree. The tree has thick, gnarled brown bark and vibrant green, oval-shaped leaves. The background is a plain, light blue-grey color.

## Section 8: CALENDAR OF EVENTS

*Fostering closer bonds  
with those around us for  
greater progress...*



CALENDAR OF EVENTS 2010

JANUARY

DATE	VENUE/LOCATION	EVENT
12 January	PIDM, Kuala Lumpur	Audit Committee Meeting
18 - 20 January	Goa, India	International Association of Deposit Insurers (IADI) Eighth Asia Regional Conference
19 January	Shah Alam, Selangor	Briefing on Deposit Insurance for Member Banks and Other Guaranteed Financial Institutions
22 - 25 January	Kuala Lumpur	Exhibition at MY 1Malaysia Expo
26 January	Bukit Mertajam, Pulau Pinang	Briefing on Deposit Insurance for Member Banks and Other Guaranteed Financial Institutions
	Pulau Pinang	Talk on Deposit Insurance for Bank Negara Malaysia (BNM) Staff at BNM branch
27 January	Universiti Kuala Lumpur, Kuala Lumpur	Exhibition at Your Business Begins at Companies Commission Malaysia ( <i>Perniagaan Anda Bermula di SSM</i> )
27 January	Sungai Petani, Kedah	Briefing on Deposit Insurance for Member Banks and Other Guaranteed Financial Institutions
27 - 28 January	Selangor	PIDM CSR Contribution to Rumah Ehsan Kuala Kubu Bharu, Shelter Home For Children and Women's Aid Organisation
28 January	PIDM, Kuala Lumpur	Briefing on Business Continuity Plan for PIDM Employees

FEBRUARY

DATE	VENUE/LOCATION	EVENT
3 February	PIDM, Kuala Lumpur	Governance Committee Meeting
4 February	Kuala Lumpur	Dialogue with Liaison Officers of Member Banks
8 - 11 February	Basel, Switzerland	IADI Executive Council and Standing Committee Meetings
9 - 10 February	Basel, Switzerland	Presentation by PIDM at Financial Stability Institute (FSI) - IADI Seminar on Cross-Border Banking Resolution Issues
12 February	PIDM, Kuala Lumpur	Audit Committee Meeting
18 February	Kuala Lumpur	Exhibition at Consumerism Contest Launch Event ( <i>Majlis Pelancaran Pertandingan Kepenggunaan Hari Pengguna</i> ) by the Federation of Malaysian Consumers Associations (FOMCA)
23 February	PIDM, Kuala Lumpur	Board of Directors Meeting
24 - 25 February	PIDM, Kuala Lumpur	First Aid Training Certification Programme for PIDM Staff

MARCH

DATE	VENUE/LOCATION	EVENT
1 - 5 March	Ottawa and Toronto, Canada	Study Visit to Canada Deposit Insurance Corporation (CDIC)
3 - 4 March	Tokyo, Japan	Fifth Deposit Insurance Corporation of Japan (DICJ) Roundtable Discussion
10 March	Johor Bahru, Johor	Briefing on Deposit Insurance for Member Banks and Other Guaranteed Financial Institutions

APRIL

DATE	VENUE/LOCATION	EVENT
3 April	Kuantan, Pahang	Exhibition at Financial Education Seminar 2010
6 April	Seremban, Negeri Sembilan	Briefing on Deposit Insurance for Member Banks and Other Guaranteed Financial Institutions
7 April	Melaka	Briefing on Deposit Insurance for Member Banks and Other Guaranteed Financial Institutions
7 - 9 April	Warwick, United Kingdom	Presentation by PIDM at Symposium on Managing Systemic Crisis
8 April	Kuala Lumpur	Briefing on Deposit Insurance for Member Banks and Other Guaranteed Financial Institutions
12 April	PIDM, Kuala Lumpur	Special Board of Directors Meeting
13 April	Kuala Lumpur	Remuneration Committee Meeting
19 - 20 April	Kuching, Sarawak	Exhibition at Malaysian Unit Trust Week ( <i>Minggu Saham Amanah Malaysia</i> ) 2010
20 April	Shah Alam, Selangor	Commencement of Pilot Implementation of PIDM Education Programme (PIDM Project MoneySmart) at SMK Bukit Jelutong
26 - 29 April	Cebu, Philippines	Presentation by PIDM at Cebu Summit Conference on Strengthening Deposit Insurance Systems in Crisis and Post-Crisis Situation



CALENDAR OF EVENTS 2010

MAY

DATE	VENUE/LOCATION	EVENT
5 May	Sitiawan, Perak	Briefing on Deposit Insurance for Member Banks and Other Guaranteed Financial Institutions
6 May	Kuala Lumpur	Launch of PIDM Annual Report 2009  Annual Dialogue with Member Banks and Other Guaranteed Financial Institutions  Press Conference
10 May	PIDM, Kuala Lumpur	Board of Directors Meeting
11 May	PIDM, Kuala Lumpur	Media Briefing on the Enhanced Financial Consumer Protection Package
12 May	Kuala Lumpur	Briefing on the Enhanced Financial Consumer Protection Package for Member Banks, Insurance Companies and Industry Organisations
13 May	PIDM, Kuala Lumpur	Audit Committee Meeting
13 May	Kuala Lumpur	Briefing on the Enhanced Financial Consumer Protection Package for Other Guaranteed Financial Institutions, Accounting Firms, Legal Firms and Consultants
14 - 17 May	Awana, Pahang	PIDM Team Building
17 May	PIDM, Kuala Lumpur	Briefing on the Enhanced Financial Consumer Protection Package for Bar Council
19 May	BNM, Kuala Lumpur	Presentation by PIDM for Central Bank of Uganda delegation on Financial Education and Re-Dress Mechanism
20 May	PIDM, Kuala Lumpur	Study Visit by Federal Reserve Bank of New York
23 May	Petaling Jaya, Selangor	Exhibition at FOMCA Roadshow 2010



JUNE

DATE	VENUE/LOCATION	EVENT
2 June	PIDM, Kuala Lumpur	Memorandum of Understanding (MOU) and Master Consultancy Services Agreement (MCSA) between PIDM and Islamic Banking and Finance Institute Malaysia Sdn. Bhd. (IBFIM)
7 - 11 June	Mexico City, Mexico	IADI Executive Council and Standing Committee Meetings and Seminar on The Role of Banks in Economic Stability and Growth
15 - 16 June	Manila, Philippines	Presentation by PIDM at Sixth South East Asian Central Banks (SEACEN), APEC Business Advisory Council (ABAC) and Pacific Economic Cooperation Council (PECC) Public-Private Dialogue for The Asia-Pacific Region
18 June	PIDM, Kuala Lumpur	Board of Directors Meeting
21 - 25 June	PIDM, Kuala Lumpur	Study Visit by the Board of Directors of the Nigeria Deposit Insurance Corporation (NDIC) on Corporate Governance Framework and Islamic Deposit Insurance System



JUNE

DATE	VENUE/LOCATION	EVENT
25 June	Kuala Lumpur	'Live' talk show on NTV7 The Breakfast Show with PIDM Chief Executive Officer (CEO)
25 - 27 June	Port Dickson, Negeri Sembilan	Off-Site Programme for PIDM Senior Management
28 June	Kuala Lumpur	'Live' talk show on RTM1 'Selamat Pagi Malaysia' with PIDM Chief Operating Officer (COO)
29 June	Kuala Lumpur	'Live' talk show on Lite FM The Lite Breakfast with PIDM CEO
	Kuala Lumpur	Interview by The Star with PIDM CEO
	PIDM, Kuala Lumpur	Briefing for Ministry of Finance on proposed amendments to the MDIC Act



JULY

DATE	VENUE/LOCATION	EVENT
1 July	Kuala Lumpur	PIDM Scholarship Induction Programme
2 July	Kuala Lumpur	PIDM Scholarship Programme Award Ceremony
8 July	PIDM, Kuala Lumpur	Focus Group Discussion on the Insurance Compensation Scheme (ICS) with FOMCA
12 July	PIDM, Kuala Lumpur	Governance Committee Meeting
12 July	Wilayah Persekutuan Putrajaya	Commencement of Full Implementation of PIDM Project MoneySmart at SMK Putrajaya, Presint 8(1)
12 - 16 July	PIDM, Kuala Lumpur	Study Visit by NDIC on Islamic Deposit Insurance System
20 July	PIDM, Kuala Lumpur	Focus Group Discussion on ICS with Ministry of Domestic Trade, Co-operatives and Consumerism
27 July	PIDM, Kuala Lumpur	Audit Committee Meeting
29 - 30 July	Tanzania, Africa	IADI Africa Regional Meeting and Conference

CALENDAR OF EVENTS 2010

AUGUST

DATE	VENUE/LOCATION	EVENT
3 August	Kuala Lumpur	Special Board of Directors Meeting
12 August	PIDM, Kuala Lumpur	Intervention and Failure Resolution (IFR) Simulation Exercise
15 - 20 August	Kuala Lumpur	SEACEN-IADI Course on Resolution of Problem Banks in collaboration with PIDM
16 August	PIDM, Kuala Lumpur	Board of Directors Session – Target Fund
17 August	Kuala Lumpur	Buka Puasa with Members of the Media
23 - 24 August	PIDM, Kuala Lumpur	Study Visit by the Deposit Protection Fund Board of Kenya
24 August	PIDM, Kuala Lumpur	Study Visit by Central Bank of Kenya



SEPTEMBER

DATE	VENUE/LOCATION	EVENT
14 - 20 September	Kuala Lumpur	Relocation of PIDM office from 1 Sentral to Quill 7, Kuala Lumpur
21 - 23 September	Jakarta, Indonesia	Tripartite Meeting on Exit Policy for Deposit Insurance Coverage
24 - 28 September	Tokyo, Japan	Ninth IADI Annual General Meeting and Annual Conference
27 September	Kuala Lumpur	Presentation by PIDM at SEACEN Course on Crisis Preparedness in Integrated Market
28 September	Kuala Lumpur	PIDM Project MoneySmart Launch Ceremony
30 September	Kuala Lumpur	Special Board of Directors Meeting - Strategic Planning



PIDM Hari Raya Reception for Financial Institutions and Strategic Partners

OCTOBER

DATE	VENUE/LOCATION	EVENT
1 October	Kuala Lumpur	PIDM Staff Hari Raya Gathering
4 October	PIDM, Kuala Lumpur	Board of Directors Meeting
6 - 8 October	PIDM, Kuala Lumpur	Study Visit by Credit Guarantee Corporation of Nepal
8 October	Washington, USA	Islamic Financial Services Board Meeting
8 - 15 October	Ottawa, Canada	Study Visit to CDIC
18 October	Universiti Malaysia Sabah (UMS), Kota Kinabalu, Sabah	Briefing on Deposit Insurance for students and academic staff of UMS



OCTOBER

DATE	VENUE/LOCATION	EVENT
18 October	Kota Kinabalu, Sabah	Briefing on Deposit Insurance for police officers of the Sabah Police Contingent Headquarters ( <i>Ibu Pejabat Polis Kontinjen Sabah</i> )
19 October	Universiti Teknologi MARA (UiTM), Kota Kinabalu, Sabah	Briefing on Deposit Insurance for students and academic staff of UiTM Sabah
	Politeknik Kota Kinabalu, Kota Kinabalu, Sabah	Briefing on Deposit Insurance for students and academic staff of Kota Kinabalu Polytechnic ( <i>Politeknik Kota Kinabalu</i> )
20 October	Penampang, Sabah	Briefing on Deposit Insurance for local community in Penampang, Sabah
21 October	Papar, Sabah	Briefing on Deposit Insurance for local community in Papar, Sabah
22 October	Kota Kinabalu, Sabah	Briefing on Deposit Insurance for the Royal Malaysian Navy ( <i>Tentera Laut Diraja Malaysia</i> )
22 - 24 October	Kota Kinabalu, Sabah	Financial Awareness Week ( <i>Minggu Kesedaran Kewangan – M2K</i> ) Exhibition



NOVEMBER

DATE	VENUE/LOCATION	EVENT
3 November	PIDM, Kuala Lumpur	Study Visit by Bank of Thailand
9 November	PIDM, Kuala Lumpur	Governance Committee Meeting
26 November	PIDM, Kuala Lumpur	Remuneration Committee Meeting
27 November	Kuala Lumpur	PIDM Fourth Annual Dinner
29 November	PIDM, Kuala Lumpur	Study Visit by Central Bank of Afghanistan
30 November	Kuala Lumpur	The Malaysia Deposit Insurance Corporation Bill 2010 tabled for first reading in Dewan Rakyat



DECEMBER

DATE	VENUE/LOCATION	EVENT
1 December	PIDM, Kuala Lumpur	Dialogue with Liaison Officers of Member Banks
6 December	PIDM, Kuala Lumpur	Audit Committee Meeting
9 December	PIDM, Kuala Lumpur	Board of Directors Meeting
13 - 17 December	PIDM, Kuala Lumpur	Study Visit by NDIC and the Deposit Protection Board of Zimbabwe on Risk-Based Auditing Functions
15 December	Kuala Lumpur	The Malaysia Deposit Insurance Corporation Bill 2010 passed by Dewan Rakyat
22 December	Kuala Lumpur	The Malaysia Deposit Insurance Corporation Bill 2010 passed by Dewan Negara

## Appendix

*Achieving greater heights through sharing  
knowledge...*





APPENDIX

CHARTER OF GOVERNANCE COMMITTEE

A. 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.

B. OBJECTIVE

The Governance Committee (Committee) of the Board of Directors (the Board) of the Malaysia Deposit Insurance Corporation (Corporation) is responsible to direct implementation of sound corporate governance principles in the Corporation. In this regard, the principal objectives of the Committee are to assist with Board oversight of: developing 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.

C. OPERATING PRINCIPLES

1. Functions and Composition

- (a) The Committee shall comprise 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.

2. Chair

The Committee shall be chaired by the Chairman of the Board except during such time in the meeting when the Committee discusses, deliberates and / or decides on matters pertaining to the tenure, retirement and / or succession planning for the position of the Chairman of the Board, in which case, the Committee shall be chaired by any one of the other members present (in the case where three members are present in the meeting) or by the other member present (in the case where two members are present at the meeting). In such circumstances, the said member who chairs the meeting when the Committee discusses, deliberates and / or decides on matters pertaining to the tenure, retirement and / or succession planning for the position of the Chairman of the Board shall have a second vote in the event of an equality of votes.

3. Quorum

The presence of two members constitutes a quorum for a meeting of the Committee.

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.

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.

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.

7. Frequency of Meetings

The Committee will meet at the discretion of its Chair, but not less frequently than twice each year.

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.

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.

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.

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.

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.

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.

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.

15. Disclosure

The Committee shall ensure that this Charter and its composition are publicly disclosed.

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.

D. PRINCIPAL DUTIES AND RESPONSIBILITIES

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 guidelines. The Committee shall make recommendations to the Board on policies with regard to director tenure, retirement and succession.
- (b) Ensure there is a system that enables a Board Committee or member of the Board to engage separate independent counsel or other advisors in appropriate circumstances, at the Corporation's expense, and be responsible for the ongoing administration of such a system.
- (c) On a periodic basis, 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) Keep up to date on corporate governance developments so as to ensure the Corporation's governance practices are in line with best practices.
- (e) 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.

2. Evaluation of Board Operations and Board Committees

- (a) In consultation with the Chief Executive Officer (CEO), 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) Develop, recommend and annually review, for Board approval, the mandates and responsibilities of the Board, the Chairman of the Board, the CEO, a member of the Board and the Board Committees.

- (c) Develop a 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) Recommend to the Board, and annually implement, a 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 changes arising therefrom.

3. Board Nominations

- (a) Develop, recommend and annually review both a Board profile and a Board member profile of qualifications and skills and characteristics for individual directors so as to effectively fulfil the Board's responsibilities that take into consideration the current strengths, skills and experience on the Board, terms, retirement dates and the strategic direction of the Corporation.
- (b) Identify a list of potential Board nominees who fit the profiles and update such list on a regular basis.
- (c) When a vacancy or vacancies on the Board occurs, consider the most recently recommended profiles and update them if required, and prepare and recommend to the Board a list of nominees to fill such vacancy or vacancies to enable the Board to make a recommendation to the Minister.
- (d) Develop and implement a strategy to communicate the profiles and potential candidate or candidates to the Minister.
- (e) Review periodically the compensation program of the members of the Board and make any recommendation to the Board.
- (f) Review, monitor and make recommendations regarding the orientation, training and ongoing development of members of the Board.

4. Succession Planning

Review Management's succession plans for the CEO and other corporate officers approved by the Board and make recommendations in respect of the same, if any, to the Board for approval.

5. Reporting and Disclosure

Recommend to the Board that any reports on governance that may be required or considered advisable for public disclosure be produced.

APPENDIX

CHARTER OF REMUNERATION COMMITTEE

A. 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.

B. OBJECTIVE

The objective of the Remuneration Committee (Committee) of the Board of Directors (the Board) of the Malaysia Deposit Insurance Corporation (Corporation) is to ensure that the Corporation has fair, 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.

C. OPERATING PRINCIPLES

1. Functions and Composition

- (a) The Committee shall comprise 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.

2. Chair

The Committee shall be chaired by one of its members, as named by the Board.

3. Quorum

The presence of two members constitutes a quorum for a meeting of the Committee.

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.

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.

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.

7. Frequency of Meetings

The Committee will meet at the discretion of its Chair, but not less frequently than twice each year.

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.

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.

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.

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.

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.

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.

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.

15. Disclosure

The Committee shall ensure that this Charter and its composition are publicly disclosed.

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.

D. PRINCIPAL DUTIES AND RESPONSIBILITIES

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 has ongoing, appropriate and effective policies and procedures with respect to employee business conduct and ethical behaviour and shall review policies and codes in respect of the same and make recommendations, if any, to the Board for approval.

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 provide 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.

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. 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.

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.

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 Chairman 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.

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

A. 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 an Audit Committee.

B. OBJECTIVE

The purpose of the Audit Committee (Committee) of the Board of Directors (the Board) of the Malaysia Deposit Insurance Corporation (Corporation) is 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.

C. OPERATING PRINCIPLES

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.

Subject to availability, at least one member of the Committee shall have financial expertise. "Financial expertise" means a person who has the following attributes: a background in accounting or related financial management experience which would include any experience or background which results in the individual's financial sophistication, including being or having been an auditor, a chief executive officer, chief financial officer, or other senior officer with financial oversight responsibilities.

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.

2. Chair

The Chair is a non-*ex officio* Director, as named by the Board.

3. Quorum

The presence of two members constitutes a quorum for a meeting of the Committee.

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.

5. 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.

6. 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.

7. 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.

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.

9. Auditor General

The Auditor General (AG), as referred to in the Audit Act 1957 (Revised 1972) (Act 62), is:

(i) 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

(ii) may call a meeting of the Committee.

10. Private Meetings

The Committee may meet privately as a committee, and periodically with Management, the AG and the head of the internal audit function in separate private sessions.

11. 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.

12. 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.

13. 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.

14. Reporting

The Committee will, where appropriate, provide 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.

15. Review of Charter

The Committee shall review and assess the adequacy of this Charter at least annually. If the Committee considers amendments are necessary, the Committee shall recommend such amendments to the Board for its approval.

16. 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.

17. Disclosure

The Committee shall ensure that this Charter and the composition of the Committee are publicly disclosed.

18. 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.

D. PRINCIPAL DUTIES AND RESPONSIBILITIES

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.

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.

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. 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;
- (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; 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.

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) Chairman'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 Chairman of the Board and Officers of the Corporation.

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 directly to 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 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 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; and
- (h) ensuring coordination of the internal audit function with annual AG audits and special examinations; and reviewing the overall operations of the internal audit function having regard to its mandate and taking into account current internal audit standards.

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, development 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

APPENDIX

CHARTER OF AUDIT COMMITTEE

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 Committee as well as to the full Board of Directors.

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 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 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 developed and 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; and

- (g) request reports from the internal audit function validating Management's risk assessments.

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 the 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 2011 - 2013

Corporate Objectives		Key Performance Indicators (KPIs) / Corporate Initiatives	Targets		
			2011	2012	2013
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)	35% 30% 10%	40% 35% 15%	45% 40% 20%
		2. Engagement and responsiveness to external stakeholders' needs	100% responsiveness	100% responsiveness	100% responsiveness
		3. Successful completion of key initiative(s): a. Review and implement Integrated Communications Plan b. Education programme c. Provision of Information on Deposit Insurance Regulations 2011	Complete Implement and review Implement	Complete Implement and monitor -	Complete Implement and review -
	B Effective partnerships	4. 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
		5. Participate in international fora	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. 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 High satisfaction High satisfaction	High satisfaction High satisfaction High satisfaction	High satisfaction High satisfaction High satisfaction
		7. Successful completion of key initiative(s): a. Remaining ERM Board Risk policies and practices: i. Strategic and Governance Risk ii. Operational Risk iii. Intervention and Failure Resolution (IFR) Risk b. Involvement in the Financial Institutions Directors' Education (FIDE) Programme	Develop and implement Develop and implement Develop Active participation	Review and enhance Review and enhance Develop and implement Active participation	Review and enhance Review and enhance Review and enhance Active participation
	D Robust risk assessment, monitoring and resolution capability	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 ii. Develop and implement DPS and Return on TPP framework for TIPS: a(ii)(1). Premiums assessed against insurance company a(ii)(2). Guidelines on Return of TPP: Calculation of TPP, Premium and Completion of Returns a(ii)(3). Supervisor validation on Return of TPP a(ii)(4). DPS Framework a(ii)(5). Guidelines on DPS and the regulations a(ii)(6). External auditor validation on guidelines on Return of TPP	Develop and implement  Implement Develop and implement Develop Research and develop - -	-  - - Implement Develop Consult Research and develop	Review and enhance  - Review and enhance - Implement Implement Implement

APPENDIX  
CORPORATE SCORECARD 2011 - 2013

Corporate Objectives		Key Performance Indicators (KPIs) / Corporate Initiatives	Targets		
			2011	2012	2013
Governance and Internal Processes	D Robust risk assessment, monitoring and resolution capability	b. Continuous enhancement to the Risk Assessment and Monitoring Methodology and Framework:			
		i. Banks	Review and implement	Develop and review	Review and implement
		ii. Insurance companies and takaful operators:			
		b(ii)(1). Risk Assessment Methodology and Framework	Develop and implement	Review and enhance	Review and enhance
		b(ii)(2). Insurance Risk Assessment System	Research	Develop	Develop and implement
		c. Develop and implement Early Warning System (EWS) for banks	Research and develop	Develop and validate	Implement
		d. Components of Intervention and Failure Resolution Framework including processes, policies and procedures:			
		i(1). Develop and implement the final components for banks	Complete	Review and enhance	Review and enhance
		i(2). Develop and implement Least Cost Model and System	Research	Develop	Develop and implement
		ii(1). Assess amendments required to the IFR policies and procedures for insurance companies and takaful operators	Develop	Complete	Review and enhance
		e. Develop and implement policies and regulations for banks:			
		i. Interest and dividend payable guidelines / rules	Develop and implement	-	-
		ii. Premium surcharge	Develop and implement	-	-
		iii. Research on standard of sound business and financial practices for member banks	Complete	-	-
		f. Develop and implement policies and regulations for insurance companies and takaful operators:			
Governance and Internal Processes	E Sound business and financial practices	i. Terms and conditions of membership	Develop	Implement	-
		ii. Provision of TIPS Information Regulations	Research	Develop	Implement
		g. Conduct simulation on:			
		i. Payout	Complete	Complete	Complete
		ii. Intervention and Failure Resolution	Complete	Complete	Complete
		h. Develop and implement Payout system, policies and procedures:			
		i. Phase 2 – Integrate Payout Payment Management System	Develop	Implement	-
		ii. Phase 3 – Develop Dynamic Deposit Database	-	-	Research
		i. Develop audit programme to ensure integrity of Payout Data, System and Processes	Develop and implement	Review and enhance	Review and enhance
		j. Develop and implement claims management system, policies and procedures for insurance companies and takaful operators:			
		i. Phase 1a: Product Registry System	Research	Develop	Implement
		ii. Phase 1b: Claims Management System	Research	Develop	Implement
		iii. Phase 1c: Policy Holders Support Management System	Research	Develop	Implement
		iv. Phase 2: Payment Management System	-	Research	Develop
		k. Member institutions' compliance programme	Develop	Implement	Review and enhance

Corporate Objectives		Key Performance Indicators (KPIs) / Corporate Initiatives	Targets		
			2011	2012	2013
Governance and Internal Processes	F Competent and knowledgeable workforce	9. Reporting through:			
		a. Annual Report	Complete	Complete	Complete
		b. Corporate Plan	Complete	Complete	Complete
		10. Actual vs. approved expenditure 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. Financial accounting related systems and processes upgrade and enhancement	Develop and implement	Implement	-
		b. Develop and implement funding framework for Phase 1 – Government borrowings	Complete	-	-
		Phase 2 – Funding from capital market	Complete	-	-
		c. Implement Target Fund framework for banks	Complete	Complete	Complete
		d. Implement annual Information Technology Strategic Plan	Review and test	Review and test	Review and test
		e. Business Continuity Plan	Review and test	Review and test	Review and test
		f. Disaster Recovery Plan and infrastructure	Review and test	Review and test	Review and test
		g. Corporate Information Management System:			
Learning and Growth	G Conducive corporate environment	i. Phase 2: Enhancements	Develop and enhance	-	-
		ii. Phase 3: Intranet Portal Communication	Develop and implement	-	-
		h. Corporate Information Security Infrastructure:			
		i. Phase 1(a): Information Security	Develop	Implement	-
		ii. Phase 1(b): Identity Management and Digital Signature	Implement	-	-
		iii. Phase 2: Remote Access	-	Develop and implement	-
		i. Executive Information System:			
		ii. Phase 1: Research	-	Research	-
		iii. Phase 2: Corporate Dashboard	-	-	Develop
		14. Develop and implement corporate-wide and employees' annual learning and development plan	Develop	Implement	-
		15. Successful completion of key initiative(s):			
		a. Continue to implement the competency model	Implement	Review and enhance	Review and enhance
		b. Develop and implement Knowledge Management framework and system:			
		i. Phase 1: Knowledge Management framework	Develop and implement	Review and enhance	-
		ii. Phase 2: Knowledge Management policies and processes	-	Develop	Implement
		16. Employee satisfaction index (survey conducted once every two years)	75%	-	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 2011, PIDM's member institutions are as follows:

Commercial Banks (23)

- 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. CIMB Bank Berhad
- 9. Citibank Berhad\*
- 10. Deutsche Bank (Malaysia) Berhad\*
- 11. EON Bank Berhad
- 12. Hong Leong Bank Berhad
- 13. HSBC Bank Malaysia Berhad
- 14. J.P. Morgan Chase Bank Berhad
- 15. Malayan Banking Berhad
- 16. OCBC Bank (Malaysia) Berhad
- 17. Public Bank Berhad
- 18. RHB Bank Berhad
- 19. Standard Chartered Bank Malaysia Berhad
- 20. The Bank of Nova Scotia Berhad
- 21. The Royal Bank of Scotland Berhad
- 22. United Overseas Bank (Malaysia) Berhad
- 23. Industrial and Commercial Bank of China (Malaysia) Berhad

\* This institution provides Islamic banking services

Islamic Banks (17)

- 1. Affin Islamic Bank Berhad
- 2. Alliance Islamic Bank Berhad
- 3. Al-Rajhi Banking and Investment Corporation (Malaysia) Berhad
- 4. Amlslamic Bank Berhad
- 5. Asian Finance Bank Berhad
- 6. Bank Islam Malaysia Berhad
- 7. Bank Muamalat Malaysia Berhad
- 8. CIMB Islamic Bank Berhad
- 9. EONCAP Islamic Bank Berhad
- 10. Hong Leong Islamic Bank Berhad
- 11. HSBC Amanah Malaysia Berhad
- 12. Kuwait Finance House (M) Berhad
- 13. Maybank Islamic Berhad
- 14. OCBC Al-Amin Bank Berhad
- 15. Public Islamic Bank Berhad
- 16. RHB Islamic Bank Berhad
- 17. Standard Chartered Saadiq Berhad

Insurance Companies (36)

- 1. ACE Synergy 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. Jerneh Insurance Berhad
- 17. Kurnia Insurance (Malaysia) Berhad
- 18. Lonpac Insurance Berhad
- 19. Malaysian Assurance Alliance Berhad
- 20. Manulife Insurance Berhad
- 21. MCIS Zurich Insurance Berhad
- 22. MSIG Insurance (Malaysia) Bhd.
- 23. MUI Continental Insurance Berhad
- 24. Multi-Purpose Insurans Berhad
- 25. Oriental Capital Assurance Berhad
- 26. Overseas Assurance Corporation (Malaysia) Berhad
- 27. Pacific & Orient Insurance Co. Berhad
- 28. Progressive Insurance Berhad
- 29. Prudential Assurance Malaysia Berhad
- 30. QBE Insurance (Malaysia) Berhad
- 31. RHB Insurance Berhad
- 32. The Pacific Insurance Berhad
- 33. Tokio Marine Insurans (Malaysia) Berhad
- 34. Tokio Marine Life Insurance Malaysia Bhd.
- 35. Uni.Asia General Insurance Berhad
- 36. Uni.Asia Life Assurance Berhad

Takaful Operators (10)

- 1. AIA AFG Takaful Bhd.
- 2. CIMB Aviva Takaful Berhad
- 3. Etiqa Takaful Berhad
- 4. Great Eastern Takaful Sdn. Bhd.
- 5. Hong Leong Tokio Marine Takaful Berhad
- 6. HSBC Amanah Takaful (Malaysia) Sdn. Bhd.
- 7. MAA Takaful Berhad
- 8. Prudential BSN Takaful Berhad
- 9. Syarikat Takaful Malaysia Berhad
- 10. Takaful Ikhlash Sdn. Bhd.

APPENDIX

FREQUENTLY ASKED QUESTIONS

DEPOSIT INSURANCE

1. What is deposit insurance?

Deposit insurance is a system that protects depositors, whether individuals or businesses, against the loss of their insured deposits in the unlikely event of a member bank failure. The deposit insurance system in Malaysia is administered by PIDM.

2. Which banks are member institutions of PIDM?

All commercial banks licensed under the Banking and Financial Institutions Act 1989 and all Islamic banks licensed under the Islamic Banking Act 1983, including foreign banks operating in Malaysia are member institutions of PIDM. Membership is compulsory as provided under the Malaysia Deposit Insurance Corporation Act (MDIC Act).

A list of banks which are member institutions of PIDM (referred to as ‘member banks’) can be obtained either by contacting PIDM at **1-800-88-1266** or by accessing PIDM's website at **www.pidm.gov.my**. Look out for this membership sign at all entrances of bank branches.



3. Must I apply or register for deposit insurance protection?

No, you do not need to apply or register for protection. Deposit insurance is provided automatically for eligible deposit accounts.

4. What is my deposit insurance protection limit?

Your eligible deposits are protected up to RM250,000 per depositor per member bank. The RM250,000 limit includes both the principal amount of a deposit and the accrued interest / return.

5. Can I buy additional insurance for my deposits above RM250,000?

No. Deposit insurance is not a general or life insurance product. It is provided by the Government through PIDM.

6. What types of deposits are eligible for deposit insurance?

Eligible deposits include current and savings deposit accounts, fixed deposits and foreign currency deposits.

7. What types of deposits are NOT protected?

Deposits not payable in Malaysia, interbank money market placements, negotiable instruments of deposit (NIDs), other bearer deposits and repurchase agreements are not protected by PIDM.

8. Are unit trusts eligible for deposit insurance protection?

No. Unit trusts are not eligible for deposit insurance protection.

9. How will I know if my deposits are eligible for deposit insurance protection?

Your member bank must inform you whether a deposit product is eligible or not for deposit insurance protection before you place your funds with it. All eligible deposit products are listed in a register available at your bank. Please ask your bank representative for a copy of the register.

These requirements are in line with the Provision of Information on Deposit Insurance Regulations 2011 to ensure member banks provide accurate, relevant and timely information on deposit insurance protection and scope of coverage.

10. Are Islamic and conventional deposits protected separately?

Yes. Islamic and conventional deposits are eligible for a separate RM250,000 deposit insurance limit per depositor per member bank.

11. I have deposits in several member banks. Will all my deposits be added up for deposit insurance protection purposes?

No. Your deposits in different member banks are protected separately. The RM250,000 deposit insurance limit is applicable per depositor per member bank.

12. I have deposits in different branches of the same member bank. Will all my deposits be protected separately?

No. Deposits held in different branches of the same member bank will be added together for deposit insurance protection purposes.

13. Are there any accounts that are protected separately?

• **Joint accounts** – Joint accounts enjoy separate deposit insurance protection provided the records of the member bank disclose the names of the joint account holders.

## APPENDIX

### FREQUENTLY ASKED QUESTIONS

- **Trust accounts** – For trust accounts, beneficiaries can enjoy separate protection if the trustee discloses the interest of each beneficiary and the amounts owed to each beneficiary on the records of the member bank. Each beneficiary is protected up to RM250,000 separately from insured deposits held in their names.
- **Accounts of sole proprietorships, partnerships or persons carrying on professional practices (e.g. architects, dentists)** – These accounts are also separately protected up to the RM250,000 limit.

An example of how separate deposit insurance protection would be applied for a depositor holding several accounts in a member bank is provided here:

DEPOSITOR	TYPE OF DEPOSIT	AMOUNT (RM)	INSURED (RM)
Ahmad	Savings	300,000	250,000
Ahmad and wife	Current	300,000	250,000
Ahmad, wife and daughter	Savings	250,000	250,000
Ahmad, Leong & Co. (legal firm)	Current	200,000	200,000
Ahmad & Ali Sdn. Bhd.	Current	50,000	50,000
<b>Total deposits</b>		1,100,000	
<b>Total deposits protected in aggregate</b>			<b>1,000,000</b>

**14. What happens to my deposits if two member banks merge?**

You will continue to enjoy separate deposit insurance protection for a period of two years or upon maturity or until withdrawal of the deposit in question, whichever is earlier.

**15. In the unlikely event of a member bank failure, how do I make a deposit insurance claim?**

You do not need to make a claim. PIDM will announce how, where and when it will reimburse insured deposits. PIDM will base its reimbursement on the depositor records of the member bank.

**16. I am a non-resident of Malaysia. Are my deposits protected?**

Your place of residence or nationality does not affect deposit insurance protection. Eligible deposits placed with a member bank of PIDM are protected up to RM250,000 per depositor per member bank.

**17.Are deposits in branches and subsidiaries of domestic banks outside Malaysia protected?**

No, PIDM does not protect deposits held in these institutions. However, these may be protected by the host country's deposit insurance or protection scheme.

## TAKAFUL AND INSURANCE BENEFITS PROTECTION SYSTEM

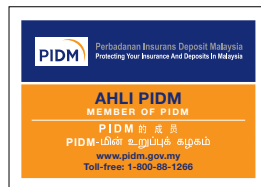
## 1. What is the Takaful and Insurance Benefits Protection System?

The Takaful and Insurance Benefits Protection System (TIPS) provides protection in the unlikely event of an insurer member failure. In that event, PIDM will make a payment to takaful certificate or insurance policy owners based on the limits and coverage provided by TIPS.

**2. Which takaful operators and insurance companies are member institutions of PIDM?**

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 are member institutions of PIDM. Membership is compulsory as provided under the MDIC Act.

A list of takaful operators and insurance companies which are member institutions of PIDM (referred to as ‘insurer members’) can be obtained either by contacting PIDM at **1-800-88-1266** or by accessing PIDM’s website at **[www.pidm.gov.my](http://www.pidm.gov.my)**. Look out for this membership sign at all the entrances to offices of your takaful operator or insurance company.



### 3. Must I apply or register for TIPS protection?

No, you do not need to apply or register for protection. You are automatically protected for eligible takaful or insurance benefits.

**4. Are all takaful certificate and insurance policy owners eligible for protection under TIPS?**

Takaful certificate or insurance policy owners eligible for protection under TIPS include individuals, sole proprietors, partnerships, trade unions, registered societies, cooperatives, registered charities and corporations.

**5. What takaful and insurance benefits are protected under TIPS? What are the limits and scope of coverage provided under TIPS?**

The takaful and insurance benefits protected under TIPS and related limits include the following:

FAMILY SOLIDARITY TAKAFUL AND LIFE INSURANCE	
BENEFITS PROTECTED	MAXIMUM LIMIT (INDIVIDUAL OR GROUP POLICIES / PLANS)
Death and related benefits	RM500,000
Permanent disability	RM500,000
Critical illness	RM500,000
Disability income	RM10,000 per month
Annuity income	RM10,000 per month
Medical expenses	100% of expenses incurred
Refundable prepaid premiums	100% of amount prepaid

GENERAL TAKAFUL AND GENERAL INSURANCE	
BENEFITS PROTECTED	MAXIMUM LIMIT (POLICIES / PLANS)
Loss of or damage to property	RM500,000 per property
Death and related benefits	RM500,000
Permanent disability	RM500,000
Critical illness	RM500,000
Disability income	RM10,000 per month
Medical expenses	100% of expenses incurred
Refundable prepaid premiums	100% of amount prepaid
Claims by eligible third parties are also protected under TIPS subject to the above limits	

To be eligible for protection under TIPS, the takaful certificate or insurance policy must be issued in Malaysia by an insurer member and be denominated in Ringgit Malaysia.

For further details on the scope of coverage and limits for TIPS, contact PIDM at **1-800-88-1266** or log on to **[www.pidm.gov.my](http://www.pidm.gov.my)**

**6. What types of takaful and insurance benefits are NOT protected under TIPS?**

Takaful or insurance benefits not protected under TIPS include takaful certificates and insurance policies denominated in foreign currency and damage to intangible property. The investment portion of investment-linked certificates or policies is not protected, but the insurance and takaful portion of that plan or policy is covered under TIPS.

**7. If I have an individual certificate or policy, would my group certificate or policy benefits be protected separately under TIPS?**

Yes. The benefits protected under your individual certificate or policy and a group certificate or policy will be calculated separately in arriving at the maximum limit. This is because the protection system provides separate limits for different policy owners, allowing you to enjoy more protection.

8. If I have purchased takaful certificates or insurance policies with the same benefits from several insurer members, will all my takaful or insurance benefits be added up for purposes of determining my limit protected under TIPS?

No. Your takaful and insurance benefits with different insurer members are protected separately. The protected benefits under TIPS will be aggregated only if they relate to the “same insurer member, same risk event, same life insured or insured property, and same takaful certificate or policy owner”.

APPENDIX  
FREQUENTLY ASKED QUESTIONS

9. How can I know what is protected if I purchased several family takaful certificates or life insurance policies for myself and my family?

Each life insured is separately protected. This means if you have purchased several takaful certificates or insurance policies for different family members from the same insurer member, you will be protected based on your individual family members who are insured. You may refer to this example:

Mr. and Mrs. Tan purchased several life insurance policies for their family from the same insurer member.

POLICY OWNER: MR. TAN		POLICY OWNER: MRS. TAN	
LIFE INSURED	AMOUNT INSURED (RM)	LIFE INSURED	AMOUNT INSURED (RM)
Policy 1 - Son (Adam)	200,000	Policy 4 - Son (Adam)	100,000
Policy 2 - Daughter (Alice)	150,000	Policy 5 - Son (Adam)	50,000
Policy 3 - Mr. Tan	600,000	Policy 6 - Mrs. Tan	400,000
Scenario 1: Death of Adam			
Amount claimable under Mr. Tan's policies		RM200,000 (Policy 1)	
Amount claimable under Mrs. Tan's policies (RM100,000 + RM50,000)		RM150,000 (Policy 4 and 5)	
Total amount claimable under TIPS		RM350,000	
Scenario 2: Death of Mr. Tan			
Amount claimable under Mr. Tan's policies		RM600,000 (Policy 3)	
Total amount claimable under TIPS		RM500,000*	

\* Maximum limit under TIPS

10.Can I buy additional insurance to get more coverage for my takaful or insurance benefits?

No. Protection for your takaful and insurance benefits under TIPS is not a commercial takaful or insurance policy you can purchase. It is provided by the Government through PIDM. You do not have to register or apply for protection under TIPS since it is provided automatically for eligible takaful or insurance benefits.

11.What happens to my takaful certificates or insurance policies if two insurer members merge?

The takaful or insurance benefits will continue to be protected separately until the fulfilment of all obligations by the insurer members, including the occurrence of a claim event maturity or surrender of the takaful certificate or insurance policy.

12.In the unlikely event of an insurer member failure, how do I claim for my takaful or insurance benefits protected under TIPS?

In the event that PIDM is required to resolve a troubled insurer member, we will announce how, where and when we will make payment to takaful certificate or insurance policy owners for their takaful or insurance benefits protected under TIPS. PIDM will pay takaful certificate or insurance policy owners based on the records of the takaful operator or insurance company.

PIDM may also arrange for transfer of takaful certificates or insurance policies from the failed insurer member to another insurer member to secure continuity of coverage for takaful certificate or insurance policy owners particularly in the case of family takaful or life insurance.

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 2011 (MDIC Act), 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 deposits 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

An enterprise portal is a system for integrating information, people and processes. This portal allows user 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.



APPENDIX

GLOSSARY OF TERMS

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 192.

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 two major thrusts: to create awareness of the deposit insurance system and to build PIDM's credibility as the administrator of the deposit insurance system.

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.

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 192.

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.

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.

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 for an insurer, in general, is the level of accumulated funds that is needed in order to adequately cover its expected deposit insurance and / or takaful and insurance benefits protection losses.

Total Insured Deposits

The sum of deposits insured by PIDM and held in a member bank.

# APPENDIX

## CONTACT DETAILS

**For more information about PIDM**

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- 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](http://www.pidm.gov.my)
- E-mail to [info@pidm.gov.my](mailto: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,**  
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