



Perbadanan Insurans Deposit Malaysia
Malaysia Deposit Insurance Corporation

ANNUAL REPORT 2006



The Unmanila. This type of rope "... is one that combines tradition with progress. The rope holds a knot extremely well and provides an excellent gripping surface to minimise slippage when held. It has all the advantages of modern synthetics - it is rot proof, water proof and not easily damaged."

In Malaysia, the traditional use of a rope as depicted is to reinforce the basic foundations of a construction.

At PIDM, we see the use of our "rope" in a way that similarly combines tradition with progress. Key elements of progress - like the strands of a rope - have been woven together carefully to ensure that the foundations of PIDM are strengthened. The key elements that make our "rope" and therefore our foundations strong are our clear strategic direction, our sound governance policies and procedures, our dedicated people and our emphasis on professionalism and commitment to excellence and the highest of ethical standards.



OUR VISION

To be recognised as the most effective deposit insurer in Southeast Asia by 2008.

To be acknowledged as one of the leading deposit insurers in the world by 2010.

OUR MISSION

PIDM shall protect Islamic and conventional deposits, provide incentives for promoting sound risk management, and promote and contribute to the stability of the financial system in Malaysia. PIDM will fulfill its mandate in an efficient and effective manner, having regard to the interests of its employees and other stakeholders.

OUR VALUES

Excellence and Professionalism

Respect and Fairness

Integrity and Trustworthiness

Communications and Teamwork

Financial Stewardship



THE YEAR IN SUMMARY

HIGHLIGHTS OF 2006

AS A NEWLY ESTABLISHED CORPORATION

- Implemented key governance policies and Code of Business Conduct and Ethics, including a Whistleblowing Policy and issued documents defining the respective roles of the Board and Management.
- Implemented a new and comprehensive financial management system.
- Issued our 'Guidelines on Total Insured Deposits' and 'Guidelines on Disclosure Requirements for Joint Accounts and Trust Accounts'.
- Crystallised frameworks and plans for internal audit, enterprise risk management ("ERM") and differential premium systems as well as concept papers for key regulations.
- Developed the key frameworks with regard to risk assessment, monitoring and payout activities.
- Worked on raising public awareness with various activities.
- Hosted the Executive Council meetings of the International Association of Deposit Insurers ("IADI").
- Accepted as the first deposit insurer on the Islamic Financial Services Board as an Associate Member.

OUR PEOPLE

- Filled the rest of our key positions and also built up our organisational team.
- Established compensation and benefits and performance management policies to build and retain a results-oriented team.

OUR PARTNERS

- Executed a Strategic Alliance Agreement with Bank Negara Malaysia (“BNM”).
- Engaged our member institutions to create public awareness about deposit insurance.
- Worked closely with other regulators, in particular BNM, as part of the financial safety net team.
- Engaged member institutions and other stakeholders through consultations on our proposed regulations and seminar on ERM.

OUR FUNDS

- Total deposit insurance funds expanded to RM122 million as a result of premiums collected for over a period of 12 months.

WHAT TO LOOK FORWARD TO

- Our Corporate Plan 2007-2009 sets out our strategic direction and we will report our progress against key initiatives set out in this plan.
- We will continue to build capacity and capability, including completing our internal control framework, commencing the implementation of our ERM and continue the development of our risk assessments, intervention and payout framework.
- Our differential premium systems are targeted for implementation by 2008.
- We will continue to build credibility through our public awareness work.
- We will continue to build international credibility through international engagements, including, in 2007, hosting the Conference and Annual General Meeting of the IADI in Kuala Lumpur.

The two-year highlights are shown below.

	2006		2005
	(January-December 2006)	Movement	(September-December 2005)
	RM	%	RM
<u>BALANCE SHEET ITEMS</u>			
Total Assets	127,020,219	283	33,176,484
Total Liabilities	4,545,838	617	634,443
Deposit Insurance Funds	122,474,381	276	32,542,041
Conventional	111,218,891	277	29,527,976
Islamic	11,255,490	273	3,014,065
<u>INCOME STATEMENT ITEMS</u>			
Premium Revenue	102,122,205	186	35,671,770
Conventional	92,719,007	186	32,368,754
Islamic	9,403,198	185	3,303,016
Investment Income	2,815,560	1276	204,692
Conventional	2,576,330	1294	184,851
Islamic	239,230	1106	19,841
Operating Expenses	15,005,425	350	3,334,421
Net Surplus	89,932,340	175	32,542,041



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MESSAGE FROM THE

CHAIRMAN

Governance is the cornerstone for building PIDM. During the year, we have worked extremely hard to build and strengthen our governance policies and practices. Ultimately our credibility and integrity depend on our capability to demonstrate to our stakeholders that PIDM is well governed and well managed.

Since our focus is to provide transparency about our work, our theme for this Annual Report, therefore, is “Strengthening Governance; Building Credibility”.

REPORTING ON OUR GOVERNANCE

During the year, we have established the necessary governance arrangements and structures, risk management and sound internal control systems, both at Board and operational level. A key effort has been towards completing our Board governance policies and practices and we have adopted a Board Governance Policy to set the standards for meeting our obligations to the Corporation. This Policy is benchmarked against international and domestic best practices and recommendations, and is based on the core principles of openness, integrity and accountability.

In our Board Governance Policy, we set for ourselves a total of 15 standards of governance, against which we report our performance in depth on page 33 of this Report. One of the key standards in the Policy, I would note, is the responsibility of the Board to consider, on a regular basis, whether the Corporation is “in control” of its affairs and business. This requires the Board to obtain reasonable assurance that the operations of the Corporation are managed effectively within its strategic and risk management process.

We have also adopted a process for evaluating the Board’s effectiveness and the effectiveness of our three Board Committees, both as a group and as individual members. As Chairman of the Board, I led the evaluation process for this year (in January 2007), as part of the Board’s year-end work, and I am pleased with the results of our evaluation at this stage of our development. We will also continue with our Board education programme, the first of which was on the *Green Book on Enhancing Board Effectiveness*. This education session was conducted by subject matter



experts from Khazanah Nasional Berhad, the secretariat from the Putrajaya Committee on GLC High Performance, and provided Board members with an opportunity to discuss some practical issues on governance.

We have published our governance policies to enable stakeholders to track and judge our conduct and progress and are among the very few organisations in Malaysia to hold ourselves accountable against such principles and standards. I am gratified with our progress in this regard and I believe that in just 16 months of our existence, we are at the forefront of corporate governance in many ways.

GOVERNANCE AT ALL LEVELS OF THE ORGANISATION

Management is committed to support our efforts to set high governance standards. Our CEO and his Management team are focused on developing the Corporation into a world class organisation by adopting best practices in all aspects of our operations. Our Management's unequivocal commitment to excellence has also resulted in a performance-based work culture in line with our business model to have a small, but motivated and committed team of professionals to carry out our core functions.

In order to achieve the highest of internal standards throughout all levels of the organisation, all members of our Board and employees must conduct themselves within the parameters established by our codes on conduct and ethical behaviour as well as the law. Both members of the Board and employees are required to formally confirm compliance with such codes of behaviour and ethics.

We have also put in place mechanisms to deal with wrongdoing in the workplace in the form of the Policy for Disclosure of Information Concerning Wrongdoing in the Workplace (Whistleblowing Policy). The norm for such policies is for whistleblowers to come from within the organisation but we have expanded it to include individuals from outside the organisation, so that they may make reports on wrongdoing to a designated officer without the fear of reprisal.

CONCLUDING REMARKS

Going forward, we will continue to build upon the strong foundation that we have worked hard to establish. In a dynamic environment, with international best practices continually evolving, we will implement a continuous improvement process in order to meet our public policy objectives and to demonstrate to our stakeholders that we are fulfilling our mandate and are responsive to their needs. Presently, we have complied with 10 of the 15 standards of our Board Governance Policy. We have plans to put in place the necessary systems and practices to meet the last five standards.

NOTE OF THANKS

Although we are still a young Corporation, I believe that our progress thus far has surpassed expectations. This has been achieved with the strong support and firm commitment of my fellow Board members, as well as our financial safety net partner, Bank Negara Malaysia, all of whose advice and assistance have been invaluable. I would also like to particularly recognise the outstanding stewardship of our Chief Executive Officer, Mr Jean Pierre (JP) Sabourin, and the hard work, professionalism and dedication of Management and employees. To all of them, I would like to extend my sincere thanks and appreciation for contributing to the Corporation's excellent performance. Ultimately, it is this kind of commitment, dedication and partnership that has been and will continue to be a major factor in our future achievements.

Tan Sri Dato' Abdul Aziz bin Haji Taha

15 February 2007



MESSAGE FROM THE

CHIEF EXECUTIVE OFFICER

I am happy to report that 2006 was a great year of accomplishments as we made significant progress in building a sound organisational foundation at PIDM.

Each year, the Corporation develops a Corporate Plan for the next three years which is approved by our Board of Directors. Our Corporate Plan describes our strategic direction, highlights our business strategies, details our planned key initiatives by year and sets out our operating and capital budgets. The purpose of our Corporate Plan is to drive the organisation to focus on the strategic and operating priorities and to put in place the necessary systems, policies, practices and procedures to support us in ensuring that we have the capacity and capability to achieve the Corporation's statutory mandate.

We completed all of our key initiatives for 2006 as set out in our Corporate Plan for 2006-2008 on time and under budget and we also completed a number of other initiatives that were planned for future years. As part of this Annual Report we provide an assessment of our performance against the Corporate Plan to provide a meaningful measure of achievement (see page 53).

In this regard, we have taken many steps to establish an organisational structure that adopts, as far as applicable, relevant standards and best practices. Our efforts can be seen in our work in developing our financial management system, our internal controls, our information system and data security, as well as our human capital policies, all in line with best practices. This is a continuation of the plan to develop a best practice deposit insurer. Our legislation was designed by Bank Negara Malaysia ("BNM") according to the *Guidance for Developing Effective Deposit Insurance Systems* issued by the Financial Stability Forum ("FSF"). In late 2005, we undertook a self-assessment of our compliance with the FSF Guidance and provided a copy of our report to the International Monetary Fund ("IMF") team undertaking the Article IV Consultation. The IMF noted in its report that we complied with all relevant best practices.

In terms of our financial position, the Corporation continued to augment its financial resources in 2006. Our net surplus for the year totalled RM89.9 million as compared to our budget of RM84.9 million. The increase in net surplus was the result of our operating expenses being below budget. Our Deposit Insurance Funds now total RM122.5 million, made up of RM111.2 million in the Conventional Deposit Insurance Fund and RM11.3 million in the Islamic Deposit Insurance Fund.

We are also keenly aware that to develop best practices, one needs to hire and retain quality people with the right skills and attitude. During the year, we sought out and identified competent people to complement our team, and successfully increased our employee strength from 15 to 40. We have also put in place many key policies to build a performance-based culture to achieve our commitment to professionalism and excellence and we shall continue our work to develop and retain the skills necessary to achieve our mandate, efficiently and effectively.

Our mandate and our business model contemplate sound and collaborative relationships with a number of partners to help us achieve our objectives successfully. A key partner is BNM since we have a common objective of promoting and contributing to the stability of the financial system. In 2006, we set out our respective responsibilities in a Strategic Alliance Agreement ("SAA"). Underpinning our SAA is our philosophy: "to cooperate and exchange information in furtherance of the MDIC Act".



Both organisations committed to continue to regularly exchange information and work collaboratively on matters relating to our member institutions. I am also pleased to note that our SAA has been acknowledged by the International Association of Deposit Insurers ("IADI") as setting a world standard for strong inter-relationship arrangements between deposit insurers and supervisors.

Others have also assisted us in our work, including the National Audit Department, the Ministry of Finance and the Treasury Solicitor's Office as well as the Attorney General's Chambers. We acknowledge their contribution to our work and we thank them.

We have also worked closely with member institutions on a number of awareness activities, so that we may increase our outreach to the deposit-taking community. We regard it as a challenge to balance the need for robust regulatory requirements to meet the best interests of depositors against excessive burdens on our member institutions. Accordingly we have established a policy to undertake extensive consultations in the development of our regulations and laws both to provide our members and the public with the opportunity to be heard, and to ensure that our regulations and laws are effective.

Apart from the need to achieve public confidence, we regard it our obligation as a deposit insurer to promote consumer protection. We believe that empowering consumers, through education and awareness initiatives, will contribute to the stability of our financial system. Over the year, to support our efforts, we engaged in many public awareness activities as detailed in the Section on Public Awareness and Education.

Our activities included the dissemination of some four million PIDM brochures in different languages to all branches of our member institutions, training representatives of our member institutions and conducting nationwide road shows, briefings, exhibitions and dialogues. During 2006, we also formulated a comprehensive multi-year communications strategy to help us educate segments of our stakeholders in a targeted and effective manner. Work in this area will continue in the years to come!

Amidst demanding organisation-building efforts, we also addressed our corporate social responsibilities. In September 2006, PIDM and its employees participated and donated to the Terry Fox Run, a charity run in aid of cancer research in Malaysia. Our participation and contribution at this event also contributed to team building among our employees. The warmth and big-heartedness of Malaysians also made a deep impression amongst our IADI colleagues, who witnessed our involvement in this area during their visit to Kuala Lumpur for the IADI's 15th Executive Council meeting.

FUTURE INITIATIVES

Our Corporate Plan for 2007-2009 sets our direction for the coming three years and will help us again focus our attention on our priorities. The Corporate Plan details the strategic and operational initiatives that we will be undertaking during the period and we shall disclose our performance report against this Corporate Plan next year. This document also underscores the commitment of our Board and Management to be transparent and accountable for our actions. Highlights of this Corporate Plan can be found in Section III of this Report.

As mentioned in our Chairman's remarks, we shall continue to uphold and practise the key principles of good governance as these will be instrumental in moving our organisation towards fulfilling our mission and vision. In this connection, we plan to continue our work on implementing an enterprise risk management framework that will help us manage our significant risk exposures in a systematic and effective manner. Our ongoing work on a risk-based internal control framework will also be fully implemented.

There are a number of important initiatives in the pipeline that we shall accomplish over the next 24 months, including the development of frameworks for effective risk assessment, monitoring and intervention, and our differential premium systems, to be implemented by 2008. We also expect to issue several more regulations this coming year, including the 'Terms and Conditions of Membership' and regulations relating to the information that should be provided to depositors by our member institutions on deposit insurance matters.

Our successes to date have been made possible by the work of our Board of Directors and our employees. The Board has set a clear strategic direction for the Corporation and has approved business strategies and related initiatives by which we can measure ourselves. Our Board has also provided its unwavering support to Management. We thank our Chairman Tan Sri Dato' Abdul Aziz bin Haji Taha, and the members of our Board of Directors for their clear guidance and direction. We are pleased to note that not only has our Board approved sound governance practices, it has also met its governance responsibilities head-on!

As to our employees, they have performed admirably and have shown their commitment and dedication to make PIDM a best practice organisation. I know our employees are all keenly aware of the importance of building a strong organisation for the benefit of depositors and the stability of Malaysia's financial system. They are motivated and dedicated to the task at hand. I very much look forward to continue working with them in the years to come.

Jean Pierre Sabourin

15 February 2007

BOARD OF

DIRECTORS

MEMBERS AND PROFILE



TAN SRI DATO' ABDUL AZIZ BIN HAJI TAHA (Chairman)

Tan Sri Dato' Abdul Aziz bin Haji Taha is the Chairman of PIDM. 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 was Governor of Bank Negara Malaysia 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 Boards 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 was appointed Governor of Bank Negara Malaysia in May 2000. She has been with the Central Bank since 1985, in a career spanning several senior positions in monetary and financial policies and reserve management. During the height of the Asian financial crisis, Dr. Zeti was appointed as Acting Governor on September 1, 1998, and managed the successful implementation of selective exchange controls to restore stability and promote economic recovery in Malaysia. In Bank Negara Malaysia, Dr. Zeti presided over the formulation of the Financial Sector Master Plan, a 10-year road map for the development of the Malaysian financial system. As Governor, Dr. Zeti oversaw the transformation of the financial system, notably the wide-ranging financial reforms, evolution of new financial institutions, strengthening of the financial markets and the rapid expansion of Islamic finance, and the transition to a managed float of the Ringgit exchange rate. Dr. Zeti received her B.Sc in Economics from the University of Malaya and her Ph.D from the University of Pennsylvania. She has written extensively in the areas of monetary and financial economics, Islamic finance, capital flows, macroeconomic management, financial reform and restructuring. Dr. Zeti is actively involved in the development of Islamic finance and in regional financial cooperation.



TAN SRI DATO' SRI IZZUDDIN BIN DALI

Tan Sri Dato' Sri Izzuddin bin Dali is the Secretary General of the Treasury. He has wide experience in financial and public sector management having served more than 30 years with the Government in various capacities. Among others, he has held the posts of General Manager/Company Secretary at Kuala Lumpur International Airport Bhd and Director of the Budget Division at Ministry of Finance and Secretary General at the Ministry of Works. He holds a Bachelor of Economics from the University of Malaya and a Master of Arts (Economics) from Western Michigan University.



TAN SRI DATO' SERI HAJI MOHD AZMI
BIN DATO' HAJI KAMARUDDIN

Tan Sri Dato' Seri Haji Mohd Azmi bin Dato' Haji Kamaruddin is the Chairman of the Financial Mediation Bureau. He has served in the Malaysian Judicial and Legal Service as Magistrate, Senior Assistant Registrar and Sessions Court Judge in several states in Malaysia, State Legal Advisor and Deputy Public Prosecutor for the State of Kelantan and as State Legal Advisor for the State of Selangor and Chief Registrar of the Federal Court. He was elevated to the position of a High Court Judge in 1970 and Federal Court Judge in 1980 before retiring from the Judiciary in 1999. He was also appointed by the Conference of Rulers as a Judge of the Special Court for three years. Other highlights of his career included being Arbitrator of the Kuala Lumpur Regional Centre for Arbitration, member of the Malaysian Panel of Arbitrators which is affiliated to the Paris-based International Chamber of Commerce Court of Arbitration, and Judge of the United Nations International Criminal Tribunal for Rwanda.



DATUK DR SULAIMAN BIN MAHBOB

Datuk Dr Sulaiman bin Mahbob is the Director General of the Economic Planning Unit ("EPU") of the Prime Minister's Department. He was previously the President of the Malaysian Institute of Integrity, an agency established to implement the National Integrity Plan. He is also an Adjunct Professor (Economics) at the University of Malaya and at the Universiti Utara Malaysia (Public Management and Law). His experiences are 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 Ministry of Domestic Trade and Consumer Affairs, Under-Secretary (Economics) at Ministry of Finance, and Director in the EPU of the Prime Minister's Department. He was also the first Chairman of Companies Commission of Malaysia. He was once Executive Director of Malaysian Institute of Economic Research and a Board Member of Malaysian Intellectual Property Corporation, Malaysia International Shipping Corporation Berhad and Padiberas Nasional Berhad. During the last financial crisis in 1998, he was the Head of the Secretariat of the National Economic Action Council.



DATUK DR ABDUL SAMAD BIN HAJI ALIAS

Datuk Dr Abdul Samad bin Haji Alias is a Fellow of the Institute of Chartered Accountants in Australia. He has extensive experience in auditing and accounting. He is currently Non-Executive Chairman of Ernst & Young Malaysia, Chairman of Malaysia Venture Capital Management Bhd and Chairman of Malaysia Debt Venture Bhd. He is a Board Member of Lembaga Tabung Haji, Companies Commission of Malaysia, Perbadanan Kemajuan Iktisad Negeri Kelantan, Felda Holdings Berhad 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.

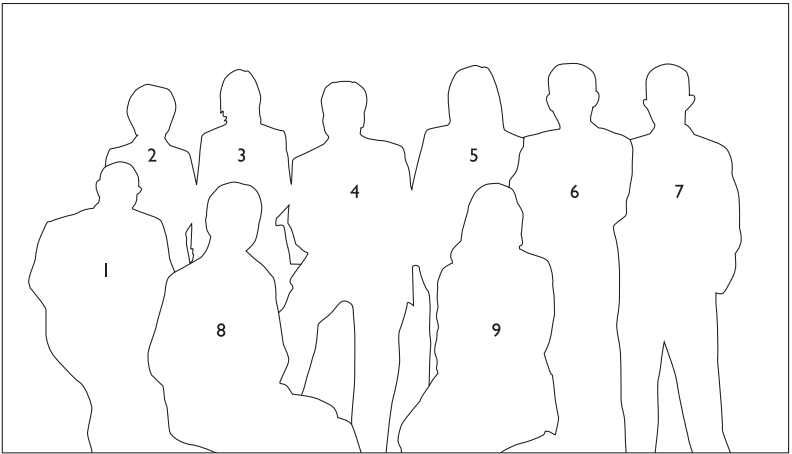
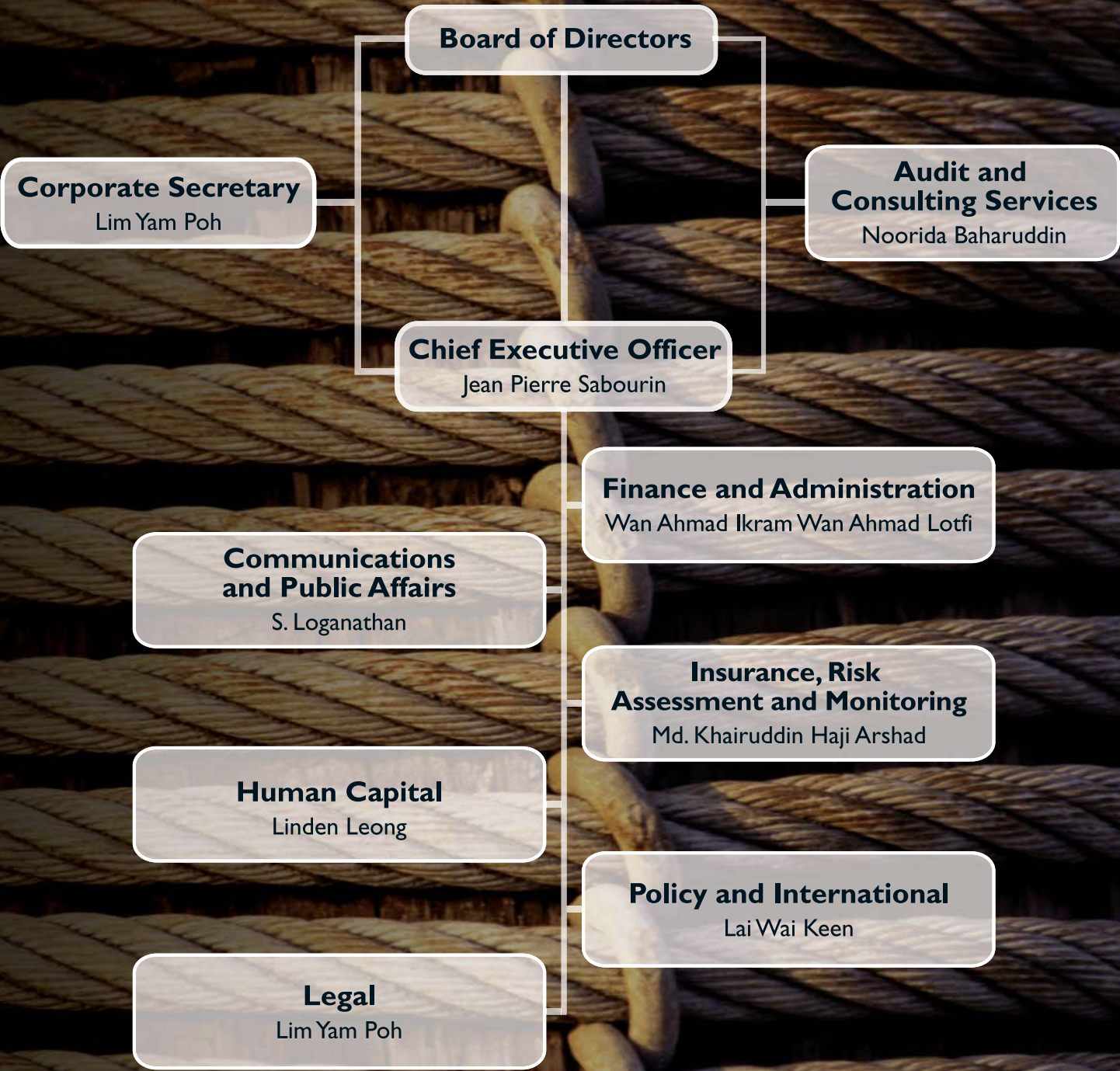


MR MICHAEL WONG KUAN LEE

Mr Michael Wong Kuan Lee is a consultant to the legal firm, Messrs Shook Lin & Bok. He was a partner of the firm for 23 years, out of which he was for 19 years its Managing Partner. He retired in December 1991. He also holds directorships in several public listed companies. He has acted as legal advisor to various local and international organisations, including banks, merchant banks, securities and asset management firms, Bank Negara Malaysia and the Association of Banks in Malaysia. He also held several public appointments. He was a member of the Higher Education Advisory Council, a member of the Petaling Jaya Municipality, a member of Dewan Negara, a member of the Tunku Abdul Rahman College Council and a member of the Board of Directors of Bank Negara Malaysia.

ORGANISATION CHART

EXECUTIVE MANAGEMENT
COMMITTEE (EMC)



- 1 S. Loganathan
- 2 Lai Wai Keen
- 3 Linden Leong
- 4 Jean Pierre Sabourin
- 5 Noorida Baharuddin
- 6 Md. Khairuddin Haji Arshad
- 7 Wan Ahmad Ikram Wan Ahmad Lotfi
- 8 Lim Yam Poh
- 9 Sherilin Mohd Ali
(non-EMC: Secretary to EMC)

EXECUTIVE MANAGEMENT COMMITTEE: MEMBERS AND PROFILE

JEAN PIERRE SABOURIN Chief Executive Officer

Jean Pierre (JP) Sabourin was appointed as the first Chief Executive Officer (“CEO”) of PIDM in August 2005. He has unparalleled expertise in all aspects of deposit insurance and is very much in demand internationally. His assistance has been widely sought after by other countries in 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 held in Kuala Lumpur. In May 2002, he led the establishment of the International Association of Deposit Insurers and was elected its first Chair of the Executive Council and President, a position he still holds. He was employed by the Canada Deposit Insurance Corporation (“CDIC”) from 1976, and held various positions within CDIC before becoming its President and CEO in 1990, until his retirement in 2005. Under his leadership, CDIC has become recognised as a world leader in deposit insurance. He is also Chairman of the Advisory Committee of the International Centre for Leadership in Finance. He holds a Master of Business Administration from the University of Toronto.

MD. KHAIRUDDIN HAJI ARSHAD General Manager, Insurance, Risk Assessment and Monitoring

Md. Khairuddin Haji Arshad is the General Manager of Insurance, Risk Assessment and Monitoring Division. He is responsible for the analysis and monitoring of the risk level of PIDM member institutions as well as the intervention and failure resolutions of troubled member institutions. Prior to his current position, he served Bank Negara Malaysia for 15 years in the Bank Regulation Department and Islamic Banking and Takaful Department. He has extensive experience in Islamic banking and finance and is currently a member of the Malaysian Accounting Standards Board working group on Islamic financial transactions. He 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.

WAN AHMAD IKRAM WAN AHMAD LOTFI Chief Financial Officer

Wan Ahmad Ikram Wan Ahmad Lotfi is the Chief Financial Officer responsible for the overall financial and 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, internal policies and controls, and strategic planning. A Chartered Accountant, he is a member of the Institute of Chartered Accountants in Australia and the Malaysian Institute of Accountants. He started his profession 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 Chief Financial Officer in March 2004. He holds a Bachelor of Commerce degree from the University of Melbourne, Australia.

LAI WAI KEEN General Manager, Policy and International

Lai Wai Keen is the General Manager of Policy and International Division. She is responsible for PIDM’s key policy areas and international relations. She was one of the members of the Deposit Insurance Task Force of Bank Negara Malaysia 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 20 years of regulatory experience with Bank Negara Malaysia, including in bank regulation, communications, international relationships and negotiations. She holds a degree in Business Administration from the University of Malaya and a law degree from the University of London.

S. LOGANATHAN General Manager, Communications and Public Affairs

S. Loganathan is the General Manager of Communications and Public Affairs Division. He is responsible for communications and public relations as well as managing PIDM’s public awareness programmes. He has some 25 years of experience in the financial media and the securities industry. He started off his career as a journalist first with Bernama and then with the 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. His last posting was as the 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-I 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 the Universiti Kebangsaan Malaysia.

LIM YAM POH General Counsel and Corporate Secretary

Lim Yam Poh is the General Counsel and Corporate Secretary, who is responsible for all legal advice provided to PIDM as well as services such as contracting, negotiating settlements and litigation. She also ensures that PIDM complies with all areas of statutory requirement, including legislation specific to PIDM’s business and affairs such as the Malaysia Deposit Insurance Corporation Act 2005 and by-laws, other financial institutions legislation, and legislation relating to being a statutory agency and regulated employer. She also performs the role of Corporate Secretary and provides all legal 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’ experience in a leading law firm in Kuala Lumpur. She was with 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 LLB (Hons.) degree from the University of Birmingham, England and has been called to the Bar of England and Wales and in Malaysia.

NOORIDA BAHARUDDIN Chief Internal Auditor

Noorida Baharuddin is the Chief Internal Auditor and heads the Audit and Consulting Services Division. Her main responsibilities are to provide, on an ongoing basis, 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 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 had also been attached to the Islamic Financial

Services Board where she assisted in the development of *Guiding Principles of Risk Management for the Institutions Offering Islamic Financial Services*.

She holds a Bachelor of Business Degree (Accounting) from the University of Tasmania, Australia. She is a Certified Practising Accountant (Australia) and a Certified Financial Planner with the Financial Planning Association of Malaysia.

LINDEN LEONG General Manager, Human Capital

Linden Leong is the General Manager of Human Capital Division. She is responsible for ensuring the right human capital strategies and plans are established for an effective utilisation of resources and policies that engage and create the appropriate work culture and environment, as well as the right enablers to promote and sustain workforce productivity.

She has 12 years of consulting and management experience in the field of human planning and performance across a wide range of industries, which include organisations such as KPMG, Hay Group, MNI Insurance and Affin Bank. In her consulting career, she has led and delivered change management and process improvement projects where she advised and delivered changes in the areas of recognition and performance management, organisation design and development as well as career development for government agencies, multinational companies and local organisations. As a human resource (“HR”) practitioner, she has worked with top executives and senior management teams to realign the right HR strategies for capacity building through recruitment and selection, incentive design, the Balanced Scorecard and succession management. She holds a degree in Business Management from Monash University, Australia.

SHERILIN MOHD ALI Senior Legal Counsel

Sherilin Mohd Ali is the Senior Legal Counsel of PIDM and is the Secretary to the Executive Management Committee. She has over nine years’ work experience in areas ranging from legal and secretarial practice, corporate banking to asset management. Prior to joining PIDM, she was a member of the legal team at Pengurusan Danaharta Nasional Berhad, Malaysia’s first asset management company. She holds an LLB (Hons.) degree from the University College of London, England and has been called to the Bar in Malaysia.

SECTION I: INTRODUCTION



INTRODUCTION



Perbadanan Insurans Deposit Malaysia (“PIDM”) is a statutory body established under the Malaysia Deposit Insurance Corporation Act 2005 (“MDIC Act”) to administer the deposit insurance system in Malaysia. We report to Parliament through the Minister of Finance and we are governed by a seven-member non-executive Board of Directors.

CORPORATION BACKGROUND

Our objectives are mandated under the MDIC Act. We are to administer a deposit insurance system. We are also to provide insurance to depositors against the loss of part or all deposits held at member institutions, and promote or contribute to the stability of the financial system, acting in a manner that minimises costs to the financial system. Our mandate also requires us to provide incentives for sound risk management in the financial system.

Deposits (principal and interest or return) are insured up to RM60,000 for each depositor in each member institution. In the event of a failure of a member institution, we will pay the affected depositors promptly in respect of the deposits insured.

Islamic and conventional deposits are separately insured. We are funded by our member institutions, licensed banks, which pay premiums separately in respect of Islamic and conventional deposits. Accordingly we manage two deposit insurance funds separately, namely, an Islamic Deposit Insurance Fund and a Conventional Deposit Insurance Fund. Our Islamic Deposit Insurance Fund is managed and invested in accordance with Shariah requirements as set out in the MDIC Act.

We work closely with Bank Negara Malaysia (“BNM”) as part of the nation’s safety net to promote and protect the stability of the financial system.

We have wide-ranging powers to carry out our mandate, including the necessary power to take steps to reduce or avert risks to the financial system and to intervene once BNM has determined that a member institution has ceased, or, is likely to cease, to be viable. Given the terms of our mandate, an important aspect of our work is to monitor and manage risks within our membership.

INTRODUCTION

We are an active member of the International Association of Deposit Insurers (“IADI”) and the first deposit insurer to be admitted as an Associate Member of the Islamic Financial Services Board.

OUR REPORTING BENCHMARKS

We are committed to an objective, balanced and understandable annual report. Our Report includes both financial and non-financial performance information, which provides our stakeholders with a clear picture of our performance this year.

Our Board of Directors has reviewed this Report and notes that in line with our commitment to high standards on transparency, this Report complies with all the recommendations of the International Federation of Accountants on annual reporting in the *Governance in the Public Sector: A Governing Body Perspective* (“IFAC Study”).

THE SECTIONS IN OUR ANNUAL REPORT

This year’s Annual Report is set out in the following sections:

- CORPORATE GOVERNANCE (SECTION II)

The theme in this Annual Report is “Strengthening Governance; Building Credibility”. As a public sector entity, we are guided by international standards and other best practices on governance disclosures. In 2006, we implemented our Board Governance Policy, containing the standards and principles in line with international recommendations and best practices to which our Board is committed to follow.

In the Report, we include a Statement on Governance which has been approved by our Board of Directors. This Statement includes a description of the work of the Board in relation to each of the standards in the Board Governance Policy.

Our Board reviewed the state of our internal controls and its effectiveness. We also include a Statement on Internal Control, in line with best practices in the private sector.

- MANAGEMENT’S DISCUSSION AND ANALYSIS (SECTION III)

This section provides an overview of our current operating and membership environment and our financial highlights. It discusses our progress against our approved Corporate Plan in 2006 and includes a description of our involvement in community work. It also outlines our Corporate Plan 2007-2009 and highlights some key areas of focus going forward.

- FINANCIAL STATEMENTS (SECTION IV)

This section contains details of our financial results for 2006 and our financial position. Our financial statements comply with the applicable international financial reporting standards.

- ARTICLES (SECTION V)

In this section, we include an article about our governance framework, as well as an article on our compliance with best practices, with a table containing a summary on our self-assessment of compliance with best practices in deposit insurance.

An ongoing key initiative for us in the coming years is the implementation of an enterprise risk management framework within our organisation. We include an article on why it is important to us and the relevance of enterprise risk management to member institutions.

- PUBLIC AWARENESS AND EDUCATION (SECTION VI)

This section describes our key initiatives to build awareness about deposit insurance.

- CALENDAR OF EVENTS (SECTION VII)

In this final section, we describe our key events in 2006. This covers activities within our functions.



SECTION II: CORPORATE GOVERNANCE

Statement on Governance

Statement on Internal Control



STATEMENT ON GOVERNANCE

This Statement summarises our Board of Directors' progress in its work on governance in 2006 against our Board Governance Policy. It also includes the following:

- i) a description of the principles behind our governance framework;
- ii) a detailed narrative report against these standards; and
- iii) a detailed description of the Board's involvement in the work of the Corporation.

The overriding objective of this Statement on Governance is to give sufficient disclosure so that the public and our stakeholders can assess the Corporation's governance practices and performance.

INTRODUCTION

PIDM operates within the legal framework set out in the Malaysia Deposit Insurance Corporation Act 2005 ("MDIC Act") and is accountable to Parliament through the Minister of Finance. The MDIC Act describes the Corporation's objects, powers and duties, as well as the broad terms for the administration of deposit insurance systems.

It is pertinent to note that, as a statutory body, there is no requirement that we comply with codes on corporate governance. For example, the principles and best practices set out in the *Malaysian Code of Corporate Governance* and the *Green Book on Enhancing Board Effectiveness* ("Green Book") by the Putrajaya Committee on Government-Linked Companies ("GLC") High Performance ("PCG") are not applicable to us.

Although there are no specifically recognised standards or best practice guidelines on governance that statutory bodies are required to comply with, we have drawn from the many useful principles and recommendations from the private sector as well as the public sector, with necessary adaptations in our context.

Our Board Governance Policy was approved during the year and is attached in the Appendix. The Board Governance Policy sets out our Board's commitment to high standards of governance. These standards are sourced from various international studies or recommendations on governance

relevant to public sector bodies¹, as well as the *Malaysian Code on Corporate Governance* and the Green Book. In the public sector, we have used international benchmarks, in particular, the recommendations of the *Governance in the Public Sector: A Governing Body Perspective* by the International Federation of Accountants (August 2001) ("IFAC Study").

This Statement on Governance, therefore, relates to compliance with the standards set out in the Board Governance Policy.

OUR STATEMENT

Our Board is pleased to report that, out of the 15 standards in the Board Governance Policy approved in June 2006, the Board has already fully complied with 10 standards. With regard to standards in other areas, such as risk management and internal control (Standards No. 11 to 13), the Board has fulfilled its responsibilities as far as is possible given our early stage of development as a start-up organisation. Some work remains in relation to the five other standards including succession planning for senior management (Standard No. 8) which will be undertaken in 2007. Full development of these areas is a priority in our agenda for our work in 2007, as we describe further below.

The following subsections:

- i) describe the principles behind our governance framework;
- ii) include a report against these standards; and
- iii) describe the Board's involvement in the work of the Corporation in detail.

The overriding objective of this Statement is to give sufficient disclosure so that the public and our stakeholders can assess the Corporation's governance practices and performance against our governance policies.

OUR PRINCIPLES

As stated in our Annual Report 2005, our goal has been to establish sound foundations by incorporating the highest of standards in corporate governance in the Corporation's business and affairs. This work began in 2005 with the establishment of our three Board Committees - the Audit

STATEMENT ON GOVERNANCE

Committee, the Governance Committee and the Remuneration Committee, whose terms of reference are in their respective Charters.

In developing our corporate governance framework, we are guided by the core principles originally recommended in the 1992 *Cadbury Report*. These principles are:

- openness (or transparency);
- integrity (including independence); and
- accountability.

These principles have been used, in the context of public sector bodies², to mean the following:

- Openness – "... to ensure that stakeholders can have confidence in the decision-making processes and actions of public sector entities, in the management of their activities, and in the individuals within them. Being open through meaningful consultation with stakeholders and communication in full, accurate and clear information leads to effective and timely action and stands up to necessary scrutiny."
- Integrity – "... comprises both straightforward dealing and completeness. It is based upon honesty and objectivity, and high standards of propriety and probity in the stewardship of public funds and resources, and management of an entity's affairs. It is dependent on the effectiveness of the control framework and on the personal standards and professionalism of the individuals within the entity. It is reflected both in the entity's decision-making procedures and in the quality of its financial performance reporting."
- Accountability – "... is the process whereby the public sector entities, and individuals within them, are responsible for their decisions and actions, including their stewardship of public funds and all aspects of performance, and submit themselves to appropriate external scrutiny. It is achieved by all parties having a clear understanding of those responsibilities, and having clearly defined roles through a robust structure. In effect, accountability is the obligation to answer for a responsibility conferred."

OUR BOARD GOVERNANCE POLICY

One of the key foundations put in place in 2006 is our Board Governance Policy. In this Policy, the Board documented its commitment to the standards and principles that will guide its work in governing the Corporation. As noted earlier, these standards were developed by reference to international studies and domestic best practices.

We are immensely proud to be among the very few organisations in Malaysia to set out and publish such principles and standards, and to assess ourselves against these principles and standards. This shows our Board's commitment to follow sound corporate governance. It also allows us to demonstrate how we are being governed to the highest of principles and standards.

OUR BOARD'S RESPONSIBILITIES AND STANDARDS ON GOVERNANCE

RESPONSIBILITIES

The MDIC Act sets out the broad role of the Board of Directors. It is "responsible for the conduct of the business and affairs of the Corporation and shall exercise all powers and do all acts which may be exercised or done by the Corporation." Each Director is required, in the words of the MDIC Act, to act honestly and in the best interest of the Corporation and to use reasonable diligence in the discharge of the duties of his or her office. The Board's responsibilities are also set out in our position descriptions for the Board and its members.

¹ The list of sources are found in the Board Governance Policy.

² *Governance in the Public Sector: A Governing Body Perspective* by the International Federation of Accountants (August 2001) ("IFAC Study")

STATEMENT ON GOVERNANCE

STANDARDS OF GOVERNANCE

The following describes the governance structures and the work of the Board against the standards laid out in the Board Governance Policy.

Standard No.	Standard	Progress Report In 2006
1. Independence of the Board	Board members will exercise independent judgment.	This independence is enshrined in the MDIC Act. The broad powers and duties of the Board are set out in the MDIC Act. There are no executive Directors on the Board, and the roles of the Chairman and the Chief Executive Officer ("CEO") are deliberately separated. The CEO is not a member of the Board. Members of the Board have used their independent judgment to act in the interests of the Corporation at all times.
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;</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>i) The Corporation has adopted position descriptions which clearly define the responsibilities and roles of the Board, the Chairman of the Board and the CEO. In addition, the expected relationship between the Chairman and the CEO is documented.</p> <p>Further, the Board has developed an evaluation methodology whereby it will evaluate the performance of Directors by reference to the respective position descriptions above, in line with best practice recommendations. The evaluation process for assessing the Board's effectiveness, adopted in 2006, is described on page 43 and the evaluation forms will be made available on our website. In February 2007, the Board undertook an assessment of the performance of the Board and its Committees, and has come up with action plans to address areas for further development.</p> <p>ii) On 21 September 2006, members of the Board met for an education session on the Green Book with distinguished subject matter experts as guest speakers for the occasion. Our governance standards and practices have been</p>

STATEMENT ON GOVERNANCE

Standard No.	Standard	Progress Report In 2006
		<p>compared with the recommendations in the Green Book and, we find that - where relevant in our context as a statutory body - we comply with its recommendations. In May 2006 and February 2007, we also used the checklist in the IFAC Study as a tool to help us identify areas in our governance arrangements for further development. We are pleased to note that we have complied significantly with this checklist.</p> <p>We have also established specific orientation and education sessions during 2007 and training will be made available to members of the Board.</p>
3. Roles and responsibilities of committees	Where the Board appoints a committee, it will establish the responsibilities and authority of Board Committees, as well as accountability requirements for them.	The responsibilities and authority of the Board Committees are set out in their respective Charters, which are published in the Appendix. The work of the Committees in 2006 is described on (page 41).
4. Board composition and succession	<p>The Board constitution should maintain independence, and there should be an appropriate mix of skills and capabilities, given the objectives and strategic direction of the Corporation.</p> <p>To achieve this, the Board will, in consultation with the CEO:</p> <p>i) develop a profile of desirable skills and capabilities that would best enable the Board to fulfill their responsibilities and advise the Minister of Finance of the desired mix that should be sought in filling upcoming non <i>ex-officio</i> Board vacancies;</p> <p>ii) have a Board succession plan to recommend to the Minister of Finance the orderly turnover of Directors.</p>	<p>The MDIC Act sets out the composition of our Board. Biographies of the Board members (see page 17) and the composition of the three Board Committees that assist with Board work appear on page 41. These biographies demonstrate the high level and range of public and private sector experience amongst the Board members, which is essential to our work.</p> <p>i) As part of the strategy for succession planning, the Board has approved the methodology for identifying skills gaps, if any, on the Board. This methodology will help us to determine, on a regular basis, if there is an appropriate mix of skills, experience and knowledge on the Board to meet the needs of the Corporation. The Board has also approved a policy on the hiring of independent advisors. This policy allows for, among other things, the Board to retain independent expertise and advice if such skills are not available on the Board. In addition, the Board approved the process for rotating committee members on the basis of their expertise, interests and availability.</p> <p>ii) Should a vacancy arise, the Board would be in a position to identify and recommend to the Minister of Finance the appropriate candidate or candidates for appointment to the Board.</p>

STATEMENT ON GOVERNANCE

Standard No.	Standard	Progress Report In 2006
5. Roles and responsibilities of the Chief Executive Officer	<p>The responsibilities and accountability of the Chairman and the CEO should be clearly distinguished and documented.</p> <p>In this connection, the Board will:</p> <p>i) develop a position description for the CEO;</p> <p>ii) develop a set of corporate objectives at least annually for which the CEO is responsible for achieving and evaluate the performance of the CEO against those objectives;</p> <p>iii) establish an accountability relationship for the CEO to the Board.</p>	<p>i) The Board has approved the position description for the Chairman and the CEO.</p> <p>ii) Each year, the CEO sets his key performance indicators against the corporate objectives which are then approved by the Board. Performance against those objectives is tracked regularly and, at the end of the year, the CEO reports to the Board on his performance against those objectives. The CEO has reported his progress against the approved corporate objectives for 2006 and the Board has evaluated the same after reviewing the recommendations of the Remuneration Committee.</p> <p>iii) In this connection, the position description for the CEO has been established; the process has been established whereby the Board approves the set of corporate objectives for the CEO annually, for which the CEO is responsible and against which his performance is evaluated; and there exists a strong accountability relationship between the CEO and the Board through the MDIC Act setting out the CEO's responsibilities and reporting relationship with the Board, reinforced by position descriptions.</p>
6. Appointment of senior corporate officers	The Board will appoint the senior corporate officers of the Corporation (other than the CEO) and determine their terms of office and compensation.	In 2006, the Board approved the appointment of two senior corporate officers and the officers' terms and conditions of service, namely the General Counsel and Corporate Secretary and the Chief Financial Officer.

STATEMENT ON GOVERNANCE

Standard No.	Standard	Progress Report In 2006
7. Compensation of officers	<p>The Board will satisfy itself, on a regular basis, that the compensation of the Corporation's officers and employees are 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 Board has approved the compensation and benefits policy, as well as performance management policy for the employees of the Corporation. These policies are consistent with our business model, which requires us to build a lean and specialised team with the continued ability to sustain the achievement of our objects.</p> <p>The Board has also reviewed the compensation program for Directors and made recommendations to the Minister of Finance. Approval of the Minister of Finance has been received to provide payment of allowances for Committee work. The Board will regularly review the compensation programme to ensure it is kept current.</p>
8. Succession planning	The Board will plan for the succession of the CEO and review succession plans for key senior management.	The Corporation has only been in existence for 16 months. Accordingly succession planning for key senior management is on the agenda for the Board's consideration in 2007.
9. Standards of behaviour and ethics	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.	The Board has established standards of conduct and ethical behaviour for not only officers and employees, but for Board members as well. These include the Code of Business Conduct and Ethics and the Conflict of Interest Code. Reports of compliance with such Codes are required under the Remuneration Committee Charter as well as the Audit Committee Charter to the respective Committees. The Board has also established the Policy for Disclosure of Information Concerning Wrongdoing in the Workplace, also known as the Whistleblowing Policy (see Appendix). This will enable any suspected wrongdoing in the workplace to be reported, without reprisal, at an early stage. The Audit and Remuneration Committees have, in accordance with the respective Charters, received and reviewed reports on compliance with the relevant Codes as part of year-end work and have reported compliance to the Board on the same.

STATEMENT ON GOVERNANCE

Standard No.	Standard	Progress Report In 2006
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 2006, the Board received and reviewed regular reports on the soundness of member institutions, and assessed risks to our business and affairs on an ongoing basis.</p> <p>ii) In 2006, the Board also approved action plans for developing and implementing an enterprise risk management ("ERM") framework, which is one of our key areas of focus in our Corporate Plan 2007-2009 (page 61). In September 2006, some of our Board members attended a one and a half day seminar on enterprise risk management, conducted by subject matter experts. They were also able to draw from the experiences of other members of the International Association of Deposit Insurers ("IADI") who attended the seminar. This will be a key area of work going forward.</p> <p>iii) The Board received reports from Management which conclude that systems are in place and are being adhered to.</p>
11. Control environment and internal audit	<p>The Board will ensure that the Corporation has a control environment that supports the prudent management of its operations and of the risks to which it is exposed (including risks to the attainment of its objects) and has effective policies and practices to 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>The Board has overall responsibility for the Corporation's system of internal control and risk management.</p> <p>In 2006, among other things:</p> <p>i) we established an internal audit function through our Audit and Consulting Services Division. We hired our Chief Internal Auditor, after consulting with the Audit Committee Chairman and the Chairman of the Board. The Board has also approved the Audit and Consulting Services Division Charter. Appropriate resources have been provided to the Division to ensure that it can fulfill its responsibilities;</p>

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Standard No.	Standard	Progress Report In 2006
	<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>ii) the Board has approved the three-year audit plan of the Audit and Consulting Services Division. Appropriate resources have been provided to the Division to ensure that it can fulfill its responsibilities;</p> <p>iii) the Board has been kept updated on the development and implementation of the Corporation's new financial management system. This new financial management system has been documented and appropriate accounting procedures have been implemented;</p> <p>iv) the Board approved an information technology governance framework, that provides the control environment in which information technology initiatives will also be developed. This project will be aligned with our work on the ERM framework; and</p> <p>v) a project being undertaken in 2007 is to develop and implement an ERM system within PIDM.</p> <p>Our plan for the immediate future is to continue to focus on our work on our internal control framework and apply a risk-based approach. Going forward, once our internal control framework has been fully implemented, the Board will be able to obtain reasonable assurance on the compliance with internal controls and the integrity of the system.</p>
12. In control	<p>The Board will obtain, on a regular basis, reasonable assurance that the Corporation is "in control".</p>	<p>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>The Board's Statement on Internal Control is on page 44. Our plan for the immediate future is to continue our focus on the development of internal controls and our ERM project.</p>

STATEMENT ON GOVERNANCE

Standard No.	Standard	Progress Report In 2006
13. Strategic management process	<p>The Board is responsible for reviewing and overseeing the development of and approving a strategic plan and direction for the Corporation, taking into account the opportunities and risks facing the Corporation.</p> <p>To fulfill 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>The Board plays an important role in strategy setting. In line with current best practices, the strategic management process involves both the Board and Management, and the process is co-owned by the Board and Management. In 2006, the Board approved the new Corporate Plan 2007-2009 that sets out our priorities for the coming years and the financial plans for 2007.</p> <p>In this connection:</p> <p>i) the Board will periodically review the Corporation's objects and make recommendations, if warranted;</p> <p>ii) a strategic planning process has been adopted whereby the Board and Management set out the strategic direction of the Corporation;</p> <p>iii) as part of the corporate planning process, Management develops a detailed Corporate Plan that sets out the operating objectives, the strategies and budgets, including premium rates in line with the Corporation's objects, current and anticipated environment risks, resources and financial position;</p> <p>iv) the Board is presented with quarterly performance reports which detail both the status of the financial position and performance to set approved initiatives; and</p> <p>v) the Board holds a strategic management session each year and considers the effectiveness of the strategic management process.</p>

STATEMENT ON GOVERNANCE

Standard No.	Standard	Progress Report In 2006
14. Effective communication	The Board will ensure that the Corporation communicates effectively with the public, Bank Negara Malaysia ("BNM"), other statutory bodies or regulators, depositors, member institutions and other relevant parties.	<p>The Board monitors the effectiveness of Management's communications with our stakeholders. In 2006, the Board approved:</p> <p>i) the Communications Policy that applies to the Corporation as a whole; and</p> <p>ii) an Integrated Communications Plan for 2007-2011.</p> <p>The Board also receives updates on the Corporation's public awareness initiatives and a report on developments in implementing the Communications Plan at each Board meeting. The Board also receives reports on the consultation processes and approaches in developing regulations and policies.</p>
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.	Although the Board Governance Policy was recently put in place in 2006, we have compared it with the recommendations of the Green Book. We are pleased to report that our Board Governance Policy and the practices of our Board are very much in line with the recommendations of the Green Book. We also regularly track our progress in governance against the IFAC checklist.

STATEMENT ON GOVERNANCE

THE WORK OF THE BOARD AND ITS COMMITTEES

MEETINGS AND ATTENDANCE

In 2006, four Board meetings were held, and the Board members also met to discuss and set the strategic direction for 2007-2009 in September 2006. The following sets out the attendance at the Board meetings of each Board member:

Board of Directors	Number of meetings attended out of 4 meetings held	Strategic Planning Session
Tan Sri Dato' Abdul Aziz bin Haji Taha (Chairman)	4	1
Tan Sri Dato' Sri Dr Zeti Akhtar Aziz	4	1
Tan Sri Dato' Sri Izzuddin bin Dali	2	-
Tan Sri Dato' Seri Haji Mohd Azmi bin Dato' Haji Kamaruddin	4	1
Datuk Dr Sulaiman bin Mahbob	4	-
Datuk Dr Abdul Samad bin Haji Alias	3	-
Mr Michael Wong Kuan Lee	4	1

WORK OF THE COMMITTEES

The three Board Committees are: the Audit Committee, the Remuneration Committee and the Governance Committee. In 2006, there were six Audit Committee meetings, two Remuneration Committee meetings and three Governance Committee meetings. As a matter of practice, each of the Committees tracks its progress and sets out its action plans against its principal responsibilities in its Charter at each meeting.

COMPOSITION OF COMMITTEES

Audit Committee	Governance Committee	Remuneration Committee
Datuk Dr Abdul Samad bin Haji Alias (Chairman)	Tan Sri Dato' Abdul Aziz bin Haji Taha (Chairman)	Tan Sri Dato' Sri Dr Zeti Akhtar Aziz (Chairman)
Tan Sri Dato' Sri Izzuddin bin Dali	Tan Sri Dato' Sri Dr Zeti Akhtar Aziz	Tan Sri Dato' Seri Haji Mohd Azmi bin Dato' Haji Kamaruddin
Mr Michael Wong Kuan Lee	Datuk Dr Sulaiman bin Mahbob	Mr Michael Wong Kuan Lee

The Audit Committee:

The principal responsibilities of the Audit Committee are set out in its Charter (see Appendix). The Audit Committee must meet at least four times a year and must satisfy itself that the financial statements follow approved accounting principles and give an accurate account of the Corporation's financial affairs in as comprehensible a way as possible. It must satisfy itself that the internal and external auditors have no cause for concern about any aspect of the accounts or of the Corporation's control and audit procedures. It advises the Board on other financial

reporting, accounting and internal control issues as well as financial management. The Audit Committee also plays a risk oversight function.

The following are some of the key activities of the Audit Committee during 2006:

- reviewing and tracking performance to Corporate Plan 2006-2008 and reporting thereon to the Board;
- reviewing the Corporate Plan 2007-2009 and recommending it to the Board for approval;

STATEMENT ON GOVERNANCE

- reviewing the Code of Business Conduct and Ethics, the Whistleblowing Policy and recommending the same for Board approval;
- reviewing the Conflict of Interest Code and recommending the same for Board approval;
- reviewing the Audit and Consulting Services Division Charter and Audit Plans and recommending the same for Board approval;
- reviewing legal matters having a potential impact on PIDM's financial statements, as well as PIDM's compliance with law and ethical matters; and
- reviewing the financial statements and the Management's Discussion and Analysis for this Annual Report, as well as the Annual Report in its entirety.

The attendance at the Committee meetings of each Committee members is as follows:

Audit Committee Members	Number of meetings attended out of 6 meetings
Datuk Dr Abdul Samad bin Haji Alias (Chairman)	6
Tan Sri Dato' Sri Izzuddin bin Dali	1
Mr Michael Wong Kuan Lee	6

The Remuneration Committee:

The mandate of this Committee is set out in its Charter (see Appendix). It must meet at least twice a year and is required under the Charter 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.

Among the Remuneration Committee's main areas of business during 2006 were:

- reviewing and recommending to the Board for approval, an appropriate compensation and benefits policy for the Corporation that is in line with the Corporation's business model and the need to attract and retain talents;
- reviewing and recommending to the Board for approval, a performance management policy, again in line with the needs and work culture of the Corporation; and
- overseeing the development of a human capital strategy.

Remuneration Committee Members	Number of meetings attended out of 2 meetings
Tan Sri Dato' Sri Dr Zeti Akhtar Aziz (Chairman)	2
Tan Sri Dato' Seri Haji Mohd Azmi bin Dato' Haji Kamaruddin	2
Mr Michael Wong Kuan Lee	2

The Governance Committee:

The mandate of this Committee is set out in its well-defined Charter (see Appendix). Its principal responsibilities include ensuring that appropriate structures and processes are in place to provide effective oversight of and direction for the Corporation's activities. Among its primary roles are — ensuring the establishment of best practice governance policies and high governance standards, reviewing the appropriate balance of skill, experience and knowledge of the Board and identifying skills gaps — as well as recommending future appointments for non *ex-officio* positions on the Board.

During 2006, the Governance Committee's main activities included benchmarking the Board's and the Corporation's governance policies and practices against international best practices and establishing such policies and practices. Its work

also entailed reviewing and recommending the following to the Board for approval:

- a policy on rotation of Board Committee members;
- the documentation on the respective roles and responsibilities of the Board, the Chairman and the Chief Executive Officer and the standards expected of them;
- the evaluation process for effectiveness of the Board, Board members and Committees;
- the process for a skills gap analysis, as part of the succession planning for the Board;
- the set of Corporate By-Laws that regulate the conduct of the affairs of the Board; and
- a policy to allow Board members to obtain independent legal and other advice where necessary.

STATEMENT ON GOVERNANCE

Governance Committee Members	Number of meetings attended out of 3 meetings
Tan Sri Dato' Abdul Aziz bin Haji Taha (Chairman)	3
Tan Sri Dato' Sri Dr Zeti Akhtar Aziz	1
Datuk Dr Sulaiman bin Mahbob	2

Appointment and remuneration of Board Members

The Governor of BNM and the Secretary General of the Treasury hold *ex-officio* positions as Directors under the MDIC Act. All other members of the Board are appointed by the Minister of Finance for a term of three years under the MDIC Act. As noted before, all Directors are non-executive members of the Board. The allowances for members of the Board are approved by the Minister of Finance, as required by the MDIC Act. In 2006, Directors received a total remuneration for Board and Committee work, in line with the approval of the Minister of Finance, of RM146,000.

Evaluation of the effectiveness of the Board and its Committees

The Board has also adopted a process for the purposes of assessing the effectiveness of the Board, its Committees and the performance of individual Board members respectively. The process includes the completion of three evaluation forms, which have been developed by reference to the Board Governance Policy, Committee Charters, and the position descriptions of the Chairman and Board Members. Some of the questions have been adapted from the Green Book and guidelines by the Global Corporate Governance Forum. The three evaluation forms will be published in the Corporation's website. Under the process, which is led by the Chairman of the Board, each Board member fills in the evaluation forms and meets at a dedicated Board meeting to assess the effectiveness of the Board and the respective Committees. For 2006, individual Board members have completed the relevant evaluation form for the purposes of self-assessment of his or her performance as a Director.

Compliance with Laws and Ethics

As a statutory body, we are required to comply with various statutes. We confirm that the Corporation is in compliance with the laws that apply to it as a statutory body as well as an employer.

Among the key provisions we have complied with are the following:

- the MDIC Act requires that we submit an annual report to the Minister of Finance, who will cause the annual report to be tabled in Parliament. In March 2006, we submitted our

Annual Report 2005 to the Minister of Finance within the statutory time frame required by the MDIC Act; and

- the Statutory Bodies (Accounts and Annual Reports) Act 1980 also requires us to comply with applicable financial reporting standards in Malaysia.

Transparency

In keeping with standards of good governance and transparency, we publish our key policies and practices. Among others, we have published the following, in Bahasa Melayu, Chinese, English and Tamil; in hard copies as well as in our website:

- Corporate Plan 2007-2009;
- Board Governance Policy;
- Procurement, Contracting and Outsourcing Policy;
- Policy for Disclosure of Information Concerning Wrongdoing in the Workplace ("Whistleblowing Policy"); and
- Communications Policy.

Our Committee Charters are publicly available (see also Appendix).

To promote accessibility to information, we are committed to a language regime that responds to public needs i.e. the four major languages, where necessary. Translation into other languages is considered whenever a particular document is of a wider interest. We also adopt a policy to consult extensively on all key regulations having an impact on our stakeholders. This is intended to allow our stakeholders and the public to make comments on the same, and to ensure transparency in our decision-making process.

In keeping with our aims to meet high standards on transparency, our Annual Report also fully complies with recommendations on annual reporting in the IFAC Study.

STATEMENT ON INTERNAL CONTROL

This Statement is to provide the stakeholders and users of our Annual Report with meaningful, high-level information about the Corporation's risk management processes and its system of internal control to support our efforts in building strong governance.

INTRODUCTION

In our first 16 months of operations, we have been working on establishing our risk management framework and implementing a sound internal control system.

In 2006, among other steps, we established the Audit and Consulting Services ("ACS") Division and we set in place a number of key processes, including the implementation of a comprehensive financial management system with embedded internal control measures. We have established certain processes for identifying, evaluating and managing the significant risks of providing deposit insurance. We have also initiated steps towards implementing a systematic approach towards risk management within PIDM, in particular, our Board has given its full support for the development of our Enterprise Risk Management ("ERM") framework going forward.

As described below, our work in these areas will necessarily escalate over the next few years, as our operations become more developed and, as a matter of course, more complex.

RESPONSIBILITIES FOR RISK MANAGEMENT AND INTERNAL CONTROLS

The Board and senior management acknowledge their responsibilities for PIDM's risk management and internal control environment and its effectiveness.

This is evidenced by our Board Governance Policy which was established in 2006. The Board Governance Policy places overall responsibility on the Board to obtain an understanding of the principal risks of the Corporation's business and to ensure that there are appropriate and prudent risk management systems to manage these risks. The Board is also to ensure that the Corporation has a

sound internal control environment and is responsible for the review of its adequacy and integrity. Finally, under the Board Governance Policy, the Board is to obtain, on a regular basis, reasonable assurance that the Corporation is "in control". This Policy also sets out the roles and responsibilities of Management in this regard.

We also have three Committees, namely the Audit Committee, the Governance Committee and the Remuneration Committee, governed by their respective Charters (see our Statement on Governance, page 31). These Committees serve as governance tools to assist the Board in ensuring that the internal controls are working. We have also established other important internal controls processes, with the roles and responsibilities between Board and Management being clearly delineated through documentation of the position descriptions for the Board, Board members, the Chairman and the Chief Executive Officer.

AUDIT AND CONSULTING SERVICES (ACS) FUNCTION

In line with the terms of Standard No. 11 of the Board Governance Policy, the Board has allocated resources for a strong and independent internal audit function. In the first quarter of 2006, the ACS Division was established to support the Board, the Audit Committee and Management to discharge their responsibilities.

Since the establishment of the internal audit function, the Board has approved an Audit and Consulting Services Charter. The functions of the ACS Division are set out in its Charter. The ACS Division is responsible for providing independent and objective assurance and consulting services by evaluating and improving the effectiveness of controls, risk management, business and governance processes. Under the Board Governance Policy, the Board may also seek from the ACS Division, 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.

STATEMENT ON INTERNAL CONTROL

The Board has approved a comprehensive audit plan, which sets out areas which will be subjected to audit from 2006 to end of 2008. The ACS' audit plan for 2006 to 2008 was deliberately made consistent with our aim of building strong foundations and governance. Our approach to audit planning for 2006 to 2008 was largely driven by our corporate objectives and key supporting initiatives in our Corporate Plan for the same period. We also have manuals on internal audit and consulting services with clear procedures for planning, field work, reporting and follow up activities.

Reports on performance to the audit plan will allow the Audit Committee to carry out its oversight function and reporting to the Board. This will enable us to move progressively towards a risk-based audit planning approach together with the development and implementation of our ERM framework.

CURRENT STAGE OF DEVELOPMENT

Given that the Corporation was recently established, our internal control and risk management frameworks are still under development.

To promote a sound internal control environment, we are currently developing an internal control framework to enable PIDM to enhance its control strategy in response to the assessment of various risks in achieving PIDM's corporate objectives. The internal control framework forms part of our key initiatives for our Corporate Plan 2007-2009. Our system of internal control will be designed to provide reasonable assurance regarding the effectiveness of our risk management, business and governance processes.

The Board has also approved the approach for implementing an ERM framework for the organisation. ERM will be a key initiative for the Corporation starting in 2007. The implementation of this framework will ensure that our significant risk exposures will be managed on an enterprise-wide and consolidated basis (see page 62).

Going forward and together with the implementation of the Corporation's internal control and ERM frameworks,

the Board's annual review of the system of internal control will encompass the assessment, monitoring and reporting of the Corporation's risks.

INTERNAL CONTROL ENVIRONMENT OF PIDM IN 2006

In 2006, the following key policies and processes were established as part of our system of internal control:

- we have an organisation structure with clearly defined responsibilities and accountabilities between the Board and Management. There is a clear separation of roles and responsibilities between the Board and Management. The position of the Chairman is a non-executive position while the Chief Executive Officer is not a member of our Board. We also have documented position descriptions (approved by the Board) for the Chairman, the Board and the Chief Executive Officer. We have defined and approved the performance objectives for the Chief Executive Officer and each of the heads of the operating units of PIDM;
- we have developed and implemented policies and procedures on financial, operational and information systems with embedded internal controls. These will continue to be developed and enhanced, and where necessary, updated to ensure they remain current, relevant and effective;
- the Board has received comprehensive information that is relevant and timely to help them make more informed decisions. As an example, the Board received detailed quarterly reports of the financial performance of PIDM as well as performance reports against our approved Corporate Plan. Quarterly financial statements were also sent to the Treasury;
- our Procurement, Contracting and Outsourcing Policy has been approved and published, consistent with Government efforts to enhance transparency of procurement processes in the public sectors and GLCs. The Policy on Authorised Signatories puts limits and controls on the authority for financial matters;

STATEMENT ON INTERNAL CONTROL

- the Board has approved the Code of Business Conduct and Ethics and the Conflict of Interest Code which set out the expectations required of employees and Directors on standards of behaviour and ethical conduct;
- the Board has approved the Policy for Disclosure of Information Concerning Wrongdoing in the Workplace ("Whistleblowing Policy") that establishes channels of communication for individuals to report suspected breaches of the law or other improprieties by individuals within the organisation. These Codes and Policies have been and will continue to be communicated to our employees and they have confirmed compliance with the same in 2006;
- the Charters for our three Board Committees are comprehensive, setting out their principal roles and responsibilities (see Appendix) and helping to identify the key policies and procedures to be brought to the Board for approval. All key policies and procedures are subject to regular review to ensure they remain current and relevant. Among other matters, the relevant Charters require that Management report on compliance with applicable laws and ethics to the Remuneration Committee and the Audit Committee;
- Executive Management Committee meetings are held regularly to discuss operational issues at management level and to ensure we focus on the achievement of corporate initiatives; and
- our dedicated unit, the Insurance, Risk Assessment and Monitoring Division, works closely with BNM to identify and constantly monitor our operating environment and the financial condition of our member institutions. In this regard, the Board receives regular reports on member institutions so as to enable us to assess the risks to our deposit insurance funds.

REVIEW OF SYSTEM OF INTERNAL CONTROL

The Board has reviewed the effectiveness of PIDM's policies, procedures and initiatives which were implemented in 2006 that formed part of the system of internal control. The Board's review was based on the reports from various Board Committees and Management and its review work included the following:

- the Board considered, on a regular basis, the reports of various Board Committees. These included the report on the review by the Audit Committee on compliance with applicable laws and ethics, as well as the report from the Remuneration Committee on compliance with key human capital policies and related laws;
- the Board considered, on a quarterly basis, the utilisation of resources as compared to the approved budget;
- the Board considered, on a quarterly basis, financial reports, which are also regularly provided to the Treasury; and
- the Board considered, on a quarterly basis, the update and progress on Management's overall performance against approved initiatives as set out in the Corporate Plan.

Based on the systems, processes and practices in place, the Board is pleased to report that internal controls were adequate in 2006, given the Corporation's stage of development and given the extent of our current operations. The Board is also pleased to report that, for the year 2006, there was no reported incidence of weakness or failure in the internal controls embedded in these policies, procedures and initiatives.



SECTION III: MANAGEMENT'S DISCUSSION AND ANALYSIS

Our Operating Environment

Review of 2006 Operations

2006 Financial Overview

Summary of Our
Corporate Plan 2007-2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our Management's Discussion and Analysis includes a discussion on our operating environment. It also includes an analysis of our progress against our business strategies and key initiatives as set out in our Corporate Plan 2006-2008 and a description of our social work, a financial overview, and an outline of our Corporate Plan 2007-2009 highlighting key areas of focus.

OUR OPERATING ENVIRONMENT

Our mandate in section 4 of the Malaysia Deposit Insurance Corporation Act 2005 ("MDIC Act") sets out our objects as follows:

- i) to administer the deposit insurance system (Islamic and conventional);
- ii) to provide insurance against loss of part or all deposits;
- iii) to provide incentives for sound risk management in the financial system; and
- iv) to contribute and promote public confidence in the stability of the financial system.

In pursuing the objects in (i) and (ii), we are to act in a manner as to minimise costs to the financial system.

The breadth of our mandate demands vigilance from us in assessing our operating environment and managing our inherent risks in providing deposit insurance. The following is a description of our operating environment.

ECONOMIC ENVIRONMENT AND TRENDS

The economy in 2006 remained strong despite some challenges and inflation averaged 3.6% for the year.

Economic growth is expected to remain stable in 2007 and with investor confidence continuing to remain strong. Significant factors that are expected to contribute to economic growth are sustained private consumer spending, higher tourist spending and investments from the Ninth Malaysia Plan. Interest rates and inflation are also expected

to remain low. Overall, these factors are expected to provide a favourable operating environment for the banking sector. Matters that could impact the performance of our member institutions include a disorderly adjustment of global current account imbalances, any unexpected sudden slowdown in the US economy or sharp fluctuations in oil prices.

OUR MEMBERSHIP

In line with the stable economic growth, our member institutions showed overall improvements in 2006. There was sustained loan growth, continued improvement in asset quality, higher quarter-to-quarter profitability growth, ample liquidity and healthy capitalisation. As at end-December 2006, our member institutions registered a 6.6% growth in loans, advances and financing (December 2006: RM585.4 billion, December 2005: RM549.3 billion) against the 8.9% growth registered in 2005. The overall asset quality also continued to improve with the net non-performing loans ("NPL") ratio (3-months classification) falling to 4.8% as at end-December 2006 (December 2005: 5.8%). In absolute terms, the net NPL has also improved and stood at RM26.8 billion as at December 2006 (December 2005: RM30.4 billion).

The member institutions' overall capitalisation has however declined slightly as mergers and loans growth took place amidst improving asset quality. Our member institutions' level of capitalisation, as measured by the risk-weighted capital ratio and core capital ratio as at 31 December 2006, remained strong at 12.5% (December 2005: 13.6%) and 9.7% (December 2005: 10.5%) respectively, well above the Basel Capital Accord minimum requirement of 8%. Meanwhile, during the year, our member institutions have fully complied with the minimum liquidity requirements as laid down by Bank Negara Malaysia ("BNM"), with a liquidity surplus of 2.7 times as at December 2006 (December 2005: 2.7 times) under the less-than-one-week bucket.

With sustained loans growth and continued improvement in asset quality, the financial performance of our member institutions has also improved. Based on the September 2006 position, the unaudited profit before tax has expanded by 9.9% (annualised) from full year 2005, supported by net interest income and also strong growth in non-interest income. Return on assets has marginally increased to 1.3% over the same period (December 2005: 1.2%).

MANAGEMENT'S DISCUSSION AND ANALYSIS

During the year, one finance company (Kewangan Bersatu Berhad) was absorbed into a commercial bank, two commercial banks merged into a single entity (CIMB Bank Berhad) and three Islamic banking windows were transformed into Islamic subsidiaries (EONCAP Islamic Bank Berhad, Affin Islamic Bank Berhad and AmlIslamic Bank Berhad). A new Islamic banking licence was issued to Al Rajhi Banking and Investment Corporation (Malaysia) Berhad bringing our total membership to 32 (2005: 33). As at 31 December 2006, we have a total of 10 Islamic banks and 22 conventional banks (seven of which operate Islamic windows). Please see Appendix for the listing of our member institutions as at 31 December 2006.

We are funded by premiums assessed on total insured deposits placed at our member institutions as at 31 December of the preceding assessment year. PIDM receives no Government funding or appropriations. For 2006, we collected annual premiums assessed at a flat rate of 0.06% (2005: 0.06% of total insured deposits or 0.02% of total deposits; subject to a minimum premium of RM250,000) on total insured deposits as at 31 December 2005 as well as first premium assessed on our new member institution, Al Rajhi Bank and the three Islamic subsidiaries. The table below illustrates the composition of deposits held at our member institutions as at 1 September 2005 and 31 December 2005.

Profile of deposits placed at member institutions on an aggregated basis

	Position as at 31 December 2005			1 September 2005
	Islamic	Conventional	Total	Total
	RM billion (%)	RM billion (%)	RM billion (%)	RM billion
Total Deposits	79.1 (12.0%)	582.6 (88.0%)	661.7 (100%)	641.4
Total Uninsurable Deposits	13.8 (9.7%)	128.1 (90.3%)	141.9 (100%)	155.3
Total Insurable Deposits	65.3 (12.6%)	454.5 (87.4%)	519.8 (100%)	486.1
Total Insurable Deposit Balances in Excess of RM60,000	51.3 (14.5%)	303.3 (85.5%)	354.6 (100%)	320.0
Total Insured Deposits	14.0 (8.5%)	151.2 (91.5%)	165.2 (100%)	166.1

As at 31 December 2005, total deposits of member institutions grew by 3.2% to RM661.7 billion from RM641.4 billion as at 1 September 2005. By end-November 2006, total deposits of our member institutions registered further growth of 12.4% to RM743.9 billion, of which 12.5% was Islamic deposits and 87.5% conventional. Up to November 2006, total conventional deposits recorded an increase of 11.7% or RM68.3 billion largely due to the growth in fixed deposits of 8.8% or RM26.9 billion and demand deposits by 9.0% or RM8.5 billion. In line with the expansion of Islamic banking in Malaysia, total Islamic deposits held at our member institutions recorded an impressive growth of 17.5% or RM13.9 billion, attributable primarily to the increase in demand deposits of 31.2% or RM4.6 billion and general investment deposits of 8.5% or RM2.7 billion.

Total insurable deposits of our member institutions grew by 6.9% to RM519.8 billion as at 31 December 2005 from RM486.1 billion as at 1 September 2005. The bulk of conventional banking and Islamic banking insurable deposits was in the form of fixed deposits and general investment deposits respectively. Total insured deposits held by our member institutions decreased marginally as at 31 December 2005 by 0.5% to RM165.2 billion from RM166.1 billion as at 1 September 2005. This comprises 91.5% or RM151.2 billion of conventional banking insured deposits and 8.5% or RM14.0 billion of Islamic banking insured deposits.

MANAGEMENT'S DISCUSSION AND ANALYSIS



RISK MANAGEMENT PRACTICES OF OUR MEMBER INSTITUTIONS

As financial institutions licensed under the Banking and Financial Institutions Act 1989 and the Islamic Banking Act 1983, our member institutions continue to be subject to the rigorous supervisory monitoring and risk assessment by BNM. Among others, the prudential regulations and supervisory requirements (which include the 25 Core Principles of Effective Banking Supervision and the Basel capitalisation requirements) serve as minimum benchmarks for our member institutions. Our member institutions are continuing to focus their efforts on strengthening their risk management systems and practices in preparation for the adoption of Basel II. It is envisaged that when completed, the implementation of Basel II will further strengthen the resilience of our member institutions.

EXPECTED IMPACT OF REGULATORY INITIATIVES

We also anticipate that some of our own initiatives in the near future will have an impact on member institutions.

In providing incentives for sound risk management, we will, in 2008, be implementing our Differential Premium Systems to assess premiums based on the risk profiles of our member institutions (see page 62).

Working with BNM, we intend to further encourage sound financial and business practices through our 'Terms and Conditions of Membership' which is being developed and we target to have it in place by the end of 2007. The law also permits us to impose a premium surcharge on member institutions that breach any of these terms and conditions.

CONCLUSION

Overall, our operating environment remains stable and provides us with the opportunity to continue to build on our capacity and capability as well as to complete our initiatives as set out in our Corporate Plan 2007-2009.



REVIEW OF 2006 OPERATIONS

Our Corporate Plan 2006-2008 sets out our business strategies and our key initiatives for 2006. This section reports our progress against these strategies and key initiatives as detailed in our Corporate Plan 2006-2008 and also describes our social work during the year. This report should be read in conjunction with our Corporate Plan 2007-2009 which is publicly available.

INTRODUCTION

Our Mission is to achieve our mandate in an effective and efficient manner. Accordingly, our business model contemplates a lean but highly skilled workforce, with the ability to tap on an external network of expertise when necessary.

Business strategies

Our Corporate Plan 2006-2008 sets out four long-term business strategies to achieve our mandate, taking into account our business model. These are *Readiness*, *Sound Business and Financial Practices*, *Public Awareness* and *Strong Partnership*.

Laying the foundations

The focus of our tasks as described in our Annual Report 2005 for 2006 was laying the foundations to meet our Corporate Vision, including the following:

- i) developing people with the right skills sets; and
- ii) developing and implementing appropriate systems, policies and best practices to administer an effective deposit insurance system.

OUR WORK IN 2006

In 2006, we have worked in line with the priorities set in the Corporate Plan 2006-2008.

During our early months of existence, we have naturally focused on building our organisational capacity and capability. Given the stable operating environment in Malaysia, we have not been distracted by environmental changes from carrying out our initiatives as planned. During the year, we filled the remaining key positions to complete our management team. We worked towards building a results-oriented workforce that will meet our standards of professionalism and excellence.

Key among our efforts in 2006 has been our work on public awareness. We say key, because education on deposit insurance is fundamental to public confidence in the financial system and to enhancing knowledge about our role as the national insurer of deposits. We have also started building strong networks with others to help us in our work. This, in line with our business model, allows us to leverage on the depth of experience and expertise available elsewhere. It will, eventually, help us perform more efficiently and effectively. This work will continue going forward.

At the same time, we have crystallised many fundamental concepts and philosophies that will drive the way we carry out our core functions going forward. We have also developed concept papers for the implementation of regulations in areas such as the 'Terms and Conditions of Membership', dissemination of information on deposit insurance and the differential premium systems framework. Our Board has also approved many plans and frameworks as well as key policies, practices and processes, including our approach to governance, enterprise risk management ("ERM"), IT governance, communications, internal audit and human capital.

MANAGEMENT'S DISCUSSION AND ANALYSIS

HIGHLIGHTS OF OUR PERFORMANCE

The following are the highlights of our performance in 2006 against the four long-term strategies outlined in our Corporate Plan 2006-2008. We have met all of our key initiatives identified in our Corporate Plan 2006-2008 and have also completed a number of other initiatives during the year.

Business Strategy	Key Initiatives in Corporate Plan 2006-2008 (Completed in 2006)	Ongoing Activities (Work initiated in 2006, and will be ongoing)
Readiness Being prepared to fulfill our role as deposit insurer by being ready and alert to events affecting member institutions and having the ability to anticipate, react and manage risks.	<ul style="list-style-type: none"> Executed Strategic Alliance Agreement ("SAA") with BNM on information sharing P Implemented a new integrated financial management system P Issued 'Guidelines on Total Insured Deposits' P Developed 'Disclosure Requirements for Joint Accounts and Trust Accounts Regulations' P Board approved concept and framework for regulations on 'Terms and Conditions of Membership' AP Board approved concept and framework for implementation of ERM AP Commenced development of a payout framework AP 	<ul style="list-style-type: none"> Risk assessments of member institutions AP Development of payout framework AP Ongoing consultation with BNM on policies and other matters OI Development of ERM policies and processes AP
Sound Business and Financial Practices Ensure that policies, procedures and reporting are in place such that we can fulfill our mandate in an efficient and effective manner.	<p>Board approved key governance policies and processes including:</p> <ul style="list-style-type: none"> Board Governance Policy P Documented position descriptions to delineate roles of Board and Management P Corporate By-Laws P Codes of Business Conduct and Ethics and Conflict of Interest Code P Whistleblowing Policy P Board evaluation process AP Board succession-skills gap analysis AP <p>In addition, Board also approved:</p> <ul style="list-style-type: none"> Concept and framework for two differential premiums systems AP Concept and framework for implementation of ERM AP Internal audit function and charter P 	<p>See also our Statement on Governance (page 31)</p> <ul style="list-style-type: none"> Continued to provide regular financial statements and updates against Corporate Plan for Board OI Continued to benchmark key policies, processes and procedures benchmarked against best practices OI Continued to provide employee development and training (including on ethics and conduct) as well as to upgrade technical skills and knowledge P Continued to provide Directors' education sessions OI

Note: The symbols correspond to those against the initiatives set out in our Corporate Plan 2006-2008 and have the following meanings:

P Priority for 2005/2006, **AP** Action plan developed in 2006 for implementation in 2007/2008, **OI** Other initiatives

MANAGEMENT'S DISCUSSION AND ANALYSIS

Business Strategy	Key Initiatives in Corporate Plan 2006-2008 (Completed in 2006)	Ongoing Activities (Work initiated in 2006, and will be ongoing)
	<ul style="list-style-type: none"> Audit plans of Audit and Consulting Services Division AP Human Capital Strategy, Compensation and Benefits and Performance Management Policies P IT Governance Approach P Communications Policy P <p>Other work completed:</p> <ul style="list-style-type: none"> Board approved the concept on requirements for disclosure of information to depositors AP Conducted Directors' education session on 'Enhancing Board Effectiveness' OI Implemented the process for consulting the public and other stakeholders on proposed regulations P Carried out employee development and training (including on ethics and conduct) as well as upgrading technical skills and knowledge P Set up Asset and Liability Committee ("ALCO") terms of reference and policies P <p>Annual reviews:</p> <ul style="list-style-type: none"> Completed review of compliance with laws and ethics related matters P Review of Committee Charters P Effectiveness of Board and Committee evaluations P Effectiveness of internal control P 	<ul style="list-style-type: none"> Carried out regular monitoring, assessments and reporting on the condition of member institutions AP Commenced enhancement of IT Infrastructure (Phase I) P Continued development of Business Continuity Plan OI
Public Awareness Increase public awareness and explain the benefits and limitations of deposit insurance.	<ul style="list-style-type: none"> Integrated Communications Plan for 2007-2011 approved AP Survey on public awareness on deposit insurance completed P Stakeholders' education by briefing member institutions and other regulators, the public, affected industries, lawyers and accountants on proposed regulations P 	<ul style="list-style-type: none"> Continued stakeholders' education P Carried out regular dialogue and information-sharing sessions with member institutions P

Note: The symbols correspond to those against the initiatives set out in our Corporate Plan 2006-2008 and have the following meanings:

P Priority for 2005/2006, **AP** Action plan developed in 2006 for implementation in 2007/2008, **OI** Other initiatives

MANAGEMENT’S DISCUSSION
AND ANALYSIS

Business Strategy	Key Initiatives in Corporate Plan 2006-2008 (Completed in 2006)	Ongoing Activities (Work initiated in 2006, and will be ongoing)
	<ul style="list-style-type: none">Trained officers of member institutions including their own trainers PPerformed corporate social responsibility by participating in Terry Fox Run OI	
Strong Partnership Enhance relationships with our partners including BNM, other regulators, members and service providers to achieve our mandate more effectively and efficiently.	<ul style="list-style-type: none">SAA with BNM signed and implemented PConducted briefings to other regulators, lawyers, accountants, banking and securities industry PBriefed Attorney General’s Office, Treasury Solicitor’s Office and the Treasury on proposed regulations and related concepts PHosted Executive Council meeting and other International Association of Deposit Insurers (“IADI”) meetings PParticipated in other international conferences P	<ul style="list-style-type: none">Conducted regular briefings to Attorney General’s Office, Treasury Solicitors’ Office and the Treasury PParticipated in international conferences PShared and exchanged deposit insurance knowledge and expertise globally through IADI PStudy visits to established deposit insurers for exchange of knowledge PConsulted regulators, member institutions and the public on proposed regulations PBuilt relationships with key suppliers and service providers P

Note: The symbols correspond to those against the initiatives set out in our Corporate Plan 2006-2008 and have the following meanings:
P Priority for 2005/2006, **AP** Action plan developed in 2006 for implementation in 2007/2008, **OI** Other initiatives

OUR PROGRESS IN DETAIL

Our progress, in more detail, is discussed below.

BUSINESS STRATEGY 1 : READINESS

This business strategy aims to ensure that we are ready and alert to events affecting us and our member institutions, and to ensure we have the capacity and capability to anticipate, actively assess and manage risks to the deposit insurance funds.

Promoting risk management and insurance risk assessment

Our mandate requires us to assess the risks of providing deposit insurance and be ready to intervene and deal with a failure of any member institution. Accordingly, we have

been working at building our capacity and capability in the area of insurance risk assessments and monitoring. In 2006, we committed to monitor our operating environment. Working closely with BNM, we kept abreast of issues affecting our member institutions. Our role requires us to keep a continuous eye on the profile of our membership, as well as to conduct regular assessments of the risks that member institutions might pose.

Providing incentives for sound risk management in the financial system

As part of our work to promote sound risk management, we organised an ERM seminar in conjunction with the IADI Executive Council Meeting in Kuala Lumpur in September 2006. This also helped us to prepare for the implementation of our ERM framework, as well as to educate our member institutions about the importance

of sound corporate-wide risk management systems within their own organisations.

As noted in our Annual Report 2005, we have been steadily working at developing our differential premium systems, with the aim of introducing the systems by 2008. The systems are to allow us to differentiate and assess premiums based on individual bank risk profiles, for both Islamic and conventional member institutions. Our Board has approved the concept and framework for the Islamic and conventional differential premium systems in 2006. The project is in full swing and a Differential Premium Systems Working Committee has been established to move the work further and to fill in the details of the systems.

Gearing up

We are also working on more development in the areas of risk assessment, interventions and failure resolution methods and related information technology systems. During the year, we had guest speakers from several countries to transfer knowledge and expertise on deposit insurance. We made study trips to leading deposit insurers and regulators around the world to draw on their experiences as well as to gather intelligence about their methodologies and approaches. In 2006, we also began developing a payout framework that will enable us to make expeditious payouts to depositors when required.

Regulations and guidelines

We have made headway in our work to make the MDIC Act effective. In 2006, we issued ‘Guidelines on Total Insured Deposits’ for member institutions to help them calculate the total insured deposits and premiums payable. We have also secured the gazetting of our ‘Disclosure Requirements for Joint Accounts and Trust Accounts Regulations 2007’, after many rounds of informal consultations with stakeholders and a final public consultation in June 2006. We have also commenced working on several concepts for other key regulations and guidelines, which will go through similar consultation processes.

BUSINESS STRATEGY 2 : SOUND BUSINESS AND FINANCIAL PRACTICES

Our aim is to have sound business and financial practices as a foundation for achieving operational effectiveness and efficiency. Key policies, procedures, systems, practices and reporting are being put in place such that we can demonstrate that the Corporation is well governed and well managed.

Sound governance

During the year, we have made considerable progress in our efforts to build our governance framework, as we committed to do in our past Annual Report and our Corporate Plan 2006-2008. Among the significant policies

and processes put in place were the Board Governance Policy, Corporate By-Laws, our Code of Business Conduct and Ethics and the Whistleblowing Policy. A comprehensive report on these is found in our Statement on Governance (page 31). Our Directors, too, are clearly committed to leading by example, as demonstrated by their considerable work on governance.

To strengthen our business and financial practices, we have developed and implemented an integrated financial management system. We have also established an ALCO and a Policy on Procurement, Contracting and Outsourcing, as well as formulated our IT governance approach. Where possible, we benchmarked our frameworks, systems and processes against international best practices (see also our Article on Compliance with Best Practices, page 104).

Developing a culture of excellence

Our business model places great importance on the quality and attitude of our workforce. We are pleased with the implementation of a comprehensive compensation and performance management system, both of which have been designed to motivate our people and instill a strong culture of excellence. We will continue to build a knowledgeable and competent workforce through ongoing development and training.

Corporate planning and overall performance management

We have achieved all of our key initiatives in our Corporate Plan 2006-2008 within our stated financial plan. Please refer to 2006 Financial Overview of this Section for further details. Our Corporate Plan 2007-2009 builds upon the previous Corporate Plan 2006-2008 and carries on with the same strategic objectives. Going forward, to ensure we remain focused on achieving our plan, we have adopted the Balanced Scorecard methodology to manage and measure PIDM’s overall performance to set targets.

BUSINESS STRATEGY 3 : PUBLIC AWARENESS

Educated and informed stakeholders are key to our effectiveness. Our business strategy is to establish sound public awareness and educational programmes to explain the benefits and limitations of the deposit insurance system.

Ongoing engagement with stakeholders

A major area of ongoing work is public awareness. As such, we have taken many varied measures to provide information about us and our work as well as to make information accessible (for details, see the Section on Public Awareness and Education, page 123).

MANAGEMENT'S DISCUSSION AND ANALYSIS

We continued to enhance our toll-free multilingual call centre established since 2005, as well as our website. We also made available our brochures, in several languages, in every branch of our member institutions, and conducted nationwide briefings, road shows, exhibitions and held dialogues with our member institutions and other stakeholders.

We have also gone out to actively engage our stakeholders and the general public, and provided training to more than 1,000 representatives of member institutions to expand our outreach to members of the public. We also conducted 20 information sessions for both member institutions and the public across Malaysia and have participated in several consumer forums and conducted surveys.

Long-term integrated communications programme

Our Integrated Communications Plan for 2007-2011 was a major initiative in 2006 and was completed and approved by our Board in September 2006. This plan will be rolled out in 2007 and will help us use channels of communications effectively, as well as create greater awareness and educate our audience in a targeted manner.

Surveying for effectiveness

We are also aware of the need to make certain that we can measure our actual performance by setting performance targets. In December 2006, the results of our public survey showed that 13% of respondents were aware of deposit insurance and 4% were aware of our existence. This level of knowledge confirms that it is imperative for us to provide public awareness and education on our deposit insurance system.

Surveys will drive our advertising campaigns and ensure that the strategies chosen are aligned and effective. We will continue to carry out surveys on a periodic basis to gauge the success of our work in this area.

BUSINESS STRATEGY 4 : STRONG PARTNERSHIP

Strong partnerships and affiliations provide us with the invaluable networks that will assist us to fulfill our mandate effectively.

Strategic alliance and sharing with Bank Negara Malaysia

In 2006, we executed an SAA with BNM. This agreement is to help us to coordinate our respective functions and activities as well as promote the timely exchange of relevant information. We have an excellent and cooperative relationship with BNM and we are confident that we will continue to work well together in our respective roles.

Our consultative process

Strong partnerships also mean working with member institutions and others in a consultative and transparent manner. To ensure broader acceptance and effectiveness of our regulations, guidelines or rules, we are committed to a consultative process with stakeholders so that we may get constructive feedback on our proposed regulations, guidelines or rules.

Drawing on external expertise and experience

We are an active member of IADI. Our Chief Executive Officer is also the Chairman of IADI and President of its Executive Council. Over the year, we have also been fortunate to be able to draw on the expertise and experiences of other established organisations, in particular, leading deposit insurers and regulators in jurisdictions such as Canada and the United States. By way of exchange, we have also shared our deposit insurance model, its underlying philosophy and our uniqueness, especially in providing Islamic deposit insurance.

In September 2006, we also hosted the IADI Executive Council and other meetings in Kuala Lumpur. In conjunction with these meetings, we held an ERM seminar led by subject matter experts. We invited representatives from our member institutions, regulators and supervisors to join us. Our objective was to promote sound risk management practices in our membership. We also held an ERM workshop with deposit insurers, allowing us again to draw on the experiences of other deposit insurers in this area. We foresee forums such as these to be of considerable value in building knowledge.

Finally, we are proud to report that in 2006, we became the first deposit insurer to be admitted as an Associate Member of the Islamic Financial Services Board, an international Islamic standards-setting body.

OUR SOCIALLY RESPONSIBLE WORK



Photo courtesy of LENSEA Malaysia.

Amidst our work on our key initiatives, we also took time to participate in socially responsible work. This is because our corporate culture encourages employee involvement in community work.

This year, we supported the Terry Fox Run (the "Run") in Kuala Lumpur, an event held to raise funds for cancer research in Malaysia. This Run is held in over 50 countries around the world, to raise funds for cancer research in the country in which the Run is held.



Terry Fox was 18 years old when he was diagnosed with bone cancer. His right leg was amputated above the knee. Whilst in hospital, Terry was moved by the suffering of cancer patients, particularly children. So much so that he resolved to run across Canada (a distance of 8,500 kilometres) to raise money for cancer research. He called his journey the "Marathon of Hope". Terry Fox, an amputee, ran a marathon (42 kilometres) a day for 143 consecutive days - a total distance of 5,373 kilometres. At that stage, Terry was forced to abandon his run as the cancer spread to his lungs. Terry Fox died at the tender age of 21. Before he died, he knew that a fund-raising event would be held each year, with the same objectives as the Marathon of Hope - to help find a cure for cancer.

Touched by the story of a young boy who ran 42 kilometres a day for 143 days, on one leg, our employees - with PIDM's support - helped organise the Run, to raise funds for cancer research in Malaysia.

Among other things, our employees promoted this event to their friends and colleagues and raised funds through the sale of Terry Fox tee-shirts. We also implemented "Casual Fridays" when an employee was allowed to dress casually by donating RM5 each Friday to the cause.

On 17 September 2006, the Run was held in support of cancer research in Malaysia. The beneficiary of this charitable event was the Cancer Research Initiatives Foundation ("CARIF") - a home-grown organisation dedicated to research into cancers prevalent in this region.



Our guests from IADI, who supported the Run.



Photo courtesy of LENSEA Malaysia.

On the day of the Run, a great crowd of some 9,000 people turned up at the Lake Gardens - despite the sweltering heat - to demonstrate their support for the fight against cancer.

Among them were our guests from Bulgaria, Jamaica, Canada, Jordan, Mexico, Kazakhstan, Russia and Turkey. Our guests were here during the week to attend the IADI Executive Council meeting. They also joined us in an engaging press conference about the Run and spoke on why they supported this cause. Some of them sportingly competed in the Run itself. These international participants went home with a Terry Fox tee-shirt each and, we believe, a story to tell about PIDM and our responsibility towards society.

MANAGEMENT'S DISCUSSION AND ANALYSIS



Our staff who participated in the Run.

RM461,000 was raised through the sale of tee-shirts and donations and all funds raised went solely for the benefit of Malaysians. PIDM too, donated a sum of money towards this cause. Between PIDM and our employees, we are pleased to have raised a sum of RM20,744.

What really impressed us was to see, on the day of the Run in KL, the support of a staggering crowd of 9,000 who, like us at PIDM, plainly believe that social responsibility has its place in the hearts of the people of this country.

GOING FORWARD

In conclusion, we have accomplished a substantial amount of work since PIDM was established in September 2005. We are proud of our accomplishments to date but we acknowledge that we have also still much to do. We have, as we describe below, put in place an ambitious and challenging Corporate Plan 2007-2009. We believe we have the talents and skills to fulfill our Corporate Plan and to continue our journey to be recognised as a best practice deposit insurer.

*"The act of philanthropy is a spiritual act,
an expression of caring for one's
fellow human beings.*

*It is a belief in the future and that the future
can be good. It is investing in that future.*

It is helping to make the dream come true."

– Arthur Frantzreb

2006 FINANCIAL OVERVIEW

For 2006, we completed all of our key initiatives and milestones within the approved Financial Plan. We set out below, the highlights of our 2006 financial performance and position.

INCOME STATEMENT - HIGHLIGHTS AND COMPARISON TO BUDGET

Operating results

For our 2006 financial year, we recorded a net surplus of RM89.9 million which is 5.9% or RM5.0 million higher than budgeted. Total revenues of RM104.9 million is RM0.02 million higher than budgeted, due to higher investment income. Operating expenditures of RM15.0 million are 25.0% or RM5.0 million lower than the budget of RM20.0 million.

Revenues

For the 2006 assessment year, the premium rate for deposit insurance was maintained at 0.06%. Premium income for the year of RM102.1 million was RM0.9 million or 0.9% lower than budgeted. Investment income was slightly higher than budgeted by RM0.9 million due to the higher average yield on investments of 3.3% compared to the budget of 2.8%. We have maintained a conservative investment portfolio in accordance with our investment policy.

Operating expenditures

The positive variance for the overall operating expenditures was mainly due to the lower employee benefits expense and other expenses including professional and consultancy fees as well as training and development expenses.

For the 2006 financial year, our budget on employee salaries and benefits was for 40 employees for the full year. The significant positive variance of RM2.7 million or 23.8% was due to the timing of the commencement of employment of a number of individuals hired throughout the year. The costs of employee benefits have also incorporated the effect of our new compensation and performance management system. Our employee strength increased from 15 in 2005 to 40 by the end of 2006.

The public relations and advertising costs relate to expenses incurred in carrying out our stakeholder engagements, public education and awareness programmes including

MANAGEMENT'S DISCUSSION AND ANALYSIS

briefings, road shows, exhibitions, press conferences on deposit insurance system in Malaysia as well as training programmes for our member institutions. Overall, the costs incurred were RM1.5 million (RM0.2 million or 9.4% lower than budgeted).

Depreciation expense was RM0.9 million, a positive variance of 26.8% compared to the budgeted amount of RM1.3 million. Operating lease expense was 6.6% lower than budget of RM0.3 million.

The other expenses of RM3.5 million mainly relate to the costs of administering the day to day operations. The positive variance of RM1.7 million or 33.0% was mainly due to lower professional and consultancy costs with a positive variance of RM0.6 million or 42.6% as well as lower training and development expenses with a positive variance of 41.8% or RM0.5 million. The positive variance for other expenses was also due to only RM0.4 million of the RM1.7 million miscellaneous and contingency funds provided in the budget being utilised.

CAPITAL EXPENDITURES - HIGHLIGHTS AND COMPARISON TO BUDGET

Total capital expenditures for 2006 were RM1.8 million or 86% utilisation of the 2006 approved amended budget. This is made up of actual capital expenditures incurred in 2006 of RM1.7 million and capital expenditures committed as at 31 December 2006 of RM0.1 million. The variance of 13.6% or RM0.3 million for capital expenditures was mainly due to the lower costs for our financial management system compared to budget as well as capital items which have been planned and approved in 2006 but will only be procured early 2007. The overall capital budget was mainly expended on office equipment (43%), furniture and fittings (35%), motor vehicle (9%), and office refurbishments (13%). The expenditure for office equipment also included costs for enhancing our information system infrastructure to meet our operational needs.

BALANCE SHEET HIGHLIGHTS

Cash, Cash Equivalents and Investments

As at 31 December 2006, the combined balance of cash, cash equivalents and investments for both Islamic and Conventional Deposit Insurance Funds totalled RM124.8 million, consisting of cash and short term investments of RM25.1 million and investments of RM99.7 million. The investments consisted of Malaysian Government Securities and Investment Issues, Bank Negara Bills and

Negotiable Notes with varying maturities of up to June 2007. The sources and uses of cash are described in the Statements of Cash Flows in Section IV.

Our investment policy, as approved by the Board of Directors, is to only invest in short-term Ringgit denominated Government securities of varying maturities. Our investment policy prohibits making investments or depositing funds with any member institutions, except for operating purposes.

Property and equipment

As at 31 December 2006, property and equipment stood at RM1.7 million, an increase by RM0.7 million from 31 December 2005. The increase was due to the capital expenditures incurred for the year on office equipment, furniture and fittings, motor vehicles and office refurbishments. These assets were depreciated over three years, except for the office refurbishment costs which would be depreciated over the current term of the office lease expiring at the end of February 2007.

Other assets

Others assets which totalled RM0.4 million as at 31 December 2006, mainly relate to prepayments such as rental deposits on our new office lease as well as other various deposits.

Liabilities

As at 31 December 2006, our liabilities of RM4.5 million, comprised of payables for utilities, telecommunications services rendered in respect of various consultancy engagements and supply of goods. It also includes amounts due to BNM for employee benefits costs of seconded employees from BNM as well as provision for unutilised annual leave. Other payables of RM3.3 million relate to amounts accrued for employee salary adjustments and performance pay arising from our new compensation and performance management system.

Contingencies

As the insurer of deposits, we have an inherent exposure to losses resulting from the operations of member institutions. However, this exposure cannot be quantified or ascertained at this time. Accordingly, no general or specific provisions have been recorded in the financial statements for the financial year ending 2006.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Source of funding and financial ability

Our source of funding and future ability to meet liabilities and commitments are assured. We are the national deposit insurer and by statute, we are obligated to protect depositors from loss when a member institution is unable to meet its liabilities to depositors. As a statutory body, our liabilities and commitments are ultimately the responsibility of the Government.

We are authorised under our enabling legislation to assess annual premiums against member institutions and to set premium rates with the Minister of Finance approval. Currently, the annual premium rate has been set at 0.06 of 1% of insured deposits held by a member. If we required further funding, premium rates could be increased up to 0.5 of 1% of insured deposits with the approval of the Minister of Finance.

Our net surpluses are kept in the Deposit Insurance Funds ("DIF"), which now totals RM122 million. Our policy is to build reserves in the DIF over time to provide us with readily available funds to meet any future obligations.

The MDIC Act empowers us to borrow or raise funds as we see fit to meet our obligations. We can also request the Minister of Finance to lend us funds from the Consolidated Revenue Fund on such terms and conditions as the Minister may determine.

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

GOING FORWARD

What to expect: Our Financial Plan 2007

Our rate of premiums for 2007 will continue to remain at 0.06% of the insured deposits held by our members as at 31 December 2006. Accordingly, premium revenue is budgeted at RM110 million based on a projected growth rate of 10% of total insured deposits. We are also budgeting interest and investment income of RM6 million for 2007 resulting in total revenue of RM116 million.

Total operating expenses are budgeted at RM34 million whilst capital expenditures are budgeted at RM10 million for 2007.

As a result, we expect a net surplus of RM82 million for 2007 which will increase the total deposit insurance funds to RM204 million.

SUMMARY OF OUR CORPORATE PLAN 2007-2009

Our Corporate Plan 2007-2009 was published on 3 January 2007 and is available on our website, www.pidm.gov.my. Our Corporate Plan 2007-2009 contains the details of our strategies, objectives and key initiatives and financial plan.

OUR STRATEGIC THRUSTS AND CORPORATE OBJECTIVES

We will continue to work in line with our four long-term strategic thrusts to meet our mandate. We have set out our corporate objectives as follows, to have:

- i) a well governed and well managed organisation at all times;
- ii) educated and informed stakeholders;
- iii) effective partnerships to carry out our objectives and initiatives effectively and efficiently;
- iv) prudent financial stewardship making optimal use of our resources;
- v) operational excellence, with policies, systems, processes and procedures that are based on international best practices;
- vi) a competent and knowledgeable workforce; and
- vii) a conducive corporate environment that supports employee satisfaction and performance.

OUR KEY INITIATIVES

Our initiatives have been developed to support the achievement of our corporate objectives, and are aligned with our four strategic thrusts. These initiatives are designed to ensure that we have the capacity and capability in our functions and operations for us to fulfill our mandate effectively. This includes putting in place the necessary frameworks, policies, processes and procedures to enable us to effectively intervene in troubled member institutions in a manner to minimise losses to the financial system.

Areas of focus and key initiatives in support of our corporate objectives for 2007-2009 are described in our Corporate Scorecard (see Appendix). We will be reporting our achievements against our Corporate Plan 2007-2009 next year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

SOME AREAS OF FOCUS GOING FORWARD

Enterprise Risk Management

ERM is a major and ongoing project for us in the years to come. The ERM framework, once implemented, would help provide reasonable assurance that we are managing our risks. The Board acknowledges the importance of having regular assessments of risks facing PIDM, and to have risk management and internal controls embedded within the business processes. As such, ERM is one of our key initiatives in the Corporate Plan 2007-2009.

The objectives of our ERM framework are as follows:

- To be in a position to formally ensure that all of the organisation's significant risks are being identified, assessed, managed, monitored and reported on, using a corporate-wide framework that is consistently and continuously applied throughout the organisation; and
- To be in a position to formally demonstrate that we are managing our risks effectively.

Our framework will also take into account new and emerging risks, control failures or changes in our circumstances or our corporate initiatives. Accordingly, our ERM framework, once implemented, will be a continuous process with regular and ongoing risk assessments. We intend to focus on driving this project going forward internally, as well as to promote the development of sound ERM systems within member institutions. Please see page 117 for our article on ERM.

Differential Premium Systems

Our work on developing our differential premium systems has already begun. In 2006 our concept and framework for the differential premium systems were developed, as reported earlier. The principles and objectives of our differential premium systems are to provide incentives for member institutions to adopt sound risk management practices. It will, therefore, allow us to differentiate member institutions according to their risk profiles, introduce more fairness into the premium assessment

system as well as promote stability in the financial system. We are working closely with BNM on this project, whose representatives form part of our Differential Premium Systems Working Committee. Going forward, we expect to implement the systems by 2008 and will work towards having the regulations in place by then. There will be intensive consultation on the systems with member institutions as well as public consultation.

Regulatory requirements on our member institutions

In 2007, we plan to issue consultation papers which will culminate into regulations and guidelines relating to 'Terms and Conditions of Membership' and the requirements for disclosure of information on deposit insurance to depositors.

On the 'Terms and Conditions of Membership', our Board has approved our proposed concept of incorporating high-level principle-based requirements. We also recognise the importance of setting out explicit requirements on member institutions with regard to minimum disclosure of information on deposit insurance and product insurability – to enable depositors to make informed and timely financial decisions. We also plan to establish the criteria for determining whether a deposit product (Islamic and conventional) is eligible for insurance. This is to enable PIDM to rule on the insurability of deposit products, both current and future, so that member institutions can inform depositors whether a deposit product is covered by deposit insurance or not.

International Relations

We will continue our active international involvement through our membership in the IADI, and to learn and share deposit insurance knowledge with the rest of the world. We will also continue to participate in several Research and Guidance Projects, training and seminars on deposit insurance matters. In October 2007, we will be hosting the 6th IADI Annual Conference as part of our efforts to promote Malaysia in conjunction with Malaysia's 50th anniversary of independence and the Visit Malaysia Year 2007. The theme for this upcoming conference: "Deposit Insurance and Consumer Protection" reflects our fundamental commitment to depositors.



SECTION IV: FINANCIAL STATEMENTS

Directors' Report

Statement by Directors

Statutory Declaration

Auditor General's Report

Balance Sheet

Income Statement

Statement of Changes in Fund and Reserves

Cash Flow Statement

Conventional Deposit Insurance Fund – Balance Sheet

Conventional Deposit Insurance Fund – Income Statement

Conventional Deposit Insurance Fund – Cash Flow Statement

Islamic Deposit Insurance Fund – Balance Sheet

Islamic Deposit Insurance Fund – Income Statement

Islamic Deposit Insurance Fund – Cash Flow Statement

Notes to the 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 2006.

PRINCIPAL ACTIVITIES

PIDM is a statutory body established under the Malaysia Deposit Insurance Corporation Act 2005 ("MDIC Act").

The principal responsibilities of PIDM are to administer a deposit insurance system, provide insurance against the loss of part or all deposits of a member institution, 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.

Given that the banking system comprises of Islamic and Conventional banking systems, PIDM insures both Islamic and Conventional deposits. To ensure proper governance as well as compliance to Shariah requirements, PIDM maintains and administers two separate funds for Islamic and Conventional deposits.

RESULTS

	2006 RM	2005 RM
Net surplus for the financial period:		
Conventional Deposit Insurance Fund	81,690,915	29,527,976
Islamic Deposit Insurance Fund	8,241,425	3,014,065
Total net surplus	89,932,340	32,542,041
Deposit Insurance Funds		
Conventional Deposit Insurance Fund	111,218,891	29,527,976
Islamic Deposit Insurance Fund	11,255,490	3,014,065
Total Deposit Insurance Funds	122,474,381	32,542,041

DIRECTORS

The names of the Directors of PIDM in office since its establishment and at the date of this report are:

- Tan Sri Dato' Abdul Aziz bin Haji Taha (Chairman)
- Tan Sri Dato' Sri Dr Zeti Akhtar Aziz
- Tan Sri Dato' Sri Izzuddin bin Dali
- Tan Sri Dato' Seri Haji Mohd Azmi bin Dato' Haji Kamaruddin
- Datuk Dr Sulaiman bin Mahbob
- Datuk Dr Abdul Samad bin Haji Alias
- Encik Michael Wong Kuan Lee

Tan Sri Dato' Sri Dr Zeti Akhtar Aziz and Tan Sri Dato' Sri Izzuddin bin Dali are directors by virtue of their office, in accordance with Section 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 Section 11(2) of the MDIC Act.

DIRECTORS' BENEFITS

During the financial period 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

There were no transfers to or from reserves and provisions during the financial period.

BAD AND DOUBTFUL DEBTS

Before the income statements and balance sheets of PIDM were completed, 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.

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

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

CHANGE OF CIRCUMSTANCES

At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or 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 period 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 period and the date of this report, any item, transaction or event of a material and unusual nature, likely to affect substantially the results of the operations of PIDM for the current financial period in 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 period which secures the liabilities of any other person.

CONTINGENT LIABILITIES

Exposure to losses from member institutions

PIDM, as the insurer of deposits, has an inherent exposure to losses resulting from the operations of its member institutions. This inherent exposure cannot be quantified or ascertained at this time. Accordingly, no general or specific provisions have been recorded in the financial statements for the current financial year being reported.

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:

- The financial statements have been prepared in accordance with the provisions of 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 2006 and of the results and the cash flows of PIDM for the year ended on that date. The FRS are the Malaysian Accounting Standards Board ("MASB") Approved Accounting Standards in Malaysia for Entities Other Than Private Entities.
- The Islamic Deposit Insurance Fund is maintained and administered in accordance with Shariah requirements, as set out in the MDIC Act.

AUDITORS

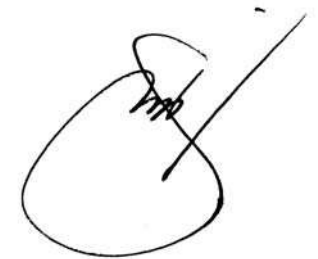
In accordance with the MDIC Act, the accounts of PIDM are audited by the Auditor General of Malaysia.

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

Kuala Lumpur
15 February 2007



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

STATEMENT BY DIRECTORS

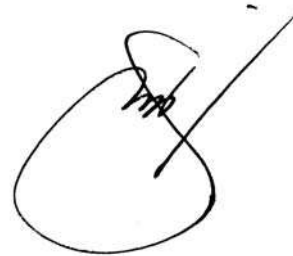
We, Tan Sri Dato' Abdul Aziz bin Haji Taha and Datuk Dr Abdul Samad bin Haji Alias, being two of the Directors of Perbadanan Insurans Deposit Malaysia, do hereby state that, in the opinion of the Directors, the financial statements are drawn up in accordance with the provisions of the Malaysia Deposit Insurance Corporation Act 2005 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 state of affairs of PIDM as at 31 December 2006 and of the results and the cash flows of PIDM for the period 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 Malaysia Deposit Insurance Corporation Act 2005.

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

Kuala Lumpur
15 February 2007



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

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 2005 ("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 state of affairs of PIDM as at 31 December 2006 and of the results and the cash flows of PIDM for the year ended on that date. The Islamic Deposit Insurance Fund is maintained and administered in accordance with Shariah requirements, as set out in 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. The auditors 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 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 are, to the best of our knowledge and belief, 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 15 February 2007.



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



20th Floor, Ambank Group
Building
No 55, Jalan Raja Chulan
50724 Kuala Lumpur.



**CERTIFICATE OF THE AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF
MALAYSIA DEPOSIT INSURANCE CORPORATION
FOR THE YEAR ENDED 31 DECEMBER 2006**

I have audited the financial statements of Malaysia Deposit Insurance Corporation for the year ended 31 December 2006. These financial statements are the responsibility of the management. My responsibility is to express an opinion on these financial statements based on my audit.

2. The audit has been conducted in accordance with the Audit Act 1957 and in accordance with approved auditing standards. Those standards require the audit be planned and performed to obtain reasonable assurance whether the financial statements are free of material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Evaluation is also made on the accounting principles used and the overall financial statements presentation.

3. In my opinion, the financial statements give a true and fair view of the financial position of Malaysia Deposit Insurance Corporation as at 31 December 2006, the results of its operations and its cash flows for the year then ended in accordance with approved accounting standards.

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

PUTRAJAYA
16 FEBRUARY 2007

BALANCE SHEET

AS AT 31 DECEMBER

	Note	2006 RM	2005 RM
ASSETS			
Cash and cash equivalents	3	25,116,262	1,706,628
Investments			
<i>Held-to-maturity investments</i>	4	99,700,227	30,295,189
Other assets	5	431,721	149,394
Property and equipment	6	1,772,009	1,025,273
Total Assets		127,020,219	33,176,484
LIABILITIES			
Payables	7	4,545,838	634,443
Total Liabilities		4,545,838	634,443
DEPOSIT INSURANCE FUNDS AND RESERVES			
Conventional Deposit Insurance Fund	8a	111,218,891	29,527,976
Islamic Deposit Insurance Fund	8b	11,255,490	3,014,065
Total Deposit Insurance Funds		122,474,381	32,542,041
Total Liabilities and Deposit Insurance Funds		127,020,219	33,176,484

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER

	Note	2006 RM	2005 RM
Premium revenue	9	102,122,205	35,671,770
Investment income from cash and investment securities	10	2,815,560	204,692
		104,937,765	35,876,462
Employee benefits	11	8,768,001	1,103,582
Public relations and advertising		1,472,541	405,187
Depreciation	6	974,567	89,401
Operating lease		283,947	46,050
Other expenses	12	3,506,369	1,690,201
		15,005,425	3,334,421
Net surplus		89,932,340	32,542,041

The accompanying notes form an integral part of the financial statements

STATEMENT OF CHANGES
IN FUNDS AND RESERVES

FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	Islamic Deposit Insurance Fund RM	Conventional Deposit Insurance Fund RM	Total RM
At 1 September 2005	8	-	-	-
Net surplus for the period		3,014,065	29,527,976	32,542,041
At 31 December 2005	8	3,014,065	29,527,976	32,542,041
At 1 January 2006	8	3,014,065	29,527,976	32,542,041
Net surplus for the year		8,241,425	81,690,915	89,932,340
At 31 December 2006	8	11,255,490	111,218,891	122,474,381

The accompanying notes form an integral part of the financial statements

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER

	Note	2006 RM	2005 RM
CASH FLOWS FROM OPERATING ACTIVITIES			
Premium receipts from member institutions	9	102,122,205	35,671,770
Payments in the course of operations to suppliers and employees		(8,093,746)	(2,759,970)
Receipts of investment income		1,572,100	82,997
Net cash flow from operating activities		95,600,559	32,994,797
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of investment securities		143,220,496	24,917,002
Purchase of investment securities		(213,693,039)	(55,090,497)
Purchase of property and equipment		(1,718,382)	(1,114,674)
Net cash flow used in investing activities		(72,190,925)	(31,288,169)
CASH FLOWS FROM FINANCING ACTIVITIES			
Advances received from Bank Negara Malaysia		-	5,500,000
Repayment of advances from Bank Negara Malaysia		-	(5,500,000)
Net cash flow used in financing activities		-	-
Net increase/(decrease) in cash and cash equivalents		23,409,634	1,706,628
Cash and cash equivalents at beginning of year		1,706,628	-
Cash and cash equivalents at end of year	3	25,116,262	1,706,628

The accompanying notes form an integral part of the financial statements

CONVENTIONAL DEPOSIT
INSURANCE FUND
BALANCE SHEET

AS AT 31 DECEMBER

	Note	2006 RM	2005 RM
ASSETS			
Cash and cash equivalents	3	23,021,161	1,628,978
Investments			
<i>Held-to-maturity investments</i>	4	90,323,435	27,405,262
Other assets	5	391,311	135,887
Property and equipment	6a	1,607,921	930,333
Total Assets		115,343,828	30,100,460
LIABILITIES			
Payables	7	4,124,937	572,484
Total Liabilities		4,124,937	572,484
DEPOSIT INSURANCE FUNDS AND RESERVES			
Conventional Deposit Insurance Fund	8a	111,218,891	29,527,976
Total Deposit Insurance Funds		111,218,891	29,527,976
Total Liabilities and Deposit Insurance Fund		115,343,828	30,100,460

The accompanying notes form an integral part of the financial statements

CONVENTIONAL DEPOSIT INSURANCE FUND INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER

	Note	2006 RM	2005 RM
Premium revenue	9	92,719,007	32,368,754
Investment income from cash and investment securities	10	2,576,330	184,851
		95,295,337	32,553,605
Employee benefits	11	7,956,084	1,001,391
Public relations and advertising		1,333,401	378,444
Depreciation	6a	884,322	81,122
Operating lease		257,653	41,786
Other expenses	12	3,172,962	1,522,886
		13,604,422	3,025,629
Net surplus		81,690,915	29,527,976

The accompanying notes form an integral part of the financial statements

CONVENTIONAL DEPOSIT INSURANCE FUND CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER

	Note	2006 RM	2005 RM
CASH FLOWS FROM OPERATING ACTIVITIES			
Premium receipts from member institutions	9	92,719,007	32,368,754
Payments in the course of operations to suppliers and employees		(7,519,297)	(2,507,911)
Receipts of investment income		1,477,336	78,108
Net cash flow from operating activities		86,677,046	29,938,951
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of investment securities		131,422,664	22,921,893
Purchase of investment securities		(195,148,267)	(50,220,411)
Purchase of property and equipment		(1,559,260)	(1,011,455)
Net cash flow used in investing activities		(65,284,863)	(28,309,973)
CASH FLOWS FROM FINANCING ACTIVITIES			
Advances received from Bank Negara Malaysia		-	5,500,000
Repayment of advances from Bank Negara Malaysia		-	(5,500,000)
Net cash flow used in financing activities		-	-
Net increase/(decrease) in cash and cash equivalents		21,392,183	1,628,978
Cash and cash equivalents at beginning of year		1,628,978	-
Cash and cash equivalents at end of year	3	23,021,161	1,628,978

The accompanying notes form an integral part of the financial statements

ISLAMIC DEPOSIT INSURANCE FUND BALANCE SHEET

AS AT 31 DECEMBER

	Note	2006 RM	2005 RM
ASSETS			
Cash and cash equivalents	3	2,095,101	77,650
Investments			
<i>Held-to-maturity investments</i>	4	9,376,792	2,889,927
Other assets	5	40,410	13,507
Property and equipment	6b	164,088	94,940
Total Assets		11,676,391	3,076,024
LIABILITIES			
Payables	7	420,901	61,959
Total Liabilities		420,901	61,959
DEPOSIT INSURANCE FUNDS AND RESERVES			
Islamic Deposit Insurance Fund	8b	11,255,490	3,014,065
Total Deposit Insurance Funds		11,255,490	3,014,065
Total Liabilities and Deposit Insurance Fund		11,676,391	3,076,024

The accompanying notes form an integral part of the financial statements

ISLAMIC DEPOSIT INSURANCE FUND INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER

	Note	2006 RM	2005 RM
Premium revenue	9	9,403,198	3,303,016
Investment income from cash and investment securities	10	239,230	19,841
		9,642,428	3,322,857
Employee benefits	11	811,917	102,191
Public relations and advertising		139,140	26,743
Depreciation	6b	90,245	8,279
Operating lease		26,294	4,264
Other expenses	12	333,407	167,315
		1,401,003	308,792
Net surplus		8,241,425	3,014,065

The accompanying notes form an integral part of the financial statements

ISLAMIC DEPOSIT INSURANCE FUND CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER

	Note	2006 RM	2005 RM
CASH FLOWS FROM OPERATING ACTIVITIES			
Premium receipts from member institutions	9	9,403,198	3,303,016
Payments in the course of operations to suppliers and employees		(574,449)	(252,059)
Receipts of investment income		94,764	4,889
Net cash flow from operating activities		8,923,513	3,055,846
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of investment securities		11,797,832	1,995,109
Purchase of investment securities		(18,544,772)	(4,870,086)
Purchase of property and equipment		(159,122)	(103,219)
Net cash flow used in investing activities		(6,906,062)	(2,978,196)
Net increase/(decrease) in cash and cash equivalents		2,017,451	77,650
Cash and cash equivalents at beginning of year		77,650	-
Cash and cash equivalents at end of year	3	2,095,101	77,650

The accompanying notes form an integral part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2006

1. PRINCIPAL ACTIVITIES

PIDM is a statutory body established under the Malaysia Deposit Insurance Corporation Act 2005 ("MDIC Act").

The principal responsibilities of PIDM are to administer a deposit insurance system, provide insurance against the loss of part or all deposits of a member institution, 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.

MDIC Act provides for separate coverage for Islamic and Conventional deposits. To ensure proper governance as well as compliance to Shariah requirements, PIDM maintains and administers an Islamic Deposit Insurance Fund and a Conventional Deposit Insurance Fund.

The office address of PIDM is at Level 22, Dataran Kewangan Darul Takaf, No. 4 Jalan Sultan Sulaiman, 50000 Kuala Lumpur.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 15 February 2007.

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 have been prepared in compliance with applicable Financial Reporting Standards ("FRS"), which are the Malaysian Accounting Standards Board ("MASB") 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, as set out in the MDIC Act.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Financial instruments

Financial instruments are recognised in the balance sheet 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 cash flow statement is prepared using the direct method.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2006

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31 DECEMBER 2006

ii) Investments

Investments comprise primarily of marketable Malaysian Government Securities and other investment securities guaranteed by Bank Negara Malaysia, and are intended to be held to maturity. 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 dates of purchase to the maturity date. The amortisation of premiums and accretion of discounts are recognised in the income statements.

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 balance sheet 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 balance sheet 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 and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date or more frequently when indicators of impairment are identified.

For the purpose of impairment testing of these assets, 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 sell 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 income statement 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 a 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 income statement, 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 de-recognised. All other repairs and maintenance are charged to the income statement 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 write-off the cost of each asset to its residual value over the estimated useful life, at the following annual rates:

Motor vehicles	20%
Office equipment	33.3%
Furniture and fittings	33.3%

For office refurbishments, the annual depreciation rate of 66.7% is calculated over the term of the office lease for a period of 18 months beginning from 1 September 2005.

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 income statement and the unutilised portion of the revaluation surplus on that item is taken directly to retained earnings.

d) Recognition of income and expenditure

All income and operating expenditures are recognised on an accrual basis. In accordance with the MDIC Act, the expenditures of PIDM which could not be directly attributed to the Islamic Deposit Insurance Fund or Conventional Deposit Insurance Fund 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 was determined based on the proportion of actual premiums received during the financial period ended 31 December 2005. The apportionment basis used for the Islamic Deposit Insurance Fund and the Conventional Deposit Insurance Fund during the financial year was 9.26% (2005: 9.26%) and 90.74% (2005: 90.74%) respectively.

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

Investment income is recognised on a time proportion basis that reflects the effective yield on the asset.

NOTES TO THE FINANCIAL STATEMENTS

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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 and 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 income statements as incurred. As required by law, PIDM makes contributions to the statutory national pension scheme, the Employee Provident Fund.

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 balance sheet date, monetary items denominated in foreign currencies are translated at the rates prevailing on the balance sheet 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 income statement for the period. Exchange differences arising from the translation of non-monetary items carried at fair value are included in income statement 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.

2.3 CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED FINANCIAL REPORTING STANDARDS ("FRS")

On 1 January 2006, PIDM adopted applicable FRS mandatory for financial periods beginning on or after 1 January 2006 as follows:

FRS 101	Presentation of Financial Statements
FRS 108	Accounting Policies, Changes in Estimates and Errors
FRS 110	Events after the Balance Sheet Date

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2006

FRS 116	Property, Plant and Equipment
FRS 121	The Effects of Changes in Foreign Exchange Rates
FRS 132	Financial Instruments: Disclosure and Presentation
FRS 136	Impairment of Assets

In addition, PIDM has early adopted the following new and revised FRS for the financial period beginning 1 January 2006:

FRS 117	Leases
FRS 124	Related Party Disclosures
FRS 139	Financial Instruments: Recognition and Measurement

The following new or revised FRS are not relevant to PIDM's operations:

FRS 2	Share-based Payment
FRS 3	Business Combinations
FRS 5	Non-current Assets Held for Sale and Discontinued Operations
FRS 6	Exploration for and Evaluation of Mineral Resources
FRS 102	Inventories
FRS 127	Consolidated and Separate Financial Statements
FRS 128	Investments in Associates
FRS 131	Interests in Joint Ventures
FRS 133	Earnings Per Share
FRS 138	Intangible Assets
FRS 140	Investment Properties

The adoption of the revised FRS except for FRS 101 Presentation of Financial Statements does not result in significant changes in accounting policies of PIDM. The principal changes in accounting policies and their effects resulting from the adoption of FRS 101 are discussed below.

FRS 101: PRESENTATION OF FINANCIAL STATEMENTS

a) Presentation of balance sheets

FRS 101 requires an entity to present current and non-current assets and current and non-current liabilities, as separate classifications on the face of its balance sheet, except when a presentation based on liquidity provides information that is more reliable and relevant. PIDM has chosen to present its balance sheets showing assets and liabilities in their broad order of liquidity because such information is more reliable and relevant, given the nature of its operations and principal activities as an administrator of a deposit insurance system. Adoption of FRS 101 has no impact on the presentation of PIDM's balance sheets compared to the preceding financial period.

b) Presentation of income statements

FRS 101 provides that the expenditures should be sub-classified based on either the nature or the function of the expenditures, whichever provides a more reliable and relevant information. PIDM adopts to present its analysis of expenditures using the 'nature of expenditure' method as this provides more relevant information in relation to its operations. These changes in presentation have been applied retrospectively, and as such, the comparative figures for the 2005 financial period have been restated according to the new presentation format.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2006

3. CASH AND CASH EQUIVALENTS

	2006		
	Total RM	Conventional RM	Islamic RM
Deposits with Bank Negara Malaysia	1,751,115	477,150	1,273,965
Cash on hand and at bank	3,460,652	2,639,516	821,136
Short-term investments:			
Malaysian Government Securities and Investment Issues	996,089	996,089	-
Bank Negara Bills and Negotiable Notes	18,895,311	18,895,311	-
	19,891,400	19,891,400	-
Add: Accretion of discounts net of amortisation of premium	13,095	13,095	-
	19,904,495	19,904,495	-
	25,116,262	23,021,161	2,095,101
Market values of short-term investments held as at 31 December 2006 are as follows:			
Malaysian Government Securities and Investment Issues	998,200	998,200	-
Bank Negara Bills and Negotiable Notes	18,900,400	18,900,400	-
	19,898,600	19,898,600	-
	2005		
	Total RM	Conventional RM	Islamic RM
Deposits with Bank Negara Malaysia	77,288	77,288	-
Cash on hand and at bank	1,629,340	1,551,690	77,650
Short-term investments:			
Malaysian Government Securities and Investment Issues	-	-	-
Bank Negara Bills and Negotiable Notes	-	-	-
	-	-	-
Add: Accretion of discounts net of amortisation of premium	-	-	-
	-	-	-
	1,706,628	1,628,978	77,650

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2006

4. INVESTMENTS

	2006		
	Total RM	Conventional RM	Islamic RM
Malaysian Government Securities and Investment Issues	43,867,057	37,593,364	6,273,693
Bank Negara Bills and Negotiable Notes	55,064,244	52,110,294	2,953,950
	98,931,301	89,703,658	9,227,643
Accretion of discounts net of amortisation of premium	768,926	619,777	149,149
	99,700,227	90,323,435	9,376,792
Market values of investments are as follows:			
Malaysian Government Securities and Investment Issues	44,418,000	38,007,700	6,410,300
Bank Negara Bills and Negotiable Notes	55,276,300	52,307,500	2,968,800
	99,694,300	90,315,200	9,379,100
	2005		
	Total RM	Conventional RM	Islamic RM
Malaysian Government Securities and Investment Issues	-	-	-
Bank Negara Bills and Negotiable Notes	30,173,495	27,298,518	2,874,977
	30,173,495	27,298,518	2,874,977
Accretion of discounts net of amortisation of premium	121,694	106,744	14,950
	30,295,189	27,405,262	2,889,927
Market values of investments are as follows:			
Malaysian Government Securities and Investment Issues	-	-	-
Bank Negara Bills and Negotiable Notes	30,287,195	27,398,050	2,889,145
	30,287,195	27,398,050	2,889,145

The entire balance of investments is 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 period and are determined by reference to indicative market prices as provided by Bank Negara Malaysia.

NOTES TO THE FINANCIAL STATEMENTS

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5. OTHER ASSETS

2006			
	Total RM	Conventional RM	Islamic RM
Deposits and prepayments	415,677	377,186	38,491
Other receivables	16,044	14,125	1,919
	431,721	391,311	40,410

2005			
	Total RM	Conventional RM	Islamic RM
Deposits and prepayments	145,857	132,350	13,507
Other receivables	3,537	3,537	-
	149,394	135,887	13,507

6. PROPERTY AND EQUIPMENT

2006					
	Office equipment RM	Furniture and fittings RM	Motor vehicles RM	Office refurbishments RM	Total RM
Cost					
Balance as at 1 January 2006	461,324	153,348	-	500,002	1,114,674
Additions	643,732	655,682	172,009	260,320	1,731,743
Reclassification	-	(53,759)	-	53,759	-
Write-offs	(13,360)	-	-	-	(13,360)
Balance as at 31 December 2006	1,091,696	755,271	172,009	814,081	2,833,057
Accumulated depreciation					
Balance as at 1 January 2006	25,334	8,511	-	55,556	89,401
Charge for the year	235,519	215,411	25,801	497,836	974,567
Reclassification	-	(5,973)	-	5,973	-
Write-offs	(2,920)	-	-	-	(2,920)
Balance as at 31 December 2006	257,933	217,949	25,801	559,365	1,061,048
Net carrying amount					
At 31 December 2006	833,763	537,322	146,208	254,716	1,772,009

2005					
	Office equipment RM	Furniture and fittings RM	Motor vehicles RM	Office refurbishments RM	Total RM
Cost					
Balance as at 1 September 2005	-	-	-	-	-
Additions	461,324	153,348	-	500,002	1,114,674
Reclassification	-	-	-	-	-
Write-offs	-	-	-	-	-
Balance as at 31 December 2005	461,324	153,348	-	500,002	1,114,674
Accumulated depreciation					
Balance as at 1 September 2005	-	-	-	-	-
Charge for the year	25,334	8,511	-	55,556	89,401
Reclassification	-	-	-	-	-
Write-offs	-	-	-	-	-
Balance as at 31 December 2005	25,334	8,511	-	55,556	89,401
Net carrying amount					
At 31 December 2005	435,990	144,837	-	444,446	1,025,273

6. PROPERTY AND EQUIPMENT (Continued)

Perbadanan Insurans Deposit Malaysia

A. CONVENTIONAL DEPOSIT INSURANCE FUND

2006					
	Office equipment RM	Furniture and fittings RM	Motor vehicles RM	Office refurbishments RM	Total RM
Cost					
Balance as at 1 January 2006	418,605	139,148	-	453,702	1,011,455
Additions	584,122	594,966	156,081	236,214	1,571,383
Reclassification	-	(48,781)	-	48,781	-
Write-offs	(12,123)	-	-	-	(12,123)
Balance as at 31 December 2006	990,604	685,333	156,081	738,697	2,570,715
Accumulated depreciation					
Balance as at 1 January 2006	22,988	7,723	-	50,411	81,122
Charge for the year	213,710	195,464	23,412	451,736	884,322
Reclassification	-	(5,420)	-	5,420	-
Write-offs	(2,650)	-	-	-	(2,650)
Balance as at 31 December 2006	234,048	197,767	23,412	507,567	962,794
Net carrying amount					
At 31 December 2006	756,556	487,566	132,669	231,130	1,607,921

2005					
	Office equipment RM	Furniture and fittings RM	Motor vehicles RM	Office refurbishments RM	Total RM
Cost					
Balance as at 1 September 2005	-	-	-	-	-
Additions	418,605	139,148	-	453,702	1,011,455
Reclassification	-	-	-	-	-
Write-offs	-	-	-	-	-
Balance as at 31 December 2005	418,605	139,148	-	453,702	1,011,455
Accumulated depreciation					
Balance as at 1 September 2005	-	-	-	-	-
Charge for the year	22,988	7,723	-	50,411	81,122
Reclassification	-	-	-	-	-
Write-offs	-	-	-	-	-
Balance as at 31 December 2005	22,988	7,723	-	50,411	81,122
Net carrying amount					
At 31 December 2005	395,617	131,425	-	403,291	930,333

6. PROPERTY AND EQUIPMENT (Continued)

Perbadanan Insurans Deposit Malaysia 89 90

B. ISLAMIC DEPOSIT INSURANCE FUND

2006					
	Office equipment RM	Furniture and fittings RM	Motor vehicles RM	Office refurbishments RM	Total RM
Cost					
Balance as at 1 January 2006	42,719	14,200	-	46,300	103,219
Additions	59,610	60,716	15,928	24,106	160,360
Reclassification	-	(4,978)	-	4,978	-
Write-offs	(1,237)	-	-	-	(1,237)
Balance as at 31 December 2006	101,092	69,938	15,928	75,384	262,342
Accumulated depreciation					
Balance as at 1 January 2006	2,346	788	-	5,145	8,279
Charge for the year	21,809	19,947	2,389	46,100	90,245
Reclassification	-	(553)	-	553	-
Write-offs	(270)	-	-	-	(270)
Balance as at 31 December 2006	23,885	20,182	2,389	51,798	98,254
Net carrying amount					
At 31 December 2006	77,207	49,756	13,539	23,586	164,088

2005					
	Office equipment RM	Furniture and fittings RM	Motor vehicles RM	Office refurbishments RM	Total RM
Cost					
Balance as at 1 September 2005	-	-	-	-	-
Additions	42,719	14,200	-	46,300	103,219
Reclassification	-	-	-	-	-
Write-offs	-	-	-	-	-
Balance as at 31 December 2005	42,719	14,200	-	46,300	103,219
Accumulated depreciation					
Balance as at 1 September 2005	-	-	-	-	-
Charge for the year	2,346	788	-	5,145	8,279
Reclassification	-	-	-	-	-
Write-offs	-	-	-	-	-
Balance as at 31 December 2005	2,346	788	-	5,145	8,279
Net carrying amount					
At 31 December 2005	40,373	13,412	-	41,155	94,940

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2006

7. PAYABLES

	2006		
	Total RM	Conventional RM	Islamic RM
Amount due to Bank Negara Malaysia	276,453	250,853	25,600
Sundry creditors	932,203	845,881	86,322
Other payables	3,302,017	2,996,294	305,723
Provision for unutilised leave	35,165	31,909	3,256
	4,545,838	4,124,937	420,901

	2005		
	Total RM	Conventional RM	Islamic RM
Amount due to Bank Negara Malaysia	513,802	466,224	47,578
Sundry creditors	117,104	106,260	10,844
Other payables	3,537	-	3,537
Provision for unutilised leave	-	-	-
	634,443	572,484	61,959

8. DEPOSIT INSURANCE FUNDS

a. Conventional Deposit Insurance Fund

	2006 RM	2005 RM
Opening balance	29,527,976	-
Net surplus	81,690,915	29,527,976
Closing balance	111,218,891	29,527,976

b. Islamic Deposit Insurance Fund

	2006 RM	2005 RM
Opening balance	3,014,065	-
Net surplus	8,241,425	3,014,065
Closing balance	11,255,490	3,014,065

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2006

9. PREMIUM INCOME

	2006		
	Total RM	Conventional RM	Islamic RM
First premiums	1,165,111	(32,326)	1,197,437
Annual premiums	100,957,094	92,751,333	8,205,761
	102,122,205	92,719,007	9,403,198

Under the *Malaysia Deposit Insurance Corporation (Annual Premium) Order 2006*, the rate of *Annual Premium* for the 2006 assessment year is 0.06% of the total insured deposits of the respective member institution.

However, the *Annual Premium* is subject to a minimum premium of RM250,000.

The annual premiums for 2006 were due and payable by 31 May 2006.

	2005		
	Total RM	Conventional RM	Islamic RM
First premiums	35,671,770	32,368,754	3,303,016
Annual premiums	-	-	-
	35,671,770	32,368,754	3,303,016

Under the *Malaysia Deposit Insurance Corporation (First Premium) Order 2005*, in relation to the *First Premium* (for new member institutions), member institutions were given the option of electing either one of the following premium rate basis:

a) 0.02% per annum of the total deposits of the member institution; or

b) 0.06% per annum of the total insured deposits of the member institution.

However, the *First Premium* is subject to a minimum premium of RM250,000.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2006

10. INVESTMENT INCOME

	2006		
	Total RM	Conventional RM	Islamic RM
Malaysian Government Securities and Investment Issues	595,529	461,540	133,989
Bank Negara Bills and Negotiable Notes	2,220,031	2,114,790	105,241
	2,815,560	2,576,330	239,230

	2005		
	Total RM	Conventional RM	Islamic RM
Malaysian Government Securities and Investment Issues	24,456	19,565	4,891
Bank Negara Bills and Negotiable Notes	180,236	165,286	14,950
	204,692	184,851	19,841

The weighted average yield rates for the investment securities that were effective during the financial year were 3.27% (2005: 2.77%) and 3.36% (2005: 2.81%) for the Islamic and Conventional portfolio respectively.

11. EMPLOYEE BENEFITS EXPENSE

	2006		
	Total RM	Conventional RM	Islamic RM
Wages and salaries	7,592,831	6,916,474	676,357
Contributions to defined contribution plan	479,320	408,521	70,799
Provision for unutilised leave	35,165	31,909	3,256
Other benefits	660,685	599,181	61,505
	8,768,001	7,956,084	811,917

	2005		
	Total RM	Conventional RM	Islamic RM
Wages and salaries	729,343	661,806	67,537
Contributions to defined contribution plan	80,587	73,125	7,462
Provision for unutilised leave	-	-	-
Other benefits	293,652	266,460	27,192
	1,103,582	1,001,391	102,191

The number of employees at the end of the financial year was forty (40) (2005:15).

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2006

12. OTHER EXPENSES

	2006		
	Total RM	Conventional RM	Islamic RM
Audit fees	25,000	22,685	2,315
Directors' fees and remuneration*	146,000	132,480	13,520
Printing and stationery expense	982,406	891,435	90,971
Professional and consultancy fees	769,647	697,440	72,207
Subscriptions and memberships	194,244	175,832	18,412
Training and development expense	670,136	596,129	74,007
Website development and maintenance expense	279,543	256,470	23,073
Miscellaneous expenses	439,393	400,491	38,902
	3,506,369	3,172,962	333,407

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

	2005		
	Total RM	Conventional RM	Islamic RM
Audit fees	20,000	18,148	1,852
Directors' fees and remuneration	116,000	105,258	10,742
Printing and stationery expense	30,771	27,922	2,849
Professional and consultancy fees	781,444	709,082	72,362
Subscriptions and memberships	56,800	51,540	5,260
Training and development expense	173,464	157,401	16,063
Website development and maintenance expense	272,750	247,493	25,257
Miscellaneous expenses	238,972	206,042	32,930
	1,690,201	1,522,886	167,315

13. TAXATION

PIDM is currently exempted from income tax at the statutory level for a period of 10 years commencing in the Year of Assessment 2005.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2006

14. OPERATING LEASE ARRANGEMENT

PIDM has entered into a non-cancellable operating lease agreement for use of office space. The lease arrangement is for the current office space at Level 22, Dataran Kewangan Darul Takaful which will expire by end of February 2007. The agreement also includes a renewal option for a period to be mutually agreed between PIDM and the lessor. There are no purchase option or escalation clauses included in the contract. There are also no restrictions placed upon PIDM by entering into this lease arrangement.

PIDM has also entered into leases for various office equipment under non-cancellable operating lease agreements. These leases are for 5 years with automatic renewal for another 5 years period 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 agreements.

Subsequent to balance sheet date, PIDM had entered into a non-cancellable lease agreement for the new office in KL Sentral area. Details of the lease arrangement are described in Note 19.

Future aggregate minimum lease payments under the non-cancellable operating lease contracted as at the balance sheet date but not recognised as liabilities are as follows:

	2006 RM	2005 RM
Future minimum rentals payments:		
Not later than 1 year	71,880	256,894
Later than 1 year and not later than 5 years	81,028	45,720
	152,908	302,614

15. CAPITAL COMMITMENTS

	2006 RM	2005 RM
Capital expenditures		
Approved and contracted for:		
Property and equipment	70,176	508,144
	70,176	508,144

16. CONTINGENCIES

Exposure to losses from member institutions

PIDM, as the insurer of deposits, has an inherent exposure to losses resulting from the operations of its member institutions. This inherent exposure cannot be quantified or ascertained at this time. Accordingly, no general or specific provisions have been recorded in the financial statements for the current financial period.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2006

17. RELATED PARTY DISCLOSURES

Transactions with related parties

PIDM has entered into a contract with Ernst & Young, a firm of which one of the Directors of PIDM is the non-executive chairman of the firm, for the provision of business consultancy services to PIDM. The fee charged is RM150,000 which is comparable to market prices. As at 31 December 2006, outstanding fee due to the firm is RM50,000. 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.

18. 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 Ringgit denominated Government securities of varying maturities. No investments are made with member institutions 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 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; and 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 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.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2006

The following tables set out the carrying amounts, the Weighted Average Yield Rates ("WAYR") as at the balance sheet 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	1>3 months RM	3>12 months RM	Total RM
31 December 2006						
Fixed rate						
Cash and Cash Equivalent	3	3.36	13,095,243	9,925,918	-	23,021,161
Investments	4	3.47	-	996,408	89,327,027	90,323,435
31 December 2005						
Fixed rate						
Cash and Cash Equivalent	3	-	1,628,978	-	-	1,628,978
Investments	4	2.86	3,998,790	10,755,813	12,650,659	27,405,262
Islamic Deposit Insurance Fund						
31 December 2006						
Fixed rate						
Cash and Cash Equivalent	3	-	2,095,101	-	-	2,095,101
Investments	4	3.56	-	-	9,376,792	9,376,792
31 December 2005						
Fixed rate						
Cash and Cash Equivalent	3	-	77,650	-	-	77,650
Investments	4	2.79	999,771	1,195,712	694,444	2,889,927

c) Liquidity risk

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.

d) Market risk

PIDM's investment in short-term securities are intended to be held to maturity and not actively traded. As such, PIDM's exposure to market risk in the context of these investments is minimal.

e) Credit risk

PIDM only invested in Malaysian Government Securities and Investment Issues; and Bank Negara Malaysia Bills and Negotiable Notes, which are generally considered low risk assets. PIDM does not expect the counterparties to default and as such, considers the credit risk on its investment assets as being very 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 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.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2006

19. SUBSEQUENT EVENT

On 5 February 2007, PIDM entered into a non-cancellable lease agreement for the new office in KL Sentral area. The lease payment is to be effective a month after PIDM takes possession of the office space, which is expected to be in April 2007. The lease is for 5 years at a fixed rental rate with the option to renew for another 5 years. There are no purchase option or escalation clauses included in the agreement. There are also no restrictions placed upon PIDM by entering into this lease agreement.

The expected future aggregate minimum lease payments under this non-cancellable operating lease contracted subsequent to balance sheet date are as follows:

	2006 RM
Future minimum rentals payments:	
Not later than 1 year	617,040
Later than 1 year and not later than 5 years	3,702,240
Later than 5 years	308,520
	4,627,800

20. CURRENCY

All amounts are stated in Ringgit Malaysia.

21. COMPARATIVE INFORMATION

The comparative disclosure for 2005 is for the four months period ended 31 December 2005.



SECTION V: ARTICLES

Our Governance Framework

Compliance with Best Practices

Appendix: Self-Assessment of Compliance with FSF Guidance

Enterprise Risk Management

OUR GOVERNANCE FRAMEWORK

“Effective governance is ... essential for building confidence in public sector entities - which is itself necessary if public sector entities are to be effective in meeting their objectives.”

Governance in the Public Sector: A Governing Body Perspective, by the International Federation of Accountants (August 2001).

INTRODUCTION

What constitutes good governance is an important question for us, as a statutory body and as a deposit insurer. This article explains why we place governance at the heart of all that we do, and how we intend to do it.

Broadly, corporate governance refers to processes, rules and practices by which organisations are directed, controlled and held to account. Underpinning these are, of course, the principles of openness, integrity and accountability. In the context of the public sector, governance is about structures and processes for decision-making, accountability, control and behaviour at the highest levels of an organisation¹.

Our function as a statutory body means that we must have, first and foremost, “institutional integrity”. By “institutional integrity”, we mean having sound governance and the highest of internal standards engrained throughout our Corporation. In this article, we describe how we have set about doing this since our establishment some 16 months ago. We will also describe how we see ourselves going forward.

Institutional integrity is very much in line with our Corporate Vision. Our Corporate Vision is to be the most effective deposit insurer in South East Asia by 2008 and to be recognised internationally as one of the leading deposit insurers in the world by 2010. We note, in particular, that the International Association of Deposit Insurers (“IADI”) has acknowledged the importance of effective governance for deposit insurers and plans to issue guidance on good governance for deposit insurers. Developments such as these put a spotlight on governance and give us all the more reason to focus on being a leader in this area.

STANDARDS OF ACCOUNTABILITY FOR A STATUTORY BODY

The work of statutory bodies has a significant impact on the community. There is no specific set of governance and accountability policies applicable to statutory bodies, though there may be broad recommendations and principles on accountability in the context of public sector entities².

For companies in the private sector, it is clear what the primary role of the corporate board is, and to whom it is accountable. The Board represents its shareholders, and it is to shareholders that the corporate board is accountable.

For a statutory body the position is more complex. Our Board’s broad goals are clear from our mandate and the powers conferred on them as set out in the Malaysia Deposit Insurance Corporation Act 2005 (“MDIC Act”). However, our stakeholders are many and their interests are varied. What is more, not all statutory bodies operate within the same legislative framework or have the same business models. Accordingly, the model of governance and accountability framework, while guided by similar principles, would need to address unique features of each such entity.

How then, is PIDM accountable to its stakeholders? In our view, the very first step lies in articulating our accountability framework, so that it is clear in our minds and the minds of others. This would then allow our stakeholders to assess the organisation’s level of credibility and integrity and how efficient and effective we are in meeting PIDM’s stated mandate and objectives.

OUR ACCOUNTABILITY FRAMEWORK

The design of the MDIC Act and our explicit objects clearly contemplate the need for PIDM to operate in a vigorous and enterprising manner. In keeping with the MDIC Act, PIDM is to operate as a separate legal entity, invested with a wide ranging set of powers. This flexibility and range of powers enable us to achieve our mandate, which includes protecting deposits, providing incentives for risk management as well as promoting the stability of the financial system and to meet these objects in a manner so as to minimise losses to the financial system.

Given this flexibility and wide powers, we are keenly aware of the need to operate within a strong framework of effective governance and accountability. The crux of the matter lies in the answer to the following question — *How do we achieve a balance between our flexibility to manage our business and affairs and the legitimate interests of our stakeholders?*

We see the key elements of governance and accountability framework in the following terms. First, our accountability framework defines how we report and answer for our performance to our stakeholders externally. Second, the success of our governance lies in the integrity within our organisation.

OUR GOVERNANCE FRAMEWORK

I. How We Report and Answer for Our Performance

As a matter of law, we are independently audited by the Auditor General. Our Annual Report including our audited financial statements are laid before Parliament for review, and must be submitted to the Minister of Finance within the statutory deadline on 31 March of each year and thereafter tabled in Parliament. PIDM accordingly reports, on an annual basis, to Parliament through the Minister of Finance. As part of our accountability framework, we have the following key processes and comply with the following standards:

- we provide our financial statements to the Treasury on a quarterly basis. Going forward, we plan to also provide quarterly updates on our performance against our initiatives as stated in our Corporate Plans;
- we comply with applicable financial reporting standards, as required by law. This is to ensure the reliability, consistency and transparency of our financial information. We provide additional financial information under our Management’s Discussion and Analysis in our Annual Report;
- we have a Board Governance Policy, developed from international and domestic principles and standards of best practice. This allows our Board to demonstrate its achievements against these standards, as set out in our Statement on Governance (page 31);
- we have governance processes to ensure that we have two-way communications with our stakeholders when making guidelines and regulations. Our policies require us to carry out our decision-making in as transparent a manner as possible, within the constraints of our confidentiality provisions under the MDIC Act. This allows us to balance and respond to our constituents’ needs and concerns and allows for sound decisions and policies;
- we have implemented a strategic planning process to set and develop effective strategies and clear corporate objectives — which are results-oriented — as well as to monitor and report on performance. In 2006, we established the Balanced Scorecard performance management system for our Corporate Plan 2007-2009. We have performance measures against which to report. It will help us manage and track our performance, and to demonstrate that we are both efficient and effective; and
- we have made available, as indicated in our Statement on Governance (page 31), as many of our significant policies, codes and procedures for public reference, and will continue to do so.

II. Integrity Within the Organisation

Governance in the public sector, as noted earlier, is also about control, behaviour and reporting at the highest levels of an organisation. We regard our governance framework as being inextricably intertwined with the conduct and ethics of individuals within the organisation. A statutory body with individuals that exhibit high standards of integrity can better achieve its objectives. And more so for PIDM, given that one of our statutory objects is to promote and contribute to the stability of the financial system.

In 2006, we focused on the infrastructure for our ethical framework. Our conduct and ethics framework addresses the behaviour of our employees, as well as our Board members. Our framework is underpinned by the principles of objectivity, impartiality and integrity. We have codes and policies on behaviour and ethics and procedural safeguards, all with a view towards ensuring that we are committed to high standards of behaviour.

The key codes and policies to this end include the Code on Business Conduct and Ethics for employees and Directors respectively, the Conflict of Interest Code and the Procurement, Contracting and Outsourcing Policy.

In outline:

The Code on Business Conduct and Ethics for employees reiterates our corporate values, sets out the principles underlying the Code and spells out expected standards of behaviour. A breach of this Code has several consequences, ranging from warnings to dismissal depending on the seriousness of the breach. In addition, steps are taken annually to review and assess compliance with the provisions of the Code.

The Code on Business Conduct and Ethics for the Board demonstrates the Board members’ commitment to exercise leadership and to apply the same level of expectations on themselves.

The Conflict of Interest Code requires individuals within the organisation to avoid being influenced by bias, prejudice and to avoid or resolve conflicts of interests. In essence, the Code insists that individuals are not to use their position in the organisation to further their private interests. The importance of this Code is underlined by the MDIC Act — which singles out a breach of any provision of this Conflict of Interest Code as an offence. Notable provisions include a prohibition against holding shares in member institutions or entities related to member institution, a requirement for employees to

¹ The study on *Governance in the Public Sector: A Governing Body Perspective*, by the International Federation of Accountants (August 2001).

² In the form of the IFAC Study mentioned in footnote 1.

OUR GOVERNANCE FRAMEWORK

declare assets and loans and facilities from member institutions, as well as deposits held in member institutions of RM60,000 or more, and a process for Directors to declare personal interests in business entities that have or may have transactions with the Corporation. All employees are required under the Code to annually confirm that they have reviewed and understood the Code and are in compliance with the same.

Our Procurement, Contracting and Outsourcing Policy requires employees dealing with suppliers to demonstrate high standards of competence and integrity, with suppliers being selected on the basis of quality, competence and value for money. We expect our employees to avoid being obliged or appearing to be obliged to suppliers. We also expect them to ensure that contracting procedures are followed, that we have met our contractual obligations, and that they should obtain, from the suppliers, the expected quality or specified standards.

We would, however, emphasise that our ethical framework does not — and should not — stop at words. Sound conduct and ethics must be consciously engrained in the day to day practices and culture of every individual in the Corporation.

“A Code is useless unless the people it covers first, know it exists and what it says; second, understand how it should affect the way they carry out their duties; and third, actively want to be part of the culture it represents.”

Sir Nigel Wicks, Chair, “Ethics in Public Life”, Committee on Standards in Public Life (Nolan Committee), in his speech to the Institute of Business Ethics, 19 September 2002

Our plans to institutionalise integrity include the following. Training and communication about the codes and ethics-related matters will continue on an ongoing basis. We have channels for employees to discuss ethical issues. In addition, there are processes in place to remind employees of their obligations to comply with such codes and policies, and to also help identify wrongdoing and transgressions of ethics, in the form of the Policy for Disclosure of Information Concerning Wrongdoing in the Workplace. Employees are encouraged to blow the whistle whenever they spot or suspect wrongdoing. We have established our concern raising process which allows both employees and anyone

else to file complaints. Individuals who, in good faith, report any apparent or actual violation of codes or the law are protected from retribution under our Policy.

To ensure effectiveness of these codes and policies, we will clearly take prompt action to deal with any transgressions.

As stated in our Board Governance Policy, “Integrity is dependent, among other things, on the personal standards and professionalism of the individuals within the entity.” We firmly believe in practising what we preach. Leadership gives the greatest incentive for others to want to be part of the culture our codes represent. Senior management is thus accountable for upholding — in actions and not by mere statements of intent — the highest standards of integrity that our Codes represent.

CONCLUSION

In 2006, we have implemented many policies and practices to help us build a strong governance foundation. We have also used the checklists drawn from international studies³ as well as recent domestic work⁴, to identify areas where further developments may be necessary. Our Governance Committee Charter also requires that we review our governance structures on a regular basis. Going forward, we will also review our framework against developments, including for example, the IADI proposed guidance on governance in deposit insurers.

We take the view that some box-ticking is good. It helps ensure we have taken into account important matters. More significantly, however, we also acknowledge that mindset is not easily regulated. This depends on the standards and culture we promote right through our organisation.

Governance at the heart of all that we do.

Ultimately, we aim to demonstrate that in PIDM, governance will not be relegated to mere theories. Its principles are and will continue to be upheld and practised. As a statutory body invested with considerable responsibilities, this, we believe, is critical to the achievement of our goals. This means, as we said at the beginning, that governance must lie at the heart of all that we do.

COMPLIANCE WITH BEST PRACTICES

OUR AIM

PIDM is an important component of the financial safety net since it is mandated to promote and contribute to the stability of the financial system. Our primary function, as stated in our incorporating statute, is to protect depositors, promote confidence in the Malaysian depositing public and promote sound risk management in our financial system.

UNEQUIVOCAL COMMITMENT TO EXCELLENCE

Building credibility and public confidence in our deposit insurance system is crucial to the achievement of our mandate.

We see the implementation of best practices as an effective way to build a model deposit insurer. Accordingly, we are committed to implementing best practices in all aspects of our operations. In pursuit of excellence, we have been building our operational capacity and capabilities to best practice standards for the past 16 months.

WHICH BEST PRACTICES?

The most relevant best practices for deposit insurers are embodied in the Financial Stability Forum’s *Guidance for Developing Effective Deposit Insurance Systems*, September 2001¹ (“FSF Guidance”).

Our statutory mandate, powers, governance structure and the design features of our deposit insurance system are aligned with the best practices recommended by the FSF Guidance.

What we have accomplished so far in terms of establishing best governance practices is discussed in our Statement on Governance (page 31) and Our Governance Framework (page 101).

At the operational level, we have also adopted standards and guidance set by internationally recognised bodies. In areas where there are no published best practices, we have applied (insofar as is relevant) recognised industry principles or best practice models with a view to promote greater governance, transparency and good stewardship. Our report card, to date, is as follows.

HOW DOES PIDM MEASURE UP?

DEPOSIT INSURANCE

We are pleased to report our compliance with the majority of best practices in the guidance issued by the FSF. We have been fortunate, in that Bank Negara Malaysia (“BNM”) — which was responsible for our establishment — saw to it that many of the FSF Guidance points for developing an effective deposit insurer were embedded into the Malaysia Deposit Insurance Corporation Act 2005 (“MDIC Act”). This has set the tone for our development.

During the first three years of our existence, we shall implement the organisational structure and framework relevant to the business and affairs of a loss-minimiser deposit insurer. In particular, we shall be developing policies, systems, practices and processes in the areas of funding, intervention, failure resolution and reimbursement of depositors’ claims. Please see our accomplishments for the last 16 months in the Appendix on Self-Assessment of Compliance with FSF Guidance (as at 31 December 2006), page 107.

We have also filed our self-assessment on our compliance with the FSF Guidance with the International Monetary Fund (“IMF”). This compliance report was made in conjunction with the IMF Article IV Consultation and study visit held in November 2005. IMF noted that we complied with all relevant best practices.

ACCOUNTING AND FINANCIAL MANAGEMENT

Transparency and financial accountability are integral to building credibility. We have adopted the applicable Financial Reporting Standards (“FRS”), namely the Approved Accounting Standards in Malaysia for Entities Other Than Private Entities issued by the Malaysian Accounting Standards Board. These standards are in line with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”). Please see Section IV.

We also adopted other best practices in financial reporting. We have provided an extensive Management’s Discussion and Analysis section in our Annual Report (page 47). This included detailed information on our performance against plan, our risks and how our future activities are expected to affect our business results. Additionally, we have provided detailed disclosures in the

³ *Governance in the Public Sector: A Governing Body Perspective*, by the International Federation of Accountants (August 2001), Appendix 1: Good Governance: A Checklist For Governing Bodies.

⁴ The Putrajaya Committee on GLC High Performance’s Green Book on *Enhancing Board Effectiveness* (Green Book) (April 2006)

¹ The Financial Stability Forum was established to promote international financial stability through information exchange and international cooperation in financial supervision and surveillance

COMPLIANCE WITH BEST PRACTICES

Notes to the Financial Statements, which are over and above the minimum required disclosures of the approved accounting standards.

The Auditor General of Malaysia is our external auditor. Further, we would note that, in managing our Islamic Deposit Insurance Fund, we comply with Shariah requirements as set out in the MDIC Act.

Additionally, the Chief Executive Officer and the Chief Financial Officer have made a statutory declaration that, to the best of their knowledge and belief, the financial statements are correct. This is best practice in financial reporting although not common in most countries. Please refer to Section IV for details on the declaration and the basis for which it is made.

AUDIT AND INTERNAL CONTROLS

We have established a strong internal audit function. Our Audit and Consulting Services Charter adopts the standards of the *Professional Practice of Internal Auditing and the Code of Ethics* issued by the Institute of Internal Auditors Inc. USA (“IIA”). To promote a sound internal control environment, our internal control framework is being developed based on the model devised by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”).

Our audit activities will include an assessment of the extent of our compliance with applicable legislation and ethics within our organisation. Commencing in 2007, we shall also report on a yearly basis on the effectiveness of our internal control framework, in line with best practices, for example the UK’s *Financial Reporting Council’s Internal Control Revised Guidance for Directors on the Combined Code*.

In line with international best practices, we plan to appoint an external assessor to undertake a quality assurance review on our compliance with the IIA standards and our internal auditing procedures in 2009.

ORGANISATIONAL ENTERPRISE RISK MANAGEMENT

Our mandate includes promoting sound risk management in the financial system. We expect our member institutions

to have in place prudent risk management systems, including the adoption of a systematic approach towards risk management. We are considering the merit of incorporating certain requirements on risk management into our regulations on ‘Terms and Conditions of Membership’, which are currently being developed. We believe that our credibility in this regard with member institutions also hinges on our ability to demonstrate that we “walk the talk” by adopting best practices on risk management ourselves.

In line with international best practices and as part of good management practice, we will develop and begin, in 2007, the implementation of an enterprise risk management (“ERM”) framework to ensure and demonstrate that all our significant enterprise-wide risks are being consistently and continuously identified, assessed, managed, monitored and reported on a consolidated basis. We plan to adopt the Australian/New Zealand Standard 4360:2004 as the primary standard for our risk management framework and as a generic guide for establishing and implementing the risk management process. We will also use the COSO’s *Enterprise Risk Management — Integrated Framework* as a benchmark to evaluate and improve our enterprise risk management processes. An outline of our framework has been approved by the Board in December 2006.

Our ERM framework will enable us to manage our significant risks more effectively through better focus and management of resources based on our priorities. Also, in line with our mandate of promoting sound risk management, the framework will provide a systematic approach that will allow us to demonstrate that we are managing our risks well.

We shall also develop an appropriate internal reporting system so that our Board of Directors can obtain on a regular basis, reasonable assurance that the Corporation is “in control” of its risks.

INFORMATION TECHNOLOGY AND DATA SECURITY

The nature of our business and our business model mean that information technology (“IT”) is a critical component of our operations. A comprehensive and secure IT infrastructure allows us to build the capacity and capability

COMPLIANCE WITH BEST PRACTICES

to fulfil our mandate, particularly when dealing with confidential information relating to member institutions and depositors.

In December 2006, our Board approved the principles for the development of an IT Governance framework to guide us on how our IT initiatives, investments and operations will be managed as well as ensuring that our IT strategies support our business goals. This framework draws from several internationally recognised IT governance guidance and standards, such as Information Technology Infrastructure Library (“ITIL”), ISO/IEC 17799:2005 — *Code of Practice for Information Security Management*, and *Control Objectives for Information and related Technology* (“COBIT”).

To ensure compatibility with local IT environment, PIDM has also adopted relevant local guidance and standards such as, the *Malaysian Public Sector ICT Management Security Handbook* (“MyMIS”) and BNM’s *Guidelines on Management of IT Environment* (“GPIS I”). PIDM’s IT Governance framework covers all aspects of IT management, including, systems and security administration, IT operations management, systems development as well as disaster recovery planning and facilities.

Our IT Steering Committee was established in January 2007 to ensure the sound management and implementation of our IT strategy.

Our IT Governance framework will be developed in stages and will reflect best practice IT Governance processes across the organisation. It will, of course, also dovetail with our ERM model.

GOING FORWARD

We intend to continue to demonstrate that we are well governed and well managed by reporting our compliance with the relevant international best practices. We will regularly benchmark ourselves so that we may identify any gaps in compliance and address these gaps over the course of time.

We also recognise that international best practices continually evolve. In a dynamic environment, there may be changes in the environment and the issuance of new standards and best practices that may impact on the governance and operations of our deposit insurance system. As such, we plan to implement a continuous improvement process. This will involve the identification and analysis of changes in environment and issues that have a bearing on our governance and operations, and also ensure that the best practices we have adopted remain current and relevant.

APPENDIX: SELF-ASSESSMENT OF COMPLIANCE WITH FSF GUIDANCE

PIDM, as a matter of policy, annually evaluates its compliance with international best practices on deposit insurance. In this area, PIDM has benchmarked itself against guidance issued by the Financial Stability Forum's *Guidance for Developing Effective Deposit Insurance Systems* ("FSF Guidance"). The following is our self assessment against these best practices as at 31 December 2006.

FSF KEY POINTS OF GUIDANCE		KEY POINTS OF COMPLIANCE
Contextual Issues		
1.	<p>a) Explicit, limited-coverage deposit insurance is preferable to implicit protection if it clarifies the authorities' obligations to depositors and limits the scope for discretionary decisions that may result in arbitrary actions.</p> <p>b) A Deposit Insurance System ("DIS") can deal with a limited number of simultaneous bank failures, but cannot be expected to deal with a systemic banking crisis by itself.</p>	<p>Complied.</p> <p>a) PIDM administers two explicit limited coverage deposit insurance systems, conventional and Islamic, under one statutory body. The MDIC Act stipulates the coverage limit, mandate, powers and PIDM's obligations to depositors.</p> <p>b) PIDM, in meeting its legislated obligations, is empowered to assess and collect annual premiums from its member institutions and to build its Deposit Insurance Funds over time. PIDM also has powers to borrow funds from the Government, issue debt and guarantees to meet its obligations to depositors. As a statutory body, PIDM is developing its capacity and capability to deal with bank failures. It will fulfil its mandate and provide support to the Government in dealing with a systemic banking crisis should such a crisis occur in future.</p>
Moral Hazard		
2.	<p>a) A well designed financial safety net contributes to the stability of the financial system; however, if poorly designed, it may increase risks, notably moral hazard. Good corporate governance and sound risk management of individual banks, effective market discipline, and frameworks for strong prudential regulation, supervision and laws, can mitigate moral hazard and these elements are most effective when used in concert.</p> <p>b) Good corporate governance and sound risk management of individual banks help to ensure that business strategies are consistent with safe-and-sound operations, and thus can act as the first line of defence against excessive risk taking.</p> <p>Regulatory discipline can be exercised through effective regulation covering the establishment of new banks, the imposition of minimum capital requirements, the qualifications of directors and managers, sound</p>	<p>Complied.</p> <p>a) Moral hazard is minimised by providing explicit limited coverage on deposits, giving incentive for depositors to monitor the financial health of banks. In addition, the Malaysian financial system is well regulated and supervised by the central bank, BNM, under the requirements of the Banking and Financial Institutions Act 1989 ("BAFIA"), the Islamic Banking Act 1983 ("IBA"), and among others, prudential guidelines and stringent governance requirements. The deposit insurance system and the prudential regulatory and supervisory system are well aligned by design.</p> <p>b) Good governance and sound risk management is promoted through compliance with the 25 Core Principles of Effective Supervision and Basel II as well as minimum requirements on risk management through guidelines and standards issued by BNM. (See comments on guidance 4 for examples of guidelines issued). PIDM will further promote good corporate governance and sound risk management through its differential premium systems that will be implemented in 2008 which will have elements of</p>

FSF KEY POINTS OF GUIDANCE		KEY POINTS OF COMPLIANCE
	<p>business activities, a fit-and-proper test for controlling shareholders, standards for risk management, strong internal controls and external audits.</p> <p>Supervisory discipline can be exercised by ensuring that banks are monitored for safety and soundness as well as compliance issues and that corrective actions are taken promptly when problems surface, including the closure of banks when necessary.</p>	<p>qualitative and quantitative risk assessments, including the supervisor's ratings.</p> <p>The Minister of Finance, upon the recommendation of BNM, approves new banking licences pursuant to BAFIA and IBA, which also stipulate minimum criteria for Directors and senior management of financial institutions. Specifically, the appointment of directors and the chief executive officer requires BNM's approval. BNM's <i>Guidelines on Directorship in the Banking Institutions</i> ("BNM/GPI") in addition to laying down parameters for an effective Board, also include the requirements for establishing an Audit Committee and its responsibilities, oversight of the internal audit function and external audit.</p> <p>As the primary regulator, BNM exercises both regulatory and supervisory discipline pursuant to BAFIA and IBA. Banks are subjected to offsite and on-site monitoring, with regular examinations by BNM. The BAFIA and IBA also provide BNM with the power to intervene or to close banks.</p>
	<p>c) Ensuring that a DIS contains certain design features can also mitigate moral hazard ... including placing limits on the amounts insured; excluding certain categories of depositors from coverage; using certain forms of coinsurance; implementing differential or risk-adjusted premium assessment systems; minimising the risk of loss through early closure of troubled banks; and demonstrating a willingness to take legal action, where warranted, against Directors and others for improper acts.</p>	<p>c) The DIS covers only commercial and Islamic banks, with coverage limit of RM60,000, inclusive of principal and interest/return, per depositor per institution. Certain types of products are excluded from coverage.</p> <p>To minimise risk of loss, the MDIC Act provides for a non-viability trigger by BNM and a minimum cost mandate in dealing with troubled member institutions.</p>
Public Policy Objectives		
3.	<p>a) In designing a DIS, the first step is to identify the public policy objectives ... and these objectives must be understood. The principal objectives for DIS are to contribute to the stability of the financial system and to protect less-financially-sophisticated depositors. The choice of how a DIS is to be operated depends on many factors that are unique to each country and its governmental and financial systems.</p> <p>b) A continuous improvement process should exist for reviewing the extent to which a DIS is meeting its public-policy objectives and its mandate.</p>	<p>Complied.</p> <p>a) PIDM's public policy objectives are clearly set out in the MDIC Act. PIDM's mandate is to: administer a DIS; provide insurance against the loss of part or all of deposits; provide incentives for sound risk management; and promote or contribute to the stability of the financial system. PIDM must also act to minimise cost to the financial system. The DIS chosen was based on the needs of the financial system in Malaysia.</p> <p>b) A policy decision is already in place for such reviews once every five years.</p>

APPENDIX: SELF-ASSESSMENT OF COMPLIANCE WITH FSF GUIDANCE

FSF KEY POINTS OF GUIDANCE		KEY POINTS OF COMPLIANCE
Situational Analysis		
4.	<p>a) Policymakers should conduct a situational analysis when adopting or reforming a DIS ... examine conditions and factors, such as ... level of economic activity; current monetary and fiscal policies; ... accounting and disclosure regimes.</p> <p>b) Identify gaps and ... evaluate options since deposit insurance ... not a remedy to deal with major deficiencies.</p> <p>c) DIS cannot be effective if relevant laws do not exist or if the legal regime is characterised by inconsistencies.</p> <p>d) The strength of prudential regulation and supervision will have implications for the effectiveness of a DIS. Strong prudential regulation and supervision should allow only viable banks to operate. Banks should be well capitalised and follow sound and prudent risk management, governance and other business practices.</p>	<p>Complied.</p> <p>A sound process was followed in the design of the key features resulting in a clear fit with the statutory objects and country needs. One key mandate of PIDM is to provide incentives for sound risk management in the financial system to support the role of BNM.</p> <p>In designing the system, factors considered include the size of the financial system, level of supervisory discipline and avoidance of duplication of unproductive regulatory and supervisory functions and the need to establish a cost minimiser deposit insurer.</p> <p>The banking sector is required to comply with prudential standards that are consistent with international practices. These include: (1) Minimum Standards for Risk Management Practices on Derivatives; (2) Best Practices on the Management of Credit Risk; and (3) Market Risk Capital Adequacy Framework: Incorporation of Market Risk into the Risk-Weighted Capital Ratio. There exists a strong regulatory and supervisory system and banks are required to be well capitalised and need to follow sound and prudent risk management, governance and other business practices.</p>
Transitioning from a Blanket Guarantee to a Deposit Insurance System		
5.	<p>a) When transitioning, ... pay particular attention to public attitudes and expectations. Countries with high capital mobility ... should consider the effects of different countries protection levels and other related policies.</p> <p>b) If a country decides to transition from a blanket guarantee to a DIS, the transition should be as rapid as a country's circumstances permit.</p>	<p>Complied.</p> <p>The DIS was implemented on 1 September 2005 concurrent with the withdrawal of the Government blanket guarantee on deposits issued in January 1998. There was a clean cut off and the transitioning was smooth, with no adverse reaction from the public.</p>
Self Assessment Methodology		
6.	This tool could be used to design, implement, modify and continuously assess a DIS.	<p>Complied.</p> <p>A thorough analysis was done by a multi-disciplinary team, taking into account many areas, such as economic situation, strength and position of the banking system and future developments.</p>

FSF KEY POINTS OF GUIDANCE		KEY POINTS OF COMPLIANCE
Mandate and Powers		
7.	<p>a) Whatever the mandate selected, it is critical that there be consistency between the stated objectives and the powers and responsibilities given to the deposit insurer.</p> <p>b) Formally specifying the mandate of a deposit insurer (either in law, in a formal policy statement, an agreement or by private contract) clarifies the role of deposit insurance within the financial safety net.</p> <p>c) A deposit insurer should have all powers necessary to fulfill its mandate. All require the ability to enter into contracts, set appropriate requirements, and access timely and accurate information to ensure that they meet their obligations to depositors promptly.</p>	<p>Complied.</p> <p>The mandate and powers of PIDM are stated in the law. PIDM has appropriate powers to meet its mandate. For example, although it does not conduct examination of banks, it receives all written reports from BNM on the results of each examination together with an assessment of the safety and soundness of each member institution. PIDM also gets access to other necessary information from BNM through the Strategic Alliance Agreement ("SAA").</p> <p>The roles of BNM and PIDM are clear. In a failure resolution, there is a clear demarcation of authority and action. BNM remains the sole supervisor and makes a determination of the non-viability of a member institution before PIDM can utilise its resolution powers. Such trigger provides a mechanism for PIDM to act to find a solution in a manner to minimise the losses to the financial system. PIDM is therefore responsible for the resolution of a member institution once it is determined as non-viable by BNM. PIDM is also empowered to take pre-emptive actions, such as acquisition of assets of a troubled bank, to reduce or avert a risk to the financial system or a threatened loss to PIDM.</p>
Structure		
8.	Policymakers must determine whether the deposit insurance function should be assigned to an existing organisation or whether a separate entity should be established. Regardless of how the DIS is structured, it is vitally important to set clearly the responsibility and accountability of each safety-net function.	<p>Complied.</p> <p>PIDM is an independent statutory body established by an Act of Parliament with a clear mandate and relevant powers which are stated in the MDIC Act. PIDM is managed by an independent Board of Directors and is accountable to Parliament through the Minister of Finance. See comments to guidance 7 for mandate and powers.</p>
Governance		
9.	a) The form of governance utilised in a DIS should reflect the mandate and the degree to which the deposit insurer is legally separated from the other financial safety-net participants. The governing body ... should include individuals with requisite knowledge to understand the organisation's activities and the environment in which it operates and have the authority to make decisions. The deposit insurer should have access to the input and views of the other safety-net participants and relevant interested parties. Members of the governing body and management of the deposit insurer should be subject to a fit-and-proper test, and they should be free from conflicts of interest.	<p>Complied.</p> <p>a) The MDIC Act sets out clearly the governance structure and the role and powers of the Board of Directors. The Board of Directors, comprise five directors and two <i>ex-officios</i>, namely the Secretary General of Treasury and the Governor of BNM. They are required under the MDIC Act to act honestly and in PIDM's best interest, at all times, and to use reasonable diligence in the discharge of their duties. Appointees are subjected to a "fit and proper" test that stipulates stringent financial and character disqualification criteria. Members of the upper or lower houses of Parliament or any Legislative Assembly, an officer of a member institution or persons holding the post of divisional head or any person who holds any similar office or position, of any political party, are disqualified. Clear Conflict of Interest Codes are also in place for employees and Board members and compliance to such codes is confirmed through annual compliance reports.</p>

APPENDIX: SELF-ASSESSMENT OF COMPLIANCE WITH FSF GUIDANCE

FSF KEY POINTS OF GUIDANCE		KEY POINTS OF COMPLIANCE
Human Resources and Statutory Indemnification		
10.	<p>b) Governance systems and practices should be developed on basis of sound strategic planning, risk-management processes, and good internal control and audit systems. The governance system should be transparent and subject to clear oversight and accountability. Rules specifying corporate governance practices should be developed.</p>	<p>b) A Board Governance Policy has been developed and published. This policy sets out 15 Standards covering, among others, Board independence, effectiveness and responsibilities, behaviour and ethics, risk management control environment and internal audit, and strategic management process. During 2006, PIDM has focused on putting in a strong governance foundation and it provides public disclosure of its systems and practices. PIDM has also established a strong and independent internal audit function. PIDM's accounts are externally audited by the Auditor General for Malaysia and its financial statements and Auditor's Report form part of its Annual Report which is required to be tabled in Parliament and made public. An integrated enterprise risk management framework will be implemented starting in 2007.</p>
Interrelationships Among Safety Net Participants		
11.	<p>a) When a single organisation performs all of the safety net functions, the smooth resolution ... is dependent on clarity of mandates and an adequate accountability regime ... However, when the functions are assigned to different organisations, issues related to information sharing, allocation of powers and responsibilities, and coordination of actions ... is more complex and need to be addressed clearly and explicitly.</p> <p>b) A deposit insurer's information needs vary significantly according to its mandate and powers, but the need for close coordination and information sharing ... is essential ...</p> <p>c) It is highly desirable to formalise information-sharing arrangements ...</p>	<p>Complied. The safety net functions are well defined in law.</p> <p>PIDM and BNM has formalised information sharing arrangements and working relationship in a written agreement. It provides PIDM with access to information on member institutions pertaining to their financial health including safety and soundness matters. This agreement is also in line with the February 2004 APEC Policy Dialogue on Deposit Insurance recommendation on formal safety net players' interrelationship arrangements on information sharing.</p>

FSF KEY POINTS OF GUIDANCE		KEY POINTS OF COMPLIANCE
Membership		
12.	<p>a) Membership should be compulsory to avoid adverse selection.</p> <p>b) Policy makers should determine whether eligible banks will be given membership automatically or whether they should apply for entry ... to control the risks it assumes by establishing entry criteria.</p> <p>c) Appropriate membership mechanisms are necessary to ensure membership requests are handled expeditiously and that eligible banks are required to meet minimum prudential standards and entry requirements.</p> <p>d) Policymakers take different approaches in deciding which financial institutions should be covered by deposit insurance.</p>	<p>Complied. BNM applies entry criteria and minimum prudential standards for new banks. Membership in the deposit insurance system is automatic and compulsory for all licensed commercial banks and Islamic banks.</p> <p>Excluded from membership are: (1) investment banks due to the wholesale nature of their deposits; (2) foreign branches of domestic banks; (3) development financial institutions as they are either statutory bodies or government-backed; (4) insurance companies which are separately covered under the Insurance Act 1996; and (5) provident and pension funds, cooperative societies, housing credit institutions and building societies not regulated by BNM.</p> <p>The approach taken is to provide coverage to the commercial and Islamic banks since they account for 87.5% of total deposits of the financial system¹, in value terms.</p>
Coverage		
13.	<p>a) Policymakers should define clearly in law or by private contract what is an insurable deposit.</p> <p>b) The level of coverage can be set through an examination of relevant data such as statistical information describing the size distribution of deposits held in banks.</p> <p>c) Given the importance of effectively limiting coverage and contributing to financial system stability, as well as keeping the requirement for information reasonable, it is preferable to apply deposit insurance on a per depositor per bank basis.</p> <p>d) One approach to foster market discipline and to reduce somewhat the costs of deposit insurance is the use of co-insurance. This will provide individuals holding small account balances full protection against the risk of loss, while maintaining the incentive for depositors holding larger account balances to monitor banks. In order for co-insurance to be effective, extensive information needs to be provided to the public regarding the financial condition of banks.</p>	<p>Complied. a) Eligible deposits are defined in legislation. These include current and savings deposit accounts, fixed term deposits, banker's cheques and bank drafts drawn or made against a deposit account. Non-eligible deposits include deposits not payable in Malaysia, foreign currency deposits, money market deposits, negotiable instruments of deposit, other bearer deposits and repurchase agreements. PIDM is also empowered to include or exclude products to be designated as deposits.</p> <p>b) Two surveys were conducted to assess the appropriate coverage limit which took into account the type of depositors, account type and deposit size of accounts.</p> <p>c) The limit is set at RM60,000 per depositor per bank.</p> <p>d) Market discipline is provided by setting the coverage limit at RM60,000. Amounts in excess of the limit are not insured. In this regard, depositors holding small account balances are protected fully against the risk of loss while maintaining the incentive for depositors holding larger account balances to monitor the performance of banks. Depositors can monitor the health of banks through their published financial statements. Financial disclosure requirements on banks are consistent with international accounting standards and practices. The financial statements must be published in at least two daily newspapers and exhibited throughout the year, in every office of a bank.</p>

¹ Source: Bank Negara Malaysia Annual Report 2005, page 110.

APPENDIX: SELF-ASSESSMENT OF COMPLIANCE WITH FSF GUIDANCE

FSF KEY POINTS OF GUIDANCE		KEY POINTS OF COMPLIANCE
Membership		
	e) Coverage limits may need to be adjusted periodically because of inflation, the growth of real income, the development of new financial instruments, and the way in which these factors influence the composition and size of deposits.	e) As a matter of policy, PIDM will review the applicability of its coverage limit every five years. A review on the coverage limit, in fact, is scheduled for 2008. In addition, the MDIC Act provides for the Corporation to approve new deposit products for insurability.
	f) The decision whether to cover deposits denominated in foreign currencies depends heavily on a country's usage of foreign currency.	f) The amount of foreign currency deposits kept in Malaysia is very small. Hence, foreign currency deposits are excluded.
Funding		
14.	<p>a) A DIS should have available all funding mechanisms necessary to ensure the prompt reimbursement of depositors' claims.</p> <p>b) Member banks should pay the cost of deposit insurance since they and their clients directly benefit from having an effective DIS. However, policymakers should consider the effect of premium levels on the financial health of the banking industry.</p> <p>c) Policymakers should choose an assessment base against which a given premium rate will be applied.</p> <p>d) The deposit insurer should ensure funds are well managed and readily available to cover losses as they arise.</p> <p>e) In practice, DIS often are funded on a combined ex-ante and ex-post basis.</p>	<p>Complied.</p> <p>a) PIDM has available a broad range of powers and options for ensuring that it can meet its obligations. Currently, it implements an ex-ante system but can levy premiums on an ex-post basis. PIDM can also borrow from the Government or the market and can issue guarantees. PIDM is developing mechanisms for the prompt and accurate reimbursement of deposit claims should a payout be necessary.</p> <p>b) All member institutions pay annual premiums and therefore pay the cost of providing deposit insurance.</p> <p>c) PIDM is funded by premiums assessed on member institutions, calculated based on total insured deposits as at 31 December of the preceding assessment year. This basis is applied equally to both conventional and Islamic member banks.</p> <p>d) Funds are invested subject to legislated requirements as set out in the MDIC Act and in accordance with our Board approved investment policy. The current investment policy is to invest only in short-term Ringgit denominated securities guaranteed by the government or BNM.</p> <p>e) Please see comments in (a) above.</p>

FSF KEY POINTS OF GUIDANCE		KEY POINTS OF COMPLIANCE
	<p>f) In principle, there are two approaches available to establishing a deposit insurance fund. One approach is to assess a steady premium rate over a long period, while the other involves developing a premium system designed to maintain a target fund ratio or range.</p> <p>g) A case can be made either for establishing and maintaining one fund or for establishing and maintaining separate funds for different types of financial institutions that accept deposits from the public.</p> <p>h) Policymakers have a choice between a flat-rate premium system or a premium system that is differentiated on the basis of individual-bank risk profiles. The basis and criteria used in a risk-adjusted differential premium system should be transparent to all participants.</p>	<p>f) PIDM plans to assess a steady premium rate over the foreseeable future. PIDM is aware of the merits of maintaining a target fund and will consider such a policy in due course.</p> <p>g) Two separate funds are maintained for the Islamic and conventional deposit insurance system. The distinction between the Islamic and conventional members does not result in competitive distortion.</p> <p>h) The present flat premium system is being replaced with differential premium systems planned for 2008.</p>
Public Awareness		
15.	In order for a DIS to be effective, it is essential that the public be informed about its benefits and limitations.	<p>Complied.</p> <p>PIDM provides information to the public using many channels, such as our website, call centre, information brochures which are available at each branch of our members and through seminars and road shows held throughout Malaysia. PIDM also developed its multi-year Integrated Communications Plan which is being launched in 2007.</p>
Cross-Border Issues		
16.	<p>a) If the host-country system provides supplementary coverage, multiple reimbursements ... should be avoided. The deposit insurance ... by the home-country system should be recognised in the determination of levies and premiums.</p> <p>b) Provided confidentiality is ensured, all relevant information should be exchanged between deposit insurers in different jurisdictions and ... other foreign safety net participants when appropriate.</p>	<p>Not applicable.</p> <p>a) All foreign banks operating in Malaysia are required to be incorporated as subsidiaries of their parent companies. Therefore, the issue of overlapping insurance does not arise.</p> <p>Complied.</p> <p>b) PIDM is empowered to enter into strategic alliances with any person in furtherance of its objects. Presently, PIDM has not yet entered into such agreements.</p>
Failure Resolution		
17.	<p>a) Cooperation among the various financial safety net participants, both before and after a failure, is essential if troubled banks are to be handled in a timely and effective manner.</p> <p>b) The determination ... of when a bank is in serious financial difficulty should be on the basis of well defined and transparent criteria by a safety net participant with authority to act. Prompt and decisive actions are crucial to reduce cost ... but ... address confidentiality issues to protect exchange of information ...</p>	<p>Complied.</p> <p>a) The SAA executed between BNM and PIDM, is a first among deposit insurers in terms of the depth and breadth of cooperation between safety net players.</p> <p>b) BNM will notify PIDM of any bank that has ceased or is likely to cease to be viable. Criteria are being developed to be used in determining the non-viability of members.</p>

APPENDIX: SELF-ASSESSMENT OF COMPLIANCE WITH FSF GUIDANCE

FSF KEY POINTS OF GUIDANCE		KEY POINTS OF COMPLIANCE
	<p>c) An effective failure-resolution process should: meet the deposit insurer's obligations, ensure that depositors are reimbursed promptly and accurately, minimise resolution costs and disruption of markets, maximise recoveries on assets, settle bona fide claims on a timely and equitable basis, and reinforce discipline through legal actions in cases of negligence or other wrongdoings.</p> <p>d) Three basic failure resolution options exist: liquidation and reimbursement of depositors' claims; purchase-and-assumption transactions (sales); and open-bank financial assistance. Bankruptcy ... laws may heavily influence the choice of resolution methods ... and, in some cases, may make a particular resolution method difficult to implement.</p>	<p>c) To protect depositors, the legislation requires PIDM to make reimbursements of depositors' claims within three months of the obligation occurring and depositors do not have to file claim forms. PIDM has a broad range of resolution powers including asset acquisition and management. In resolving banks, PIDM is required to act in a manner to minimise cost to the financial system.</p> <p>d) PIDM has extensive failure resolution powers set out in the MDIC Act. Among others, PIDM may acquire shares, assume control of a member institution and apply to the High Court to appoint a receiver and manager.</p>
Reimbursing Depositors		
18.	<p>a) The deposit insurer should know, as soon as possible, when a bank will be closed. Access to the necessary deposit data before the bank is closed lessens the risk of manipulation of records, shortens the time for completing the reimbursement process, and helps preserve public confidence.</p> <p>b) Systems and processes should be developed in order to undertake preparatory reviews of deposit liabilities held by troubled banks.</p> <p>c) The reimbursement process should be evaluated ex-post to incorporate lessons learned.</p>	<p>Complied.</p> <p>a) PIDM is aware of the financial position of each of its members and would be advised by BNM well in advance of an impending or possible bank closure. PIDM is empowered to cancel or terminate membership if the licence of a member institution has been surrendered or revoked. PIDM may also terminate a membership after it has received a notification from BNM that the member institution has ceased, or, is likely to cease, to be viable.</p> <p>Work-In-Progress</p> <p>b) Plans are in place to develop systems and processes to undertake preparatory reviews and for reimbursing depositors' claims.</p> <p>c) Post-mortems are a necessity if one wishes to learn from experiences and will be adopted as best practice.</p>
Claims and Recoveries		
19.	<p>a) The powers provided to the entity responsible for the claims and recoveries function should be guided by applicable laws and include control of the failed bank's assets; contract rights and privileges; the ability to allow or disallow claims; the capability to enforce or repudiate certain contractual obligations; and the ability to challenge fraudulent transfers and transactions.</p>	<p>Complied.</p> <p>a) PIDM has appropriate legislative powers to deal with claims and recoveries. As part of good management, several business options are being developed to meet all possible eventualities.</p>

FSF KEY POINTS OF GUIDANCE		KEY POINTS OF COMPLIANCE
	<p>b) Asset management and disposition strategies should be guided by commercial considerations and their economic merits ...</p> <p>c) Transparency and access to information are key factors in marketing failed-bank assets.</p> <p>d) Claims and litigation ... against directors, officers ... related to the bank failure are potentially important assets.</p>	<p>Work in progress for (b), (c) and (d)</p> <p>Asset management and disposition strategies will be developed and will include these best practices.</p>
Depositor Ranking, Collateralisation and Rights of Set-off		
20.	<p>a) Policymakers should be aware of the potential effects of existing depositor priority laws or statutes on failure-resolution costs and the incentive for depositors or other creditors to exert market discipline.</p> <p>b) Policy makers should be aware of effects of collateralisation. Extensive collateralisation of a bank's liabilities may affect the deposit insurer's cost and impinge on its ability to provide financial assistance to a troubled bank.</p> <p>c) Some countries emphasise the importance of set-off while others believe that it can contribute to unequal treatment. These issues generally involve trade-offs and require country-specific solutions.</p>	<p>Complied.</p> <p>a) The MDIC Act provides for deposits to rank in priority above all other unsecured liabilities.</p> <p>b) The implications of collateralisation were considered at the drafting of the MDIC Act. However, as a matter of good governance, PIDM will continue to be mindful of legislative developments in this area.</p> <p>c) The issue of right of set-off was considered in the design features of the system. Since it would lead to unequal treatment and the matter could be addressed through administrative arrangements, right of set-off was not included in the MDIC Act.</p>

ENTERPRISE RISK MANAGEMENT

“Enterprise risk management is a process, effected by an entity’s board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives¹”

INTRODUCTION

All institutions are exposed to uncertainty or risks from internal or external sources. Risk management sets out the principles or practices of good management of these uncertainties. It involves establishing a system for identifying, measuring, monitoring and reporting on the potential occurrence of risky events. Its objective is to ensure that the institution’s risk exposures are managed and controlled within desired boundaries. Having sound risk management practices clearly helps address uncertainty or risks exposures within the risk appetite of an institution, and accordingly helps management to make better strategic and business decisions.

Enterprise risk management (“ERM”) is about ensuring that all significant risks are identified and are being well managed in a systematic and consolidated manner.

THE IMPORTANCE OF ENTERPRISE RISK MANAGEMENT TO US

At PIDM, we stress the importance of sound risk management to enhance our governance system and see the logic of having risk management dealt with on an enterprise-wide basis, and in involving the Board, Management and relevant personnel.

In our Board Governance Policy, the Board has recognised its responsibility to:

- i) Obtain an understanding of the principal risks of the Corporation’s business;

- ii) Ensure that appropriate and prudent risk management systems to manage these risks have been implemented and are reviewed regularly; and

- iii) Obtain reasonable assurance, on a regular basis, that systems are being adhered to and to continue to effectively manage the risks affecting the Corporation,

so as to help the Board to determine that the Corporation is “in control”.

In 2006, the Board approved the approach for implementing an ERM framework within our organisation. This has been identified as one of our key initiatives in the Corporate Plan 2007-2009.

ERM, as we explain below, is also important to us, in relation to our statutory mandate, which requires us to provide incentives for sound risk management within the financial system.

THE RELEVANCE OF ERM TO OUR BANKING INSTITUTIONS

ERM in the context of banking institutions cannot be discussed in isolation from the environment in which an institution operates. In particular, we see ERM as increasingly relevant in the context of the expected implementation of Basel II in Malaysia beginning 2008.

The Basel II, developed in 2004 by the Basel Committee on Banking Supervision (“BCBS”), replaced the original international bank capital accord (“Basel I”). The fundamental objectives of Basel II are to improve the consistency of capital regulations internationally, to make regulatory capital more risk sensitive, and to promote enhanced risk-management practices. BCBS envisages that the implementation of the framework will strengthen the soundness and stability of the banking system, because the revised capital adequacy standards will ensure that the financial resources held by banking institutions correspond with the risks associated with the business profile and control environment within the institution.

ENTERPRISE RISK MANAGEMENT

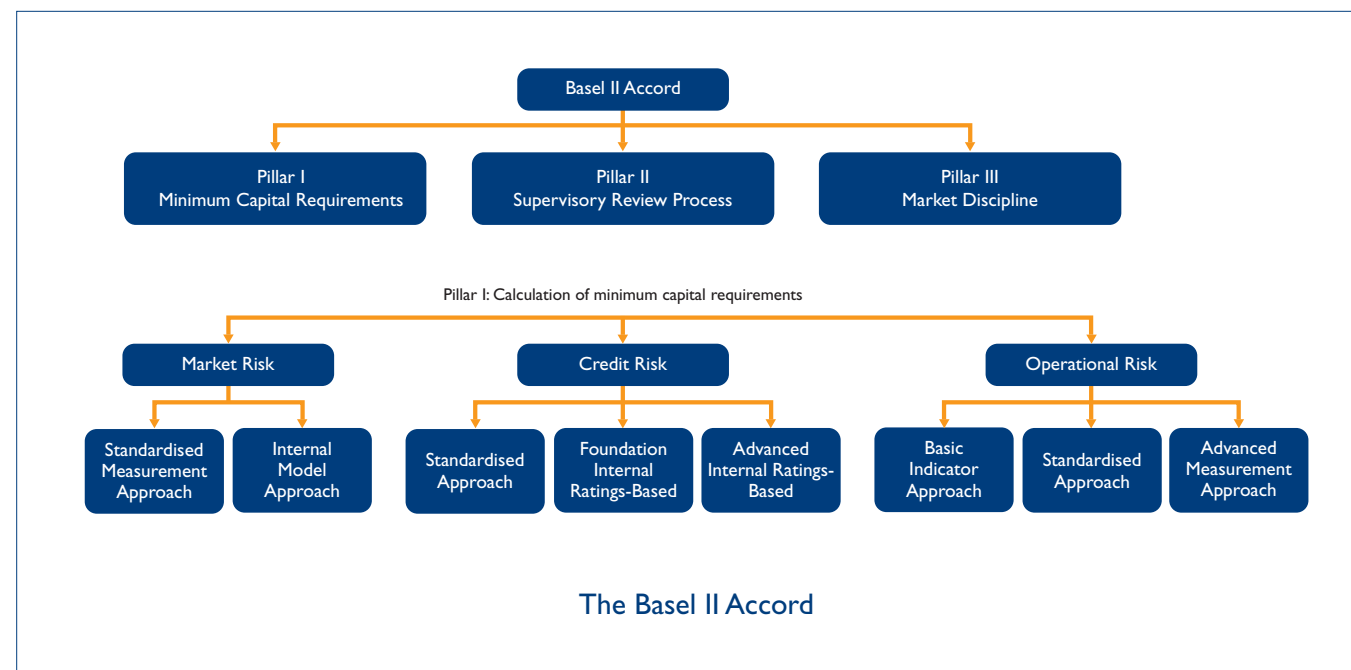
The new framework consists of three ‘pillars’. Pillar 1 of the new standards sets out the minimum capital requirements institutions will be required to meet for credit, market and operational risks. Pillar 2 exhorts institutions and supervisors to take a view on whether an institution should hold additional capital against risks not covered in Pillar 1 and to take action accordingly. Pillar 3 aims to improve market discipline by requiring institutions to publish certain details of their risks, capital and risk management.

Despite its complex architecture, the implementation of the new framework provides a number of options and flexibility to banking institutions. This is to ensure that the approach adopted reflects the nature of risk-taking activities and the level of sophistication of individual institutions. Credit

exposures are weighted based on recognised external credit ratings so as to provide a standardised approach to credit risk. However, for large banking institutions with highly complex businesses, more advanced approaches (i.e. the foundation or advanced internal rating based (“IRB”) approach) may be more appropriate to reflect their actual risk profile. Similarly, there are three alternative approaches that may be adopted in allocating capital for operational risks that is the basic indicator approach, the standardised approach and the advanced measurement approach. The market risk component retains the basic structure of the 1996 Amendment to the Capital Accord to incorporate market risks which proposed the use of a standardised measurement approach and internal models approach.



ENTERPRISE RISK MANAGEMENT



In many emerging economies, Basel II is seen as an important catalyst towards the adoption of best risk management practices within the banking sector in the medium to long term. Malaysia has adopted a pragmatic implementation timeline consistent with the agenda of its overall financial sector development programme. In Malaysia, banking institutions will adopt a two-phased Basel II implementation approach. The first phase will begin in January 2008 whereby all banking institutions are to adopt the standardised approach for credit risk and basic indicator approach for operational risk. In the second phase which begins from January 2010, banking institutions will be allowed to adopt the foundation IRB approach. The four key guiding principles for the implementation of Basel II in Malaysia are:

- to implement capacity building measures;
- to emphasise on the enhancement of the risk management framework for all banking institutions;
- to emphasise on strong business justification instead of regulatory mandate in the adoption of the more advanced approaches; and
- to enhance the supervisory methodology to assess the internal models and the advanced risk management systems.

ENTERPRISE RISK MANAGEMENT

ENTERPRISE RISK MANAGEMENT AND BASEL II

It is not uncommon for banking institutions to conduct risk management activities such as assessing capital requirements, data mining, limits management, and other risk management and monitoring practices for the respective risk classes on a “silo” basis. This is largely because the skills required for managing the various risk classes tend to be specialised and unique in their own area. For example, in the past, experienced loan officers or credit evaluation officers normally managed credit risk, while the treasury or finance or middle office personnel of a trading or trust division of a bank generally managed market risk. Each individual function or business unit may have its own proprietary risk management techniques or methods. Such practices make it difficult to obtain a consolidated view of risk across the institution or risks types - as there are likely to be inconsistent data, analytics and assumptions across these risk areas.

Apart from these technical challenges, there may also be a lack of capabilities and expertise at the enterprise level to integrate risk numbers and to interpret the consolidated result. One of the key advantages of implementing Basel II is the useful information (especially quantitative information) that the banking institution can derive from the process of measuring its capital adequacy requirements. This information provides a better understanding about the risk characteristics and profile of its portfolio, the sufficiency of risk mitigants and the risk-return profile of its business lines.

It is also important to maintain a healthy scepticism of the quantitative measurement and to avoid over-involvement in the intricacies and theoretical precision of risk measurement that might lead to a loss of the big picture. Qualitative factors such as sound judgement, knowledge and real-world experience are also essential to successful risk management.

The true benefit of Basel II can only be harvested when the banking institution looks at risks and challenges at the enterprise-wide level. This may be through a dedicated function that has the capabilities to interpret quantitative results generated by the Basel II risk management system, to proactively and continuously assess the risks exposures and risk management of the bank, both quantitatively and qualitatively, in a consolidated manner from the enterprise-wide point of view. For this function to achieve success, banking institutions must have a comprehensive risk management process (including sound governance by the board and a senior management oversight framework) to identify, evaluate, assess, monitor, control and mitigate all significant risks and to assess its overall capital adequacy. These processes should also commensurate with the size and complexity of the banking institution.

CONCLUSION

Our banking environment is becoming more complex, integrated and more competitive. Importantly, the key challenge for many institutions is to create value that will enhance its competitiveness from the risk management enhancement exercise. These developments will, in our view, mean that banking institutions must focus on having relevant systems to facilitate the effective measurement, reporting and management of financial and non-financial risks on an enterprise-wide basis.

Risk management is a journey and not a destination. In this journey, Basel II is an important catalyst. We believe that a journey that incorporates the fundamentals of ERM will enhance stability in the financial system.



SECTION VI: PUBLIC AWARENESS AND EDUCATION



PUBLIC AWARENESS AND EDUCATION

The effectiveness of a deposit insurance system is built upon public confidence and credibility. Accordingly, it is important to us that the public understands what we do and appreciates how we contribute towards enhancing the stability of the financial system.

OUR INTEGRATED COMMUNICATIONS PLAN FOR 2007-2011




A major milestone last year was the establishment of our Integrated Communications Plan for 2007-2011. The objective of this Plan is to communicate with as many stakeholders as possible. The multi-year Plan envisages both advertising and public relations activities. Our Plan is built upon two key underlying strategies:

- to create awareness about deposit insurance; and
- to continue to build the credibility of the Corporation.

Surveys will be conducted on an ongoing basis to develop key targets to assess our performance and to ensure the effectiveness of our strategies.

OUR INITIATIVES IN 2006

The following are the highlights of our key initiatives in 2006 to raise public awareness.

Date /Ongoing	Initiative	Rationale
10 March 2006	Launched our website (http://www.pidm.gov.my). 	This is a one-stop centre for all information regarding deposit insurance in Malaysia and the Corporation. We provide information in four languages - Bahasa Melayu, English, Chinese and Tamil - to cater for our varied stakeholders.
31 March 2006	Our Annual Report was forwarded to the Minister of Finance for tabling in Parliament.	This is required under the Malaysia Deposit Insurance Corporation Act 2005 ("MDIC Act").
18 April 2006	Released our Annual Report 2005. 	Our Annual Report provided detailed information on our performance to set plans and it was disseminated to the public.
April 2006	Conducted a "dipstick" survey.	This was a preliminary survey to gauge the level of awareness on deposit insurance. This survey also helped us to design and formulate an appropriate Integrated Communications Plan.
August 2006	Published our Communications Policy. 	The Policy is an explicit commitment to openness and transparency, subject only to the need to preserve confidentiality in those circumstances when it is appropriate to do so.

Date /Ongoing	Initiative	Rationale
		This Policy guides our activities when disseminating information and messages to stakeholders, and is made known to the public. It also promotes the provision of timely and relevant information in a clear and objective manner.
Ongoing	Enhanced our Call Centre operations.  1800 88 1266 Monday - Friday 8.30am - 5.30pm	Our toll-free hotline is dedicated to providing quality deposit insurance information to the general public in a language of their choice. Our Centre can respond to queries in Bahasa Melayu, English, Chinese and Tamil. In 2006, we commenced the following practices: <ul style="list-style-type: none"> • monitoring the quality of responses; • training for the Centre's agents; and • enhancing the efficiency of Call Centre operations. Our Centre is also an important channel for feedback from the public.
October 2006	Commissioned a series of focus group discussions.	To ensure that our public awareness initiatives were well-founded, focus groups were commissioned to seek feedback on our messages in our proposed advertisements (to be launched in the first half of 2007) and our proposed approaches.
November 2006	Commissioned an independent market research firm to survey the awareness level.	This survey was to ascertain the awareness level and perceptions about deposit insurance. (Out of some 1,000 respondents surveyed using the quantitative method, only 13% had heard of deposit insurance while 4% had heard of the Corporation.)
Ongoing	Positioned advertisements and features in newspaper supplement on banking and finance. 	This was to reach out to the public, and allowed us to explain about the deposit insurance system further. These placements will continue to be our strategy in the future which will run alongside the advertising campaign.

PUBLIC AWARENESS AND EDUCATION

Date /Ongoing	Initiative	Rationale
Ongoing	<p>Joint education activities with Bank Negara Malaysia ("BNM").</p> 	<p>This allowed us to work jointly with BNM on its active public information and consumer awareness activities, which target the public at large via talks, seminars and roadshows. This also allowed us to explain our role as a financial safety net player within the wider context of our financial system.</p>
Ongoing	<ul style="list-style-type: none"> Gave a series of talks and briefings to our stakeholders, in particular, the general public and member institutions. Participated in public exhibitions and talks to universities, businesses and chambers of commerce, regulatory agencies and other parties. Engaged State Government officials in meetings to brief them about the deposit insurance system and our role. 	<p>These were carried out to expand our reach to various constituents of our stakeholders and also to explain our role and responsibilities as a statutory body.</p> 
Ongoing	<p>Engaged member institutions to familiarise them with the deposit insurance system in collaboration with Institut Bank-Bank Malaysia ("IBBM") in a series of briefing sessions.</p> 	<p>This was to:</p> <ol style="list-style-type: none"> help achieve the acceptance and the buy-in of member institutions; allow us to partner member institutions in disseminating information about deposit insurance, as depositors enjoy a close relationship with their bankers and rely on them for banking information; and educate and assist our members to play their role effectively in the system.
15 September 2006	<p>Organised a seminar on enterprise risk management ("ERM") to our member institutions, insurance companies and other agencies.</p> 	<p>Encouraging ERM is part of our mandate to provide incentives for sound risk management. This seminar also launched PIDM's ERM project.</p>

Date /Ongoing	Initiative	Rationale
Ongoing	<p>Worked at cementing our relationship with member institutions with engagements through Liaison Officers for each member institution.</p> 	<p>Liaison Officers are a highly important channel to disseminate information quickly and effectively, as they act as a single point of reference to the institutions that they represent. They have also given us insights and ideas on how we may effectively engage their institutions in the future.</p>
Ongoing	<p>Regular briefings to member institutions on specific matters such as the computation of premiums and consultations prior to the development of policies and regulations.</p> 	<p>This is in line with our established policy to consult our key stakeholders and the public to ensure our regulations and policies are effective and understood.</p>
Ongoing	<p>Regular briefings, press conferences, exclusive interviews, press releases and other initiatives in Peninsular and East Malaysia.</p>  	<p>The media is a highly important channel of communication and partner to reach the public in general and to convey our key messages.</p>

GOING FORWARD

Our efforts to reach out to our depositors and engage stakeholders will continue. Our Integrated Communications Plan will allow us to do so in a focused manner, as well as to gauge the effectiveness of our efforts and to take corrective actions, where necessary.



SECTION VII: CALENDAR OF EVENTS

CALENDAR OF EVENTS

JANUARY 17 Audit Committee Meeting

FEBRUARY 16-17 PIDM participated in the IADI-Asia Regional Committee Meeting and International Seminar: 'Integrating Financial Supervision and Role of Deposit Insurers', held at the Asian Development Bank in Manila, Philippines.

27 Audit Committee Meeting

MARCH 1 PIDM conducted separate briefing session about the deposit insurance system and PIDM to training managers from member institutions in Kuala Lumpur.

8 Board Meeting

10 PIDM held a press conference to launch the public information campaign. In conjunction with this, PIDM website (available in four languages) was launched.

10 Auditor General meeting and audit certification.

13-14 PIDM participated in Deposit Insurance Corporation of Japan Round Table Discussion in Tokyo, Japan.

16 PIDM conducted a briefing to Deutsche Bank AG, Indonesia on Islamic Banking in Kuala Lumpur.

17 PIDM organised a seminar: 'Differential Premium System Workshop', presented by Ms Michèle Bourque, Vice President, Insurance & Risk Assessment Division of the Canada Deposit Insurance Corporation ("CDIC").

17 Visit by General Director Dr Bhui Khac Son and Deputy Director Ms Pham Bao Khanh from the Deposit Insurance of Vietnam.

30 PIDM conducted a technical briefing on computation of annual premium to member institutions, their respective associations and Bank Negara Malaysia ("BNM") in Kuala Lumpur.



Briefing

APRIL 1 EONCAP Islamic Bank Berhad & Affin Islamic Bank Berhad became member institutions.

18 PIDM held a press conference to announce the release of Annual Report 2005.

21 PIDM issued a press release on the submission of information for trust accounts and joint accounts.

26 PIDM conducted a briefing to Securities Commission on 'Disclosure Requirements for Trust Accounts and Joint Accounts' in Kuala Lumpur.

28 PIDM conducted a briefing to representatives from stockbroking firms, futures broking firms and asset management companies on guidelines on 'Disclosure Requirements for Trust Accounts and Joint Accounts' in Kuala Lumpur.

CALENDAR OF EVENTS

MAY 1 Amlslamic Bank Berhad became a member institution.

15-18 PIDM participated in the 14th Executive Council Meeting of IADI in Basel, Switzerland.

17-18 PIDM participated in the 3rd Islamic Financial Services Board Summit: 'Aligning the Architecture of Islamic Finance to the Evolving Industry Needs', hosted by Banque du Liban in Beirut, Lebanon.

23 Audit Committee Meeting

30 Governance Committee Meeting

31 Premium received for year 2006.

JUNE 4-9 PIDM participated in the 2nd Southeast Asian Central Bank Research and Training Centre (SEACEN)-Islamic Research and Training Institute (IRTI)/Islamic Development Bank (IDB) Course on Regulation and Supervision of Islamic Banks in Jakarta, Indonesia.

7-10 PIDM presented paper in the 15th International Banking Congress, organised by the Central Bank of Russian Federation in Saint Petersburg, Russia.

8 Remuneration Committee Meeting

9 PIDM, in collaboration with Institut Bank-Bank Malaysia ("IBBM"), conducted a briefing on deposit insurance to member institutions in Kuala Lumpur.

13 Board Meeting

14 PIDM conducted a briefing on deposit insurance to BNM's Laman Informasi Nasihat dan Khidmat ("LINK") personnel in Kuala Lumpur.

14-16 PIDM participated in the International Open House organised by the Korea Deposit Insurance Corporation ("KDIC") in Seoul, South Korea.

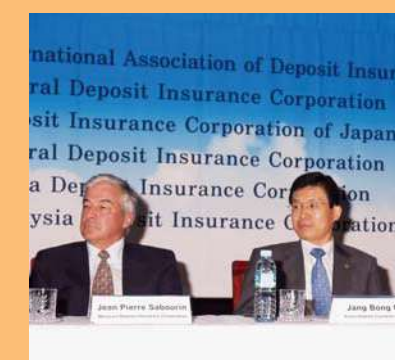
19 PIDM signed the Strategic Alliance Agreement ("SAA") with BNM.

19 PIDM issued a press release on the consultation papers on the proposed regulations for 'Disclosure Requirements on Trust Accounts and Joint Accounts'.

20 PIDM, represented by CEO Jean Pierre Sabourin, presented a briefing to Association of Banks Malaysia ("ABM") council members.

20 PIDM conducted a briefing on deposit insurance to Heads of State Government departments and agencies in Penang.

21 PIDM, in collaboration with IBBM and supported by BNM, conducted a briefing on deposit insurance to member institutions in Penang.



At KDIC



SAA with BNM

CALENDAR OF EVENTS

- 22** PIDM, in collaboration with IBBM and supported by BNM, conducted a briefing on deposit insurance to member institutions in Alor Star, Kedah.
- 24-25** PIDM participated in BNM's public awareness roadshow in Miri, Sarawak.

JULY

- 12** PIDM, in collaboration with IBBM, conducted a briefing on deposit insurance to member institutions in Kuala Lumpur.
- 14** PIDM conducted a briefing on deposit insurance to PIDM Liaison Officers of member institutions in Kuala Lumpur.
- 19** Al Rajhi Banking & Investment Corporation (Malaysia) Bhd became a member institution.
- 21** PIDM, in collaboration with IBBM and supported by BNM, conducted a briefing on deposit insurance to member institutions in Johor Bahru, Johor.
- 23** PIDM participated in BNM's public awareness roadshow in Kuantan, Pahang.
- 26-30** PIDM participated in the annual 'Karnival Pengguna 2006', organised by the Ministry of Domestic Trade and Consumer Affairs in Kuala Lumpur.



Karnival Pengguna

27 JUL-4 AUG

PIDM organised a study visit to CDIC and the Office of the Superintendent of Financial Institutions in Canada.

AUGUST

- 5** PIDM participated in BNM's public awareness roadshow in UiTM Segamat, Johor.
- 8** PIDM, in collaboration with IBBM, conducted a briefing on deposit insurance to member institutions in Kuala Lumpur.
- 11** PIDM conducted a briefing on deposit insurance to students and academic staff of the Islamic International Universiti, Malaysia.
- 12** PIDM participated in BNM's public awareness roadshow in Labuan.
- 13** PIDM participated in BNM's public awareness roadshow in Universiti Malaysia Sabah, Labuan campus.
- 15** **Audit Committee Meeting**
- 16** PIDM, in collaboration with IBBM and supported by BNM, conducted a briefing on deposit insurance to member institutions in Kota Bharu, Kelantan.
- 18** PIDM, in collaboration with IBBM and supported by BNM, conducted a briefing on deposit insurance to member institutions in Kuantan, Pahang.



Briefing

CALENDAR OF EVENTS

- 23** PIDM, in collaboration with IBBM and supported by BNM, conducted a briefing on deposit insurance to member institutions in Penang.
- 24** PIDM conducted a briefing on deposit insurance to members of Joint Chambers of Commerce, Penang.
- 24** PIDM conducted a briefing on deposit insurance to students and academic staff of Universiti Sains Malaysia, Penang.
- 28** PIDM became the world's first deposit insurer to be included as an Associate Member of the Islamic Financial Services Board (IFSB).
- 29** **Governance Committee Meeting**

SEPTEMBER 2-12

Visit by Ms Patricia Griffin-Dobson, Director of Human Resource Management, CDIC to PIDM.

- 6** PIDM organised a press conference in conjunction with the 1st Anniversary of Malaysia's Deposit Insurance System in Kuala Lumpur.
- 8** PIDM, in collaboration with IBBM and supported by BNM, conducted a briefing on deposit insurance to member institutions in Ipoh, Perak.
- 11-14** PIDM hosted IADI's 15th Executive Council Meeting in Kuala Lumpur.



With IADI guests

- 12** PIDM, in collaboration with IBBM, conducted a briefing on deposit insurance to member institutions in Kuala Lumpur.
- 15** PIDM organised an Enterprise Risk Management ("ERM") Seminar for deposit insurers, member institutions, regulators and insurance companies in Kuala Lumpur.
- 16** PIDM organised an ERM workshop for IADI members in Kuala Lumpur.
- 17** PIDM participated in the Terry Fox Run.
- 19** Visit by Mr Ken Mylrea, Director of Corporate Risk, CDIC to share his views with PIDM on implementing ERM.



Press Conference

- 19** Visit by Mr Gregory Zimnicki from Hong Kong Deposit Protection Board ("HKDPB") to share with PIDM his views and experience on the success in implementing HKDPB's payout system.
- 25** Board and Management participated in PIDM's Strategic Planning Session.



Briefing

- 26** **Board Meeting**

CALENDAR OF EVENTS

CALENDAR OF EVENTS

- OCTOBER**
- 3-15** PIDM participated in the IADI-Federal Reserve of Chicago Conference in Chicago and conducted a study visit to Federal Deposit Insurance Corporation and Office of the Comptroller of the Currency in Washington DC.
 - 5** PIDM conducted a briefing on deposit insurance to academic staff and students of Nilai International College.
 - 9** PIDM conducted a briefing on deposit insurance to Commercial Crime Investigation Department of the Royal Malaysian Police (*Jabatan Siasatan Jenayah Komersil Polis Diraja Malaysia*) in Kuala Lumpur.
 - 11** *Majlis Berbuka Puasa* (breaking fast) with the Press in Kuala Lumpur.



Conference

- NOVEMBER**
- 1** Southern Bank Berhad merged with CIMB Bank Berhad effective 1st November 2006. PIDM continues to separately cover eligible deposits in both institutions for two years. Thereafter, PIDM will cover eligible deposits in the single, merged entity.
 - 6** **Audit Committee Meeting**
 - 9** **Remuneration Committee Meeting**
 - 7-11** Meeting with KDIC to share knowledge on communications matters. PIDM participated in the Citigroup-INSEAD Financial Education Summit 2006 in Seoul.
 - 13-17** PIDM participated in IADI's 5th Annual General Meeting and Annual Conference held in Rio de Janeiro, Brazil.
 - 17-19** PIDM participated in Financial Exposition 2006 organised by Financial Planning Association Malaysia ("FPAM") in Kuala Lumpur.
 - 22** **Governance Committee Meeting**
 - 24** PIDM, represented by CEO Jean Pierre Sabourin, presented a paper in the 26th Southeast Asia-New Zealand-Australia (SEANZA) Central Banking Course.
 - 29** **Audit Committee Meeting (via teleconference)**
 - 29-30** PIDM participated in the 2nd APEC Policy Workshop on "Financial Sector Reform: Maintaining Financial Stability through Financial Safety Nets" held in Lombok, Indonesia.



FPAM Exhibition



In Rio de Janeiro

- DECEMBER**
- 4** **Board Meeting**
 - 4** Board approved Corporate Plan 2007-2009 and Financial Plan 2007.
 - 4** PIDM issued a press release on the publishing of its governance policies and by-laws to the public.
 - 5** PIDM, in collaboration with IBBM and supported by BNM, conducted a briefing on deposit insurance to member institutions in Kuching, Sarawak.
 - 5** PIDM conducted a media briefing on deposit insurance to local press in Sarawak.
 - 6** PIDM conducted a media briefing on deposit insurance to local press in Sabah.
 - 7** PIDM, in collaboration with IBBM and supported by BNM, conducted a briefing on deposit insurance to member institutions in Kota Kinabalu, Sabah.
 - 8** PIDM, in collaboration with IBBM, conducted a combined briefing session to member institutions and Heads of Government departments and agencies of Labuan.



Strategic Alliance Agreement With BNM



APPENDIX

List of Member Institutions

Charter of Governance Committee

Charter of Remuneration Committee

Charter of Audit Committee

Board Governance Policy

Position Description: Members of the Board of Directors

Position Description: Chairperson

Position Description: Chief Executive Officer

Corporate By-Laws

Policy for Disclosure of Information Concerning
Wrongdoing in the Workplace

Corporate Scorecard

Glossary of Terms

Frequently Asked Questions

Contact Details

LIST OF MEMBER INSTITUTIONS

AS AT 31 DECEMBER 2006

COMMERCIAL BANKS

1. ABN AMRO Bank Berhad
2. Affin Bank Berhad
3. Alliance Bank Malaysia Berhad *
4. AmBank (M) Berhad
5. Bangkok Bank Berhad
6. Bank of America Malaysia Berhad
7. Bank of China (Malaysia) Berhad
8. Bank of Tokyo-Mitsubishi UFJ (Malaysia) Berhad
9. CIMB Bank Berhad (formerly known as Bumiputra-Commerce Bank Berhad)
10. Citibank Berhad *
11. Deutsche Bank (Malaysia) Berhad
12. EON Bank Berhad
13. Hong Leong Bank Berhad
14. HSBC Bank Malaysia Berhad *
15. J.P. Morgan Chase Bank Berhad
16. Malayan Banking Berhad *
17. OCBC Bank (Malaysia) Berhad *
18. Public Bank Berhad *
19. RHB Bank Berhad
20. Standard Chartered Bank Malaysia Berhad *
21. The Bank of Nova Scotia Berhad
22. United Overseas Bank (Malaysia) Berhad

ISLAMIC BANKS

1. Affin Islamic Bank Berhad
2. Amlslamic Bank Berhad
3. Bank Islam Malaysia Berhad
4. Bank Muamalat Malaysia Berhad
5. CIMB Islamic Bank Berhad (formerly known as Commerce Tijari Bank Berhad)
6. EONCAP Islamic Bank Berhad
7. Hong Leong Islamic Bank Berhad
8. Kuwait Finance House (M) Berhad
9. RHB Islamic Bank Berhad
10. Al Rajhi Banking & Investment Corporation (Malaysia) Berhad

* denotes these institutions provide Islamic Windows.

CHARTER OF GOVERNANCE COMMITTEE

A. MANDATE

Pursuant to Section 7 of the *Malaysia Deposit Insurance Corporation Act 2005*, 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.

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.

CHARTER OF GOVERNANCE COMMITTEE

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

I. 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 2005* 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.

CHARTER OF GOVERNANCE COMMITTEE

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 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; and

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.

CHARTER OF REMUNERATION COMMITTEE

A. MANDATE

Pursuant to Section 7 of the *Malaysia Deposit Insurance Corporation Act 2005*, 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 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 resource 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.

CHARTER OF REMUNERATION COMMITTEE

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 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.

CHARTER OF REMUNERATION COMMITTEE

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.

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.

CHARTER OF AUDIT COMMITTEE

A. MANDATE

Pursuant to Section 7 of the *Malaysia Deposit Insurance Corporation Act 2005*, 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 three members of the Board of Directors, 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 having financial expertise, 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.

CHARTER OF AUDIT COMMITTEE

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 (AG)

The Auditor General, 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.

CHARTER OF AUDIT COMMITTEE

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).

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;

CHARTER OF AUDIT COMMITTEE

- 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) reviewing the integrity of the Corporation's financial reporting processes and the internal control structure;
 - e) 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;
 - 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 judgements 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. FINANCIAL MANAGEMENT OVERSIGHT:
- a) Operating and Capital Budgets – monitor and advise the Board with respect to the annual operating budget and capital 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.

CHARTER OF AUDIT COMMITTEE

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 Audit Committee is responsible for the oversight of the work of the internal audit function and for the compensation and oversight of the Chief Internal Auditor. The Chair of the Committee shall be consulted before the appointment 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;

h) ensuring coordination of the internal audit function with annual AG audits and special examinations; and

i) reviewing the overall operations of the internal audit function having regard to its mandate and taking into account current internal audit standards.

7. RISK MANAGEMENT

The Committee shall:

- a) ensure that sound policies, procedures 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 developed and implemented to manage the Corporation's risk exposures, and review such policies 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 for significant risks are being adhered to;
- e) report to the Board on: the significant risks; the policies 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.

CHARTER OF AUDIT COMMITTEE

8. ETHICAL AND LEGAL COMPLIANCE

The Committee shall:

- a) review with the Corporation's counsel any legal matter that could have a significant impact on the Corporation's financial statements;
- b) ensure oversight for ethics and integrity and preservation of the Corporation's reputation by receiving from Management, reports on compliance with the Corporation's policies or codes of business conduct and ethical behaviour and any other matter of conduct or behaviour that may give rise to a liability to the Corporation; and by reviewing any report that is received from the internal audit function, the AG and/or other Committee Chairs on their review of compliance with same;
- c) ensure there is a system for monitoring the Corporation's compliance with laws and regulations, and obtain reports, on an annual basis, that the Corporation is in conformity with applicable legal requirements;
- d) review the results of Management's investigation of, and actions taken in connection with, any internal control or accounting matters that may be questionable;
- e) establish a 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 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.

BOARD GOVERNANCE POLICY

A. INTRODUCTION

1. Sound governance is important, if an organisation is to achieve its objectives and maintain its reputation. Effective performance by the board - board governance - helps ensure that objectives are realised, resources are well managed, important relationships are nurtured, and the interests of stakeholders are reflected in decisions. Governance regimes are unlikely to be effective where there is lack of clarity or understanding of the roles of the respective participants in an organisation.
2. Accordingly, the Board of Directors (the "Board") of the Malaysia Deposit Insurance Corporation (the "Corporation") wishes to record its understanding of its roles and responsibilities, and the principles and standards which will guide the Board in carrying out its roles and responsibilities.
3. This policy reflects:
 - a) the legislation to which the Corporation is subject, and
 - b) the Board's determination that the Corporation should follow sound standards of business and financial practices, adapted where relevant to public sector organisations.
4. This policy sets out of 15 best practices or standards of behaviour to which the Board will subscribe in carrying out its responsibilities. These best practices and standards have been developed by reference to recognised best practices and corporate governance principles generally, adapted where appropriate, to reflect the fact that the Corporation is a statutory body with public policy objectives¹.
5. In particular, this policy and its set of standards have been developed based on overarching principles of governance adopted by the Corporation, in line with recommendations set out in an international study, the 'Governance in the Public Sector: A Governing Body Perspective', by the International Federation of Accountants (August 2001) (the 'IFAC Study'). These are as follows:
 - Openness – "...to ensure that stakeholders can have confidence in the decision-making processes and

actions of public sector entities, in the management of their activities, and in the individuals within them. Being open through meaningful consultation with stakeholders and communication in full, accurate and clear information leads to effective and timely action and stands up to necessary scrutiny."

- Integrity – "...comprises both straightforward dealing and completeness. It is based upon honesty and objectivity, and high standards of propriety and probity in the stewardship of public funds and resources, and management of an entity's affairs. It is dependent on the effectiveness of the control framework and on the personal standards and professionalism of the individuals within the entity. It is reflected both in the entity's decision-making procedures and in the quality of its financial performance reporting."
- Accountability – "...is the process whereby the public sector entities, and individuals within them, are responsible for their decisions and actions, including their stewardship of public funds and all aspects of performance, and submit themselves to appropriate external scrutiny. It is achieved by all parties having a clear understanding of those responsibilities, and having clearly defined roles through a robust structure. In effect, accountability is the obligation to answer for a responsibility conferred."

6. The set of standards to which the Board subscribes are accompanied by explanations and reference to sources and by indications of some of the Board's expectations of Management, which do not form part of the policy and which are not intended to be exhaustive.

B. BACKGROUND

1. THE CORPORATION'S OBJECTS

- 1.1 The Corporation was established under the Malaysia Deposit Insurance Corporation Act 2005 (the 'Act'). The Act sets out the Corporation's objects, confers various powers on the Corporation and its Board respectively, sets out the terms of deposit insurance, and deals with other aspects of the Corporation's operations.

¹ A list of references can be found at the end of the Policy

BOARD GOVERNANCE POLICY

Under Section 4 of the Act, the Corporation's objects are to:

- a) administer the deposit insurance system under the Act;
- b) provide insurance against the loss of part or all of the deposits of a member institution;
- c) provide incentives for sound risk management in the financial system; and
- d) promote and contribute to the stability of the financial system in Malaysia.

1.2 In achieving its objects under paragraphs 1.1(b) and (d), the Corporation is required to act in such manner as to minimise costs to the financial system.

2. DIVISION OF RESPONSIBILITIES AND ACCOUNTABILITY

2.1 The Corporation is accountable to Parliament through the Minister of Finance².

2.2 Under section 11 of the Act, the Board is responsible for the conduct of the business and affairs of the Corporation³. The Board is made up of a Chairman, with private sector experience, up to three other private-sector directors, and three directors from the public sector of which two are *ex-officio* directors (the Secretary-General of the Treasury and the Governor of Bank Negara Malaysia).

2.3 The Corporation's senior management ("Management"), led by the Chief Executive Officer, is responsible for translating Board directions into action and managing the Corporation's day-to-day operations. In addition, Management is responsible for supporting the Board in fulfilling their governance responsibilities. The Board also wishes to record their expectations in that regard.

C. ROLE AND RESPONSIBILITIES OF THE BOARD

1.1 The Board provides the stewardship and oversight of the management and operation of the Corporation. The Board's role is to foster the Corporation's short and long-term success consistent with its mandated objectives and accountability to other stakeholders.

As such, the Board provides leadership with the specific responsibilities of:

- a) reviewing and overseeing the development of, and approving, a strategic plan and direction for the Corporation, taking into account opportunities, threats and risks facing the Corporation;
- b) approving the Corporation's material policies;
- c) setting performance objectives, monitoring implementation of agreed corporate plans and the corporate performance of the Corporation against its business objectives, strategies and plans, and overseeing major capital expenditures, acquisitions and divestitures;
- d) reviewing and approving the Corporation's annual budget and ensuring the integrity of financial statements, internal controls, financial information systems, projections, forecasts and audited statements;
- e) working with Management to identify the principal risks to the Corporation and ensuring that systems to manage those risks are in place;
- f) ensuring compliance with legal and regulatory requirements;
- g) ensuring that reporting, monitoring and accountability as set out in the Corporation's policies are met;
- h) ensuring that the Corporation has an appropriate communications strategy;
- i) approving, monitoring and reviewing the effectiveness of, governance practices, and in this connection, ensuring that controls, codes or guidelines are in place governing ethical conduct, conflict of interest and similar concerns;
- j) providing for the Board's good management and on-going effectiveness, including the establishment of committees, task forces and work groups necessary to assist the Board in the effective discharge of its mandate;
- k) identifying the required competencies and personal attributes required on the Board and recommending to the Minister of Finance the orderly succession of board members;

BOARD GOVERNANCE POLICY

l) assessing and reviewing its own performance and capability in carrying out its role and functions within the nature, scope, complexity and risk profile of the Corporation;

m) identifying, assessing and recommending a suitable candidate for the position of Chief Executive Officer ('CEO'), assessing his or her performance against pre-determined performance benchmarks and planning for CEO succession; and

n) succession planning, including appointing, training, fixing the compensation of and where appropriate, replacing senior management.

Sources and rationale

1.2 All of the stated responsibilities above are sourced from 'Best Practice Guidelines – Governance and Disclosure Guidelines for Governing Boards of British Columbia Public Sector Organisations', Board Resourcing and Development Office, Office of the Premier (February 2005) (the "BRDO Guidelines"), page 13.

1.3 Most of the responsibilities (e.g. strategic plan, identifying principal risks, communications policy, internal control systems and compliance with law) also reflect all 6 principal responsibilities of the Board under described in the 'Malaysian Code on Corporate Governance', by the Finance Committee on Corporate Governance (January 2001) (the "Malaysian Code"), page 11.

D. STANDARDS OF BEST PRACTICE OR BEHAVIOUR

I. THE BOARD – (STANDARD Nos. 1 TO 4)

Standard No. 1 : Independence of the Board

Board members will exercise independent judgement.

1.1 The Board should ensure that the Corporation is conforming to legislation and its mandate and achieving agreed outcomes. Accordingly, it is crucial that directors that lead the Board will uphold the public policy objectives of the Act. To fulfill the Corporation's mandate, the Board must exercise independent judgement in directing and overseeing operations.

1.2 Directors should be able to work co-operatively with Management and, where necessary, demonstrate objectivity and robust independence of judgement. The Board may exercise independent judgement in various ways including the following –

a) Board members provide invaluable input but do not, however, serve on the Board under the specific direction of the Minister of Finance. Directors who are public servants should exercise independent judgement in ways that best fulfil their responsibilities to the Corporation.

b) The Board should act as a sounding board, and challenge the assumptions, identified alternatives, and assessments contained in the corporate plan and other proposals.

c) The Board should satisfy itself that the views of Management have been questioned and tested. The Board should actively challenge Management proposals.

d) The CEO should attend all Board meetings.

e) The Board should, as part of the Board meetings, regularly hold *in camera* sessions without Management.

f) A Board member should be able to obtain independent financial, legal or other advice from an outside adviser, at the expense of the Corporation, where appropriate. There should be an approved Board policy for directors, in furtherance of their duties, to take independent professional advice at the Corporation's expense, if necessary.

Expectations of the Board from Management

1.3 To enable the Board to properly exercise independent judgement, Management will ensure that all reports provided by it to the Board are objective, timely, relevant, accurate and complete and Management will carry out instructions as directed by the Board.

² A legal opinion has been obtained on this matter.

³ Section 17 of the Act imposes a duty on a director of the Board to act at all times in the best interest of the Corporation. A director should be honest and use reasonable diligence in discharge of the duties of his office. A director or any person who has been a director is prohibited to make improper use of any information acquired by virtue of his position as a director to gain, directly and indirectly, an advantage for himself or for any other person or do, say or publish anything that may be detrimental to the interests of the Corporation.

BOARD GOVERNANCE POLICY

Sources and rationale

- 1.4 Further to the Act, the CEO is not a member of the Board. Accordingly, there is a clear separation of duties and responsibilities between the Board and Management. There is also a separation of the position of Chairman from the CEO. This helps ensure independence and a balance of power and authority, where no one individual has unfettered powers of decision.
- 1.5 The Malaysian Code, in its Explanatory Notes on Principle II in paragraph 4.2 on page 22 states that directors should be able to work co-operatively with management and to demonstrate objectivity and robust independence of judgement when necessary.
- 1.6 The Canadian Joint Committee on Corporate Governance in its publication "Beyond Compliance: Building a Governance Culture", (November 2001) (the "Canadian Joint Committee Report") identified the following four conditions that can materially assist boards in developing a culture that provides opportunity for both directors and management to feel comfortable when management positions are challenged:
- strong board members who are independent of management, provided with appropriate orientation, and who bring an appropriately diverse set of experiences, competencies, skills and judgement to the board;
 - strong leadership within the board from an outside director;
 - a CEO who understands the role of the board and is openly supportive of building a healthy governance culture; and
 - regular meetings of the directors without management to build relationships of confidence, and cohesion among themselves.
- 1.7 The approach of engaging external advisers is a private sector practice (See The Malaysian Code, Explanatory Note on Best Practice Guideline XX, page 43). However it is gaining acceptance in the public sector, particularly in larger agencies with more complex administrative responsibilities or significant prospective change agendas. The IFAC Study, in Chapter 4 on page 16, paragraph .080, for example,

states "Governing bodies of public sector entities need to establish appropriate arrangements to ensure that they have access to all such relevant information, advice and resources as are necessary to enable them to carry out their role effectively."

- 1.8 The Malaysian Code, Explanatory Note on Principle III, paragraph 4.3, on page 22 sets out the need for Management to provide the Board with timely information, as set out in the Board's expectations of Management above.

Standard No. 2 : Board effectiveness and governance responsibilities

The Board will obtain and maintain an understanding of the Corporation's objects and powers, as well as of its governance responsibilities.

To achieve this, the Board will:

- develop and maintain approaches to fulfilling those responsibilities and will evaluate, objectively, on a regular basis, its effectiveness in doing so.
- ensure that the Corporation has arrangements for the orientation of new directors and ongoing training appropriate to the Board's governance responsibilities and needs.

- Board members and in particular, *ex-officio* directors, can assist the Board to better appreciate public policy objectives, to understand the broad public policy philosophy and the direction that should be pursued by the Corporation.
- The Board should also develop a process to annually evaluate the effectiveness of the Board, its committees and the directors individually.
- Newly appointed directors should be provided with adequate orientation and training with regard to their responsibilities to the Corporation, the Corporation's relationship with the Government, compensation policies for the Corporation's Management and board procedures.

BOARD GOVERNANCE POLICY

Expectations of the Board from Management

- 2.4 Management, led by the CEO, will provide the Board with information in a form and of quality appropriate to enable the Board to discharge its duties. Management should ensure there are procedures in place to ensure that the Board is supplied in a timely fashion with information.
- 2.5 Management will also put in place a procedure for the orientation, training, education and information for new directors relating to the governance responsibilities and needs. Management will ensure that each new director receives an information package containing at least a copy of this policy, the latest copy of the Act and other relevant laws, the Corporation's Code of Ethics, other relevant background material such as the body's latest Corporate Plan and Annual Reports and Accounts, notes describing the body's organisational structure and statutory basis of operation, position descriptions for the members of the Board, the Chairperson and the CEO, as well as the by-laws of the Board.

Sources and rationale

- 2.6 Pursuant to subsection 11(1) of the Act, the Board is responsible for the conduct of the business and affairs of the Corporation and shall exercise all powers and do all acts that may be exercised or done by the Corporation. Accordingly, it is important that the Board understands its responsibilities and evaluates objectively on a regular basis, its effectiveness in fulfilling those responsibilities.
- 2.7 For this purpose, the Board should also develop a process to annually evaluate the effectiveness of the Board, its committees and the directors individually. The Canadian Joint Committee Report, on page 18, broadly supports this view, stating that "... regular assessment of the board's effectiveness, and the contribution of individual directors, is essential to improve governance practices. The governance system should include a process for the evaluation of the work of the board, its committees, and individual directors."
- 2.8 An effective mechanism for evaluating its own effectiveness may be the implementation of a 'corporate governance health check', i.e. a formal annual board review with the introduction of formal performance measures. Five important criteria essential for evaluating board performance are:

- an understanding of the company's mission and strategic plan;
 - a comprehension of the organisation's business;
 - a willingness to challenge management when required;
 - a willingness to appraise the chief executive officer; and
 - the special expertise that board members have to add value to the company.
- 2.9 The IFAC Study, Chapter 4, on page 16, paragraph .079 states that "Members of the governing body need to receive appropriate induction training on the first occasion of appointment to the governing body, and subsequently as necessary."

- 2.10 The Malaysian Code, in its Explanatory Note on Best Practice Guideline III, paragraph 4.3, on page 22 sets out the need for Management to provide the Board with timely information, as elaborated in the Board's expectations of Management above.

Standard No. 3 : Role and responsibilities of committees

Where the Board appoints a committee, it will establish the responsibilities and authority of Board committees, as well as accountability requirements for them.

- It is sound practice for the Board to establish the responsibilities and authority of Board committees, as well as accountability requirements for them. In particular, the Board should establish an audit committee comprising not less than three directors.
- Where the Board delegates to committees, the Board should ensure that:
 - each committee, and its Charter, are established by a formal resolution of the Board or through an appropriate corporate by-law;
 - committee members are selected on the basis of their expertise, interests and availability; and

BOARD GOVERNANCE POLICY

- c) board members are regularly informed of each committee's activities, findings, conclusions and recommendations.

Expectations of the Board from Management

- 3.3 Management will provide the Board with recommendations on the roles and limits of decision-making authority of Board committees for the Board's consideration.

Sources and rationale

- 3.4 The Malaysian Code, in its Best Practice Guideline XXIII, on page 15 states "Where a board appoints a committee, it should spell out the authority of the committee, and in particular, whether the committee has the authority to act on behalf of the board, or simply has the authority to examine a particular issue and report back to the Board with a recommendation."

Standard No. 4 : Board composition and succession

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.

To achieve this, the Board will, in consultation with the CEO:

- i) develop a profile of desirable skills and capabilities that would best enable the Board to fulfill their responsibilities and advise the Minister of Finance of the desired mix that should be sought in filling upcoming non *ex-officio* Board vacancies.
- ii) have a Board succession plan to recommend to the Minister of Finance the orderly turnover of directors.

Expectations of the Board from Management

- 4.1 Management will:

- a) provide the Board with recommendations for the consideration of the Board on the desired mix of director skills and capabilities, and in particular those skills and capabilities that should be sought in filling upcoming non *ex-officio* vacancies;

- b) develop a competency matrix that is updated annually and when vacancies arise. The competency matrix may be used to identify competency "gaps" on the board and direct the search for new candidates; and

- c) assist in the development of a board succession plan to recommend to Minister of Finance the orderly turnover of directors.

Sources and rationale

- 4.2 Best Practice Guideline I of the BRDO Guidelines, on page 12, recommends the following:

- a) The Board is made up of individuals who, collectively, have the required competencies and personal attributes to carry out their responsibilities effectively.
- b) Unless specified otherwise in the governing legislation, Board members are independent from management and have no material interest in the organisation.
- c) The Board has a committee that develops director selection criteria and identifies and evaluates potential candidates.
- d) The Board has a competency matrix that is updated annually and when vacancies arise. The competency matrix is used to identify competency "gaps" on the board and direct the search for new candidates.
- e) The Board has a board succession plan to recommend to Government the orderly turnover of director.
- f) The Board publishes the name, appointment term and a comprehensive biography of each director.

- 4.3 The literature on board performance places great weight on selecting appropriate directors and the CEO. It also advocates choosing board members that are multi-skilled, experienced in a variety of business areas, prepared to update their knowledge, flexible, analytical, and prepared to monitor and assess their individual or collective capabilities.

- 4.4 In the private sector, it is common to have a mix of internal and external directors to complement the skills and perspectives of company executive members, and to provide greater independence from

BOARD GOVERNANCE POLICY

management. The Malaysian Code, in its Best Practice Guideline III, on page 12 states that directors " ... should be persons of calibre, integrity and have the necessary skills and experience to bring independent judgement to bear on issues of strategy, performance and resources including key appointment and standards of conduct..."

- 4.5 In relation to board succession, The Malaysian Code, in its Explanatory Note on Best Practice Guideline X on page 37 states "The Board should at least annually identify the mix of skills and experience and other qualities it requires for it to function completely and efficiently. It is ...possible for a board to access particular skills and experience either within the company or from external advisers. However, ...it is likely that there will be certain skills and experience which are so strategic and fundamental to success that they should exist at the board level itself..."

II. DIVISION OF RESPONSIBILITIES AND ACCOUNTABILITY – STANDARD Nos. 5 TO 8

Standard No. 5 : Role and responsibilities of the Chief Executive Officer

The responsibilities and accountability of the Chairman and the CEO should be clearly distinguished and documented.

In this connection, the Board will:

- i) develop a position description for the CEO;
- 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;
- iii) establish an accountability relationship for the CEO to the Board.

- 5.1 The principles of corporate governance require those involved to identify and articulate their responsibilities and their relationships; consider who is responsible for what, to whom, and by when; acknowledge the relationship that exists between stakeholders and those who are entrusted to manage resources; and deliver

required outcomes. It provides a way forward to those, whether in the public or private sectors, who find themselves in somewhat different relationships than perhaps they have previously experienced.

- 5.2 A clear understanding and appreciation of the roles and responsibilities of the relevant participants in the governance framework, importantly, responsibilities of the Minister, Board and CEO, are key components of sound accountability. The absence of these features weakens accountability and threatens the achievement of organisational objectives.

- 5.3 Section 19 of the Act provides for the Minister of Finance to appoint a CEO, on the recommendation of the Board, and the CEO shall be responsible for the day-to-day administration of the business and affairs of the Corporation. Generally, therefore, the Board should avoid participating in the day-to-day management of the business of the corporation. The CEO's task is, therefore, to run the business and implement the policies and strategies adopted by the Board.

- 5.4 In recognition of the importance of the position of the CEO, the Board should also periodically assess the CEO's position and evaluate the CEO's performance against the established duties and objectives that were agreed to by the Board and the CEO at the start of the year. The Board, through the Chairman, should communicate the results of the CEO's performance evaluation to the CEO and to the Corporation.

- 5.5 Furthermore, the Board should periodically review the allocation of responsibilities between the Board and Management. This review should focus on defining and describing both the Board's principal responsibilities and the limits to Management's authority. It is also sound practice for the Board to evaluate, on a regular basis, the effectiveness and prudence of Management in managing the operations of the Corporation and the risks to which the Corporation is exposed.

BOARD GOVERNANCE POLICY

Expectations of the Board from Management

- 5.6 Management will provide the Board with recommendations on the above for consideration by the Board.

Sources and rationale

- 5.7 The BRDO Guidelines in section 7 on page 24 states “In order to establish the proper relationship between the Board and the CEO, the Board should, with the input from the CEO, develop a job description for the CEO, annually develop appropriate performance expectations and have a formal process in place to evaluate the CEO’s performance.”

Standard No. 6 : Appointment of senior corporate officers

The Board will appoint the senior corporate officers of the Corporation (other than the CEO) and determine their terms of office and compensation.

- 6.1 It is important for senior management positions to be filled by suitably qualified individuals capable of managing the operations of the Corporation effectively and prudently, and plan for their succession. In particular, there will be senior corporate officers who are directly responsible to the Board. Accordingly, it is appropriate that the Board should appoint such officers of the Corporation.
- 6.2 Under section 21(1) of the Act, such officers shall hold office for such periods, receive such salaries, allowances and benefits, and shall be subjected to such terms and conditions of service as may be determined by the Board.

Expectations of the Board from Management

- 6.3 Management will provide the Board with recommendations for its consideration regarding the appointment of senior corporate officers (other than the CEO).

Sources and rationale

- 6.4 In particular, there will be officers who are directly responsible to the Board. For example, the IFAC Study, page 17, paragraphs 0.087 and 0.088 recommends there should be an officer who is responsible to the governing body for ensuring that appropriate advice is given to the governing body on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control. Also, there should be an officer who is responsible to the governing body for ensuring that governing body procedures are followed, and that all applicable statutes and regulations and other relevant statements of best practice are complied with. It is therefore appropriate for the Board to appoint senior officers (other than the CEO) who will be accountable to it.

Standard No. 7 : Compensation of officers

The Board will satisfy itself, on a regular basis, that the compensation of the Corporation’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.

The Board will review the compensation program for all directors, and make recommendations to the Minister of Finance in that regard.

- 7.1 Levels of remuneration for officers and employees should be sufficient to attract and retain them to run the entity successfully. Further to subsection 21(1) of the Act, officers and employees appointed by the Corporation shall hold office for such periods, receive such salaries, allowances and benefits, and shall be subjected to such terms and conditions of service as may be determined by the Board.
- 7.2 Under section 20(b) of the Act, the CEO shall enjoy such compensation and such other amenities as approved by the Minister, upon recommendation of the Board. Given the importance of the role of the CEO, his compensation package should also be considered by the Board and reviewed annually.

BOARD GOVERNANCE POLICY

- 7.3 Similarly, it may be necessary to consider the compensation program for non *ex-officio* directors for recommendation to the Minister. Further to section 16 of the Act, the Corporation may pay a director of the Board such fees, remuneration or other allowances as the Minister may determine, on the recommendation of the Board.

Expectations of the Board from Management

- 7.4 Management will provide the Board with recommendations on the compensation of the Corporation’s officers and other employees for the Board’s consideration on a regular basis.

Sources and rationale

- 7.5 The IFAC Study, page 17, paragraph .089 to .091, states:
- Levels of remuneration of members of the governing body need to be sufficient to attract and retain them to run the entity successfully.
 - Public sector entities need to establish a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual members of the governing body. It is appropriate that no member is involved in deciding his or her own remuneration.
- 7.6 In the context of the Board members of the Corporation, in particular as the final decision on remuneration lies with the Minister, members do not decide his or her own remuneration.

Standard No. 8 : Succession planning

The Board will plan for the succession of the CEO and review succession plans for key senior management.

- 8.1 As part of its responsibility for the stewardship of the Corporation, the Board should approve Management’s succession plan including appointing, training and monitoring of senior management. The succession plan should, in particular, deal with the CEO’s plans for the appointment, training, assessing and motivating of managers.
- 8.2 The Board should review and discuss the CEO’s proposals to appoint and to promote key senior managers.

- 8.3 The Board must be satisfied that the Corporation’s programs to train and develop Management will provide for the orderly succession of Management.

- 8.4 Under the Act, the Minister appoints the CEO on recommendation of the Board. Accordingly the Board will also consider the CEO’s succession plan for the CEO, for recommendation to the Minister.

Expectations of the Board from Management

- 8.5 Management will review and discuss with the Board succession planning for senior management.
- 8.6 Management will also provide the Board with recommendations on succession planning for the CEO and Board-appointed officers. Management will also plan for the training of Board-appointed officers and the monitoring of their performance.

Sources and rationale

- 8.7 The Malaysian Code, page 28, states that the Board should be responsible for succession planning, including appointing, training, fixing the compensation of, and where appropriate, replacing senior management.

III. STANDARDS OF BEHAVIOUR – STANDARD No. 9

Standard No. 9 : Standards of Behaviour and Ethics

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.

- 9.1 As stated earlier, a fundamental principle of governance for a public body is integrity, comprising “straightforward dealing and completeness”. Integrity is based on honesty and objectivity, and high standards of propriety and probity in the stewardship of public funds and resources, and management of the Corporation’s affairs. Integrity is dependent, among other things, on the personal standards and professionalism of the individuals within the entity.

BOARD GOVERNANCE POLICY

9.2 Accordingly, the Board will approve by-laws concerning conflicts of interest and post-employment matters relating to conflicts of interest in respect of directors, officers and employees of the Corporation.

Expectations of the Board from Management

9.3 Management will provide the Board with recommendations respecting standards of conduct and ethical behaviour for directors, officers and employees.

9.4 Management will also develop and implement an ongoing, appropriate and effective process for ensuring adherence to the Corporation's standards of conduct and behaviour and provide the Board periodically (and at least annually) with reports that will enable the Board to assess the quality of the Corporation's process for ensuring adherence to these standards.

Sources and rationale

9.5 Paragraph 9.1 reflects the IFAC Study's discussion on integrity, on page 12, Figure 3.1. The IFAC Study, in Chapter 4, page 15, also recommends that governing bodies of public sector entities adopt a formal code of conduct defining the standards of behaviour to which individual governing body members and all employees of the entity are required to subscribe.

IV. CONTROL – STANDARD Nos. 10 TO 12

Standard No. 10 : Significant risks to the Corporation

The Board will:

- i) obtain an understanding of the principal risks of the corporation's business;
- ii) ensure that appropriate and prudent risk management systems to manage these risks have been implemented and review these regularly; and
- iii) obtain reasonable assurance, on a regular basis, that systems are being adhered to and continue to effectively manage the risks affecting the Corporation.

10.1 It is an important responsibility of the Board to obtain an understanding of the principal risks to which the Corporation is exposed.

10.2 The integrity of an entity is also dependent on the effectiveness of the control framework within an entity, its decision-making procedures and quality of its financial and performance reporting. Accordingly the Board should:

- a) establish appropriate and prudent risk management policies for the risks of the Corporation, and review these policies on a regular basis (and at least annually), to satisfy itself that they continue to be appropriate and prudent; and
- b) obtain reasonable assurance, on a regular basis (and at least annually), that the Corporation has an effective enterprise risk management process and that risk management policies are being adhered to.

Expectations of the Board from Management

10.3 Management will:

- i) identify and assess the significance of the risks to the achievement of the Corporation's objects, strategies, plans and operations;
- ii) provide the Board regularly (or at least annually) with reports that will enable the Board to understand the management of the Corporation's significant risks;
- iii) recommend risk management policies for the Corporation's significant risks to the Board, review these policies periodically (and at least annually) to ensure that they remain appropriate and prudent, and report to the Board on the results of these reviews;
- iv) provide the Board regularly (and at least annually) with reports that will enable the Board to be aware of any situations in which those risks are not being managed in accordance with established policies, and assess whether the Corporation's risk management policies remain appropriate and prudent in any circumstances and are being followed;
- v) provide the Board regularly (and at least annually) with reports that will enable the Board to assess whether the Corporation has an appropriate and effective enterprise risk management process.

BOARD GOVERNANCE POLICY

Sources and rationale

10.4 The Malaysian Code, page 28 considers that, as part of the overall stewardship responsibility, the Board should ensure that the principal risks of the corporation's business have been identified and that appropriate systems to manage these risks have been implemented. It also states that the Board should also ensure that systems are in place to monitor and manage effectively the risks with a view to the long-term viability of the company. In the context of a public body, these risks include risks affecting how well the corporation fulfills its mandate.

Standard No. 11 : Control environment and internal audit

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.

In this connection the Board will:

- i) allocate resources for, and establish an internal audit group, setting out its mandate;
- ii) approve its audit plan each year; and
- iii) seek, from the internal audit group, on a regular basis, reasonable assurance regarding the monitoring of, and the compliance with internal controls, the integrity of the system, and that appropriate action is being taken to address any significant weaknesses or breakdowns identified.

11.1 In light of the Corporation's role in managing deposit insurance funds and as a statutory body, it is appropriate for the Board to set aside resources for, and establish an independent inspection and audit group for the Corporation, and to approve its plan each year. The Board will also seek, from the independent inspection and audit group, on a regular basis, validations that the institution's processes, policies, procedures and controls are being monitored and adhered to, and that appropriate action is being taken to address any significant weaknesses or breakdowns that have been identified.

Expectations from the Board of Management

11.2 Management 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 and contributes to the achievement of its objectives. It will provide the Board regularly (and at least annually) with reports that will enable the Board to assess whether the Corporation has such a control environment.

Sources and rationale

11.3 The Board has financial accountability and oversight responsibilities. Accordingly it must review financial performance information, monitor systems of internal controls established by Management and the Board, and oversee the internal and audit process, with the assistance of its Audit Committee (BRDO Guidelines, paragraph 4, page 17). Generally organisations that require an internal audit capacity are those with high risk or high profile operations. (Ibid. page 19).

11.4 The internal audit function is an integral part of an effective system of corporate governance. The Malaysian Code, in the Explanatory Notes to Best Practice Guideline VII, paragraph 4.67 on page 51 states that "The Board should establish an internal audit function. Where an internal audit function does not exist, the Board should assess whether there are other means of obtaining sufficient assurance of the effectiveness of the system of internal controls within the company."

11.5 Accordingly internal auditors support the need for an organisation to assure:

- i) that existing management processes are adequate to identify and monitor significant risks facing the organisation, and that the existing internal control system operates effectively;
- ii) that those who are responsible for managing risks and operating the control system take a wholly objective and systematic view of their own performance; and

BOARD GOVERNANCE POLICY

- iii) that the Board receives the quality of information from Management needed to support the organisation's risk management and internal controls effectively.

Standard No. 12 : In control

The Board will obtain, on a regular basis, reasonable assurance that the Corporation is "in control".

12.1 The concept of being "in control" refers to the state or condition wherein –

- a) operations are subject to effective governance by the Board,
- b) are being managed in accordance with ongoing, appropriate and effective strategic and risk management processes, and are being conducted in an appropriate control environment; and
- c) any significant weaknesses or breakdowns related to those matters are being identified, and appropriate and timely action is being taken to address them.

Expectations of the Board from Management

12.2 Management will develop and implement an appropriate and effective process for assisting the Board to assess regularly (and at least annually) whether the Corporation is "in control".

V. STRATEGIC PLANNING – STANDARD No. 13

Standard No. 13 : Strategic management process

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.

To fulfill this responsibility, the Board will:

- i) periodically assess the Corporation's objectives to ensure their continuing relevance and, if thought appropriate, propose changes for consideration by the Minister of Finance;
- ii) adopt a strategic planning process;
- iii) at least annually, approve operating objectives and strategies, an operating budget, capital budget, borrowing plan, corporate plan and premium rates that are appropriate and prudent in light of the Corporation's objects, current and anticipated environment, risks, resources and financial position;
- iv) regularly evaluate the Corporation's performance in implementing its approved plans, and budgets; and
- v) obtain, on a regular basis, reasonable assurance that the Corporation has an effective strategic management process.

13.1 It is sound practice for the Board to:

- a) establish the business objectives of the Corporation, consider and approve the Corporation's business strategy and its business plans for significant operations, and review those things at least once a year to ensure that they remain appropriate and prudent in light of the institution's current and anticipated business and economic environment, resources and results;
- b) evaluate frequently the Corporation's actual operating and financial results against forecast results, in light of the institution's business objectives, business strategy and business plans; and
- c) obtain, on a regular basis, reasonable assurance that the institution has an ongoing, appropriate and effective strategic management process.

13.2 The Board should also:

- a) examine its public policy objectives and periodically the legislated mandate to ensure their continuing relevance;

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- b) assess the relevance of the Corporation's mandate, and, if appropriate, propose changes for the consideration of the Minister; and
- c) ensure that all public policy objectives are clearly described in the corporate plan annually approved by the Board.

Expectations of the Board from Management

13.3 Management will periodically assess the continuing relevance of the Corporation's objects and powers and report to the Board on the results of these reviews.

13.4 Management will periodically (and at least annually) develop recommendations for prudent and appropriate operating objectives and strategies, an operating budget, borrowing plan, corporate plan and premium rates that take into account the Corporation's objectives, current and anticipated environment, risks, resources and financial position, and submit such recommendations to the Board for their consideration.

13.5 Management will provide the Board regularly with reports that enable them to assess:

- a) the Corporation's performance in implementing its current approved objectives, strategies, plans and budgets; and
- b) whether the Corporation has an appropriate and effective strategic management process.

Sources and rationale

13.6 The "Principles and Better Practices - Corporate Governance in Commonwealth Authorities and Companies", Discussion Paper by the Australian National Audit Office (May 1999) suggests on page 24, that the objectives of an (public sector) organisation need to be clearly documented in a long term corporate strategy (3 year minimum, updated annually) and an annual business plan together with achievable and measurable performance targets and milestones. The Board should be responsible for approving or rejecting the budget developed by Management to achieve the agreed strategy.

13.7 "Corporate Governance in Crown Corporations and Other Public Enterprises – Guidelines" by the Crown

Corporation and Privatization Sector, Department of Finance and Treasury Board of Canada (June 1996), on page 7 by way of guidance recommends that where the Board considers that the legislated mandate is no longer valid in the current economic or social context, the Board should advise the Minister.

VI. COMMUNICATIONS – STANDARD No. 14

Standard No. 14 : Effective communication

The Board will ensure that the Corporation communicates effectively with the public, Bank Negara Malaysia, other statutory bodies or regulators, depositors, member institutions and other relevant parties.

14.1 In implementing the above principle, the Board should be assured that the Corporation's systems supporting the communications policy will anticipate those issues likely to attract interest and, when appropriate, inform the Minister in a timely manner.

14.2 The Corporation, usually through the CEO or the Chairperson, should inform the Minister of any significant developments and decisions likely to have a major impact on the Corporation or on public perceptions and attitudes towards it. Any significant direct communication between Management and the Minister of Finance should be brought to the Board's attention.

14.3 In respect of its communication with stakeholders, the Board must be satisfied with the main messages contained in the Corporation's annual report and, where applicable, in the documents tabled in Parliament, namely, the Corporation's annual report containing the corporate plan summary, the budget summaries and "management discussion and analysis".

Expectations of the Board from Management

14.4 Management will develop and recommend communications policies to the Board for their consideration.

14.5 It will also bring any direct communications on significant matters between Management and the Minister to the Board's attention.

BOARD GOVERNANCE POLICY

Sources and rationale

14.6 The BRDO Guidelines state, in Section 12 on page 32, that “Public sector organisations should be accessible and responsive when communicating with their stakeholders, their employees, the public and Government. It follows that the Board should ensure that management has adopted an appropriate communications strategy. The communications strategy should reflect the fact that the organisation is part of the public sector where transparency is an important feature of accountability. The Board should be satisfied that all salient information about the organisation and its operations is made accessible by management.”

14.7 Note that section 36 of the Act provides that the accounts of the Corporation shall be audited by the Auditor General, and requires the Corporation to transmit a copy of the annual accounts certified by the Auditor General within three months from the close of its financial year and an annual report on the working of the Corporation throughout the year to the Minister, who shall, as soon as possible, cause them to be laid before the Dewan Negara and Dewan Rakyat.

VII. BOARD GOVERNANCE POLICY – STANDARD No. 15

Standard No. 15 : Review of Board Governance Policy

The Board will annually review this Board Governance Policy to ensure that it remains responsive to the circumstances and needs of the Corporation and continues to reflect the legislation to which the Corporation is subject, the Corporation’s mandate, guidance on matters of governance specific to statutory bodies and recognised “best practices”.

15.1 Governance methodologies continue to evolve, especially in the context of public sector bodies, and the operating environment of the Corporation may change. Accordingly, it is appropriate that the Board Governance Policy be continually reviewed and its practices updated to match opportunities and changing needs.

Expectations of the Board from Management

15.2 Management will provide timely information and reports to the Board on trends and evolving best practices in the area of governance that may be applicable to the Corporation.

Sources and rationale

15.3 “Principles and Better Practices - Corporate Governance in Commonwealth Authorities and Companies”, Discussion Paper by the Australian National Audit Office (May 1999) on page 26 states as a better practice that “The Board should adopt a written statement of its own governance principles and regularly evaluate them.”

BOARD GOVERNANCE POLICY

List of references:

1. “Best Practice Guidelines – Governance and Disclosure Guidelines for Governing Boards of British Columbia Public Sector Organizations, Board Resourcing and Development Office (BRDO) in the Office of the Premier” (February 2005): BRDO was established in 2001 with a mandate to bring professional processes to the area of director appointment and corporate governance in the public sector.
2. “Joint Committee on Corporate Governance (Canada), Beyond Compliance: Building a Governance Culture”, (November 2001)
3. “Governance in the Public Sector: A Governing Body Perspective, International Federation of Accountants”, (August 2001)
4. “Malaysian Code on Corporate Governance”, by the Finance Committee on Corporate Governance (January 2001)
5. “Principles and Better Practices - Corporate Governance in Commonwealth Authorities and Companies”, Discussion Paper by the Australian National Audit Office (May 1999)
6. “Corporate Governance in Crown Corporations and Other Public Enterprises – Guidelines” by the Crown Corporation and Privatization Sector, Department of Finance and Treasury Board of Canada (June 1996)

POSITION DESCRIPTION: MEMBERS OF THE BOARD OF DIRECTORS

INTRODUCTION

The Board of Directors of the Malaysia Deposit Insurance Corporation (the "Corporation") consists of the persons described in subsection 11(2) of the Malaysia Deposit Insurance Corporation Act 2005 (the "Act"). Board membership includes the Chairperson, who is from the private sector, two other directors from the private sector, and three other directors from the public sector. Two of the directors from the public sector are *ex-officio* members (the Governor of Bank Negara Malaysia, and the Secretary General of the Treasury). All non *ex-officio* members are appointed by the Minister of Finance (the "Minister").

Any person holding positions in Parliament or who is an officer of a member institution or affiliated with a political party is specifically prohibited from being a director. In addition, the Minister may terminate or suspend the appointment of a director on grounds set out under subsection 14(2) of the Act.

Each member of the Board appointed by the Minister holds office for a term not exceeding three years and is eligible for reappointment. *Ex-officio* members are directors for the duration of their tenure in their respective offices.

GENERAL ACCOUNTABILITY OF THE BOARD COLLECTIVELY

The Board of Directors is responsible for the conduct of business and affairs of the Corporation. The Board is ultimately accountable for achieving the Corporation's mandate in conformity with the Act and the by-laws of the Corporation.

DUTIES OF INDIVIDUAL MEMBERS OF THE BOARD

A director of the Board has a fiduciary duty and a duty of care. Under section 17 of the Act, a director of the Board shall, at all times, act honestly and in the best interest of the Corporation and use reasonable diligence in the discharge of duties of his office. Apart from the duty of care to act with reasonable diligence, the director also owes a fiduciary duty to the Corporation. This means that directors must be loyal and act honestly, in good faith and in the best interests of the Corporation. A director or any person who has been a director is also prohibited from making improper use of any

information acquired in the course of his position as a director, and from doing anything which may be detrimental to the interests of the Corporation.

BACKGROUND

The Corporation is established under the Act. The Act sets out the Corporation's constitution, objects, powers and duties, the general terms of deposit insurance and other governing parameters. Under the Act, the Minister has specific oversight over certain key powers of the Corporation which affect interested parties or the public, such as setting the annual premiums for member institutions.

The Corporation functions within the legal framework established by the Act and is governed by other statutory provisions applicable to statutory bodies. The Corporation is ultimately accountable, through the Minister, to Parliament for the conduct of its affairs¹.

Membership in the Corporation includes commercial banks and Islamic banks. These two different groups have different characteristics and operate under separate governing legislation and regulatory frameworks. The Act provides that the Corporation shall separately administer an Islamic deposit and a conventional deposit insurance system.

Under the Act, the Corporation's objects are to:

1. administer the deposit insurance system under the Act;
2. provide insurance against the loss of part or all of deposits of a member institution;
3. provide incentives for sound risk management in the financial system; and
4. promote and contribute to the stability of the financial system in Malaysia.

In achieving its objects under paragraphs 2 and 4, the Corporation is required to act in such manner as to minimise costs to the financial system.

KEY RESPONSIBILITIES OF THE BOARD (AS SET OUT IN THE BOARD GOVERNANCE POLICY)

- Reviews and oversees the development of, and approves, a strategic plan and direction, taking into account opportunities, threats and risks.

POSITION DESCRIPTION: MEMBERS OF THE BOARD OF DIRECTORS

- Approves material policies.
- Sets performance objectives, monitors implementation of agreed corporate plans and corporate performance against business objectives, strategies and plans, and oversees major capital expenditures, acquisitions and divestitures.
- Reviews and approves annual budget and ensures the integrity of financial statements, internal controls, financial information systems, projections, forecasts and audited statements.
- Works with Management to identify the principal risks to the organisation and ensures that systems to manage those risks are in place.
- Ensures compliance with legal and regulatory requirements.
- Ensures compliance with reporting, monitoring and accountability as set out in the Corporation's policies.
- Ensures appropriate communications strategy.
- Approves, monitors and reviews the effectiveness of, governance practices, controls, codes or guidelines governing ethical conduct, conflict of interests and similar concerns.
- Provides for the Board's good management and on-going effectiveness, including the establishment of committees, task forces and work groups necessary to assist the Board in the effective discharge of its mandate.
- Identifies required competencies and personal attributes required on the Board and recommends to the Minister of Finance the orderly succession of board members.
- Assesses and reviews its own performance and capability in carrying out its role and responsibilities.
- Identifies, assesses and recommends a suitable candidate for the position of Chief Executive Officer ("CEO"), assesses the incumbent's performance and plans for CEO succession.
- Ensures succession planning for senior management.

KEY RESPONSIBILITIES OF MEMBERS OF THE BOARD INDIVIDUALLY

The key responsibilities of each member of the Board are as follows:

- Regularly attends board meetings and important related meetings such as committee meetings or other ad-hoc meetings which he or she should attend including education and strategy sessions.
- Actively participates in policy dialogue and strategic planning decisions.
- Makes inquiries and stays informed about board and committee matters, reads and understands all materials in advance of meetings, actively and critically reviews, evaluates and challenges Management proposals and reports.
- Asks penetrating questions to ensure full understanding of issues in question and consequences of actions proposed and in this connection, gains access to information or obtains clarifications from the CEO or the Corporation's senior corporate officers where necessary.
- Contributes knowledge and expresses points of view based on experience and skills.
- Understands and supports the Corporation's Mission and Purpose, stays informed about the Corporation and its operating environment.
- Conducts regular evaluation of his or her individual performance and capability as a director.
- Considers other points of view, make constructive suggestions, and helps the Board to make collective decisions which reflect the thinking of the entire Board.
- Assumes board leadership responsibilities as requested and when possible (such as committee chairperson).

¹ A legal opinion has been obtained to this effect.

POSITION DESCRIPTION: CHAIRPERSON

INTRODUCTION

The Chairperson of the Board of Directors presides at all meetings of the Board and provides leadership to the Directors in accomplishing their mandate, in conformity with the Malaysia Deposit Insurance Corporation Act 2005 (the “Act”) and the by-laws of the Corporation. The Chairperson of the Board is appointed by the Minister of Finance in accordance with the Act and must have relevant private sector experience. The Chairperson holds office for a term not exceeding three years and is eligible for reappointment.

BACKGROUND

The Malaysia Deposit Insurance Corporation (the “Corporation”) is established under the Act. The Act sets out the Corporation’s constitution, objects, powers and duties, the general terms of deposit insurance and other governing parameters. The Corporation functions within the legal framework established by the Act and is governed by other statutory provisions applicable to statutory bodies. The Corporation is ultimately accountable, through the Minister of Finance, to Parliament for the conduct of its affairs¹.

Membership in the Corporation includes commercial banks and Islamic banks. These two different groups have different characteristics and operate under separate governing legislation and regulatory frameworks. The Act provides that the Corporation shall separately administer an Islamic deposit and a conventional deposit insurance system.

Under the Act, the Corporation’s objects are to:

1. administer the deposit insurance system under the Act;
2. provide insurance against the loss of part or all of deposits of a member institution;
3. provide incentives for sound risk management in the financial system; and
4. promote and contribute to the stability of the financial system in Malaysia.

In achieving its objects under paragraphs 2 and 4, the Corporation is required to act in such manner as to minimise costs to the financial system.

KEY RESPONSIBILITIES

1. Ministers and Parliament

- Represents the Corporation at meetings with the Minister of Finance or other senior Government officials.
- When invited, attends meetings before parliamentary sub-committees².

2. CEO, Management and Board of Directors

- Presides at all meetings of the Board and organises the business of the Board and determines procedure at and conduct of Board meetings.
- Provides leadership to achieve overall board performance.
- Works with the Board and CEO to develop broad policy directions for the Corporation and to advance the objects of the Corporation for Board approval.
- Ensures that Management responds satisfactorily to the needs of the Board for information and other requirements.
- Ensures that the responsibilities of the Board, Board Committees and individual Directors, as set out in the Charters or Position Descriptions, are well understood by the Board and individual Directors and are executed as effectively as possible.
- Leads regular evaluation of the Board, Chairperson, Committee and Directors as the Chairman of the Governance Committee.
- Develops and maintains effective working relationships with Management and facilitates effective communication between Directors and Management, both inside and outside of Board meetings.
- Has full and free access to the Corporation’s Management for information and review of ideas and consults with the CEO where operational priorities would be significantly affected.

POSITION DESCRIPTION: CHAIRPERSON

- Builds and maintains a sound working relationship with the CEO.
- Oversees the performance of Management in executing the policies and procedures approved by the Board, and generally ensures that the Corporation is well run in terms of the priorities of the Board, efficiency, effectiveness and financial prudence.
- Ensures that the boundaries between Board and Management responsibilities are clearly understood and respected and that relationships between the Board and Management are conducted in a professional and constructive manner.
- With the assistance of the Audit Committee and Board, manages conflicts of interest should they arise.

3. Other

- Spokesperson for the Board.

¹ A legal opinion has been obtained to this effect.

² E.g. Jawatankuasa Wang Negara di Dewan Rakyat has the power to summon external parties to address matters raised by Members of Parliament regarding accounts submitted to Parliament. To the best of our knowledge, this power has not in practice been exercised.

POSITION DESCRIPTION: CHIEF EXECUTIVE OFFICER

GENERAL ACCOUNTABILITY

The Chief Executive Officer (the “CEO”) is the head of the Malaysia Deposit Insurance Corporation’s executive. The CEO is accountable to the Board of Directors for the exercise of his powers and performance of his duties under the Malaysia Deposit Insurance Corporation Act 2005 (“MDIC Act”), the by-laws of the Corporation and the policies and directions of the Board. The CEO is appointed by the Minister of Finance (the “Minister”), on recommendation of the Board.

BACKGROUND

The Malaysia Deposit Insurance Corporation (the “Corporation”) is established under the Act. The Act sets out the Corporation’s constitution, objects, powers and duties, the general terms of deposit insurance and other governing parameters. The Corporation functions within the legal framework established by the Act and is governed by other statutory provisions applicable to statutory bodies. The Corporation is ultimately accountable, through the Minister of Finance, to Parliament for the conduct of its affairs¹.

Membership in the Corporation includes commercial banks and Islamic banks. These two different groups have different characteristics and operate under separate governing legislation and regulatory frameworks. The Act provides that the Corporation shall separately administer an Islamic deposit and a conventional deposit insurance system.

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4. promote and contribute to the stability of the financial system in Malaysia.

In achieving its objects under paragraphs 2 and 4, the Corporation is required to act in such manner as to minimise costs to the financial system.

KEY RESPONSIBILITIES

1. Ministers and Parliament

- With the Chairperson, attends meetings with the Minister of Finance or other senior Government officials when necessary to discuss the achievement of the Corporation’s objectives, performance and financial results.
- When invited, attends meetings before parliamentary sub-committees².

2. Chairperson and Board of Directors

- Works with the Chairperson and the Board to develop policies to advance the objects of the Corporation and recommends such policies to the Board for approval.
- Informs the Chairperson and the Board of any financial and other development that in the CEO’s opinion are likely to have a material effect on the performance of the Corporation.
- Reviews intervention initiatives with the Chairperson and makes recommendations to the Chairperson and the Board concerning such interventions designed to advance the objectives of the Corporation.
- Strives to provide good working relationships, open communication and discussions with the Chairperson and seeks guidance from the Chairperson on all significant matters related to the Corporation.
- Attends meetings of the Board of Directors.

3. Other government and international agencies

- Develops effective working relationships, co-ordination and exchanges of information with the management of relevant Government departments and statutory bodies or regulators (Ministry of Finance, Bank Negara Malaysia), government agencies and counterparts in other jurisdictions.
- Promotes and advances the Corporation’s image and reputation internationally through providing leadership on deposit insurance matters generally, such as chairmanship of the International Association of Deposit Insurers, and availability at international seminars or conferences.

POSITION DESCRIPTION: CHIEF EXECUTIVE OFFICER

- Assists and advises foreign governments and international agencies on the development and operation of effective deposit insurance regimes, subject to review with the Chairperson and the approval of the Board, where significant allocations of employee time and resources are implied.

4. Operations

- Manages the principal risks inherent in the Corporation’s activities.
- Ensures that contingency plans and related action plans are developed and implemented to manage risks to the Corporation.
- Ensures the development of necessary corporate by-laws and regulations.
- Ensures the development of a differential premium system.
- Ensures the development of an appropriate methodology to assess the risks inherent in providing deposit insurance.
- Plans the organisation of the Corporation and allocation of resources.
- Ensures that the Corporation consistently achieves planned objectives and financial targets.
- Ensures that the services delivered by the Corporation are of consistently high quality.
- Ensures the full knowledge of the organisation is brought to bear on decisions.
- Obtains and allocates resources required by the Corporation to meet its objectives.
- Leads the “Executive Management Committee” of the Corporation and acts as an *ex-officio* member of all other committees established by Management.
- Is a signing authority for the Corporation within Board-approved limits.
- Ensures that systems, practices and internal controls are developed and maintained to meet the needs of the Corporation.

- Develops and recommends corporate plans and budgets reflecting Board-approved strategic directions.
- Ensures that the Corporation adheres to its statutory responsibilities under the Act and by-laws and all other applicable statutes.

5. Human Resources

- Ensures the development of human resource plans and programs sufficient to permit the Corporation to meet its objects and strategic and corporate objectives.
- Enhances human resource management through recruiting, directing, motivating, rewarding/disciplining and developing employee skills and expertise through coaching and training.
- Approves hiring, termination and remuneration (including annual bonuses where applicable) of employees other than corporate officers.
- Makes recommendations to the Board concerning the hiring, termination and remuneration of corporate officers.
- Continuously evaluates the performance of senior management and takes appropriate action as warranted.
- Carries out on a regular basis performance review sessions where results are compared to plan, exceptions explained and new proposals presented.
- Cultivates a corporate culture that enhances the Corporation’s performance and employee satisfaction.
- Motivates and enhances employee morale, competence and skills.
- Recommends and implements appropriate succession plans.
- Maintains a high quality staff complement, through fair and effective human resource management and makes recommendations on salary policies that recognize and reward performance.
- Provides an environment where employees are treated fairly and given opportunities and encouragement to develop maximum potential.

¹ A legal opinion has been obtained to this effect.

² E.g. Jawatankuasa Wang Negara of Dewan Rakyat has the power to summon external parties to address matters raised by Members of Parliament regarding accounts submitted to Parliament. To the best of our knowledge, this power has not in practice been exercised.

POSITION DESCRIPTION: CHIEF EXECUTIVE OFFICER

6. Reporting

- Provides to the Board as deemed appropriate periodic reports on the operations of the Corporation, highlighting any significant issues that have arisen or seem likely to arise.

7. Other

- Spokesperson for the Corporation.
- Maintains working relationship with members, industry associations, accountants, lawyers and others.
- Ensures that the Corporation fully complies with linguistic, employment equity and other regulatory provisions.
- Enhances the credibility and image of the Corporation by communicating effectively.
- Clarifies and communicates the corporate mission, vision and values.
- Encourages community and society responsibility contributions by the Corporation and its employees.

8. Major challenges

- To support the Board in determining the Corporation's long term direction and strategies in response to the financial sector environment.
- To maintain strong core capacity to assess the risk of losses likely to arise from insuring deposits in member institutions.
- To reduce the risk of losses through effective risk management, prompt corrective action, early and effective intervention and resolution.
- To develop and implement a differential premium system.
- To maintain efficient, cost effective operations by retaining core competencies and high quality human resources, applying an effective performance measurement system.

- To deploy resources to defined priorities, and keep pace and apply advancements in technology.
- To ensure that the Corporation keeps abreast of developments and emerging issues affecting the financial services industry, both in relation to conventional and Islamic banking.
- To develop the Corporation's best practices and corporate memory through documented policies and practices.
- To develop programs designed to educate the public as to the nature of deposit insurance and the products that are and are not covered by it, thereby contributing to public confidence in the financial system and the stability of that system.
- To ensure that appropriate regulations are developed and implemented to make the Act operational.
- To maintain collaborative working relationships and co-operation with supervisory bodies and other stakeholders.

CORPORATE BY-LAWS

Under subsection 12(1)(d) of the Malaysia Deposit Insurance Corporation Act 2005, the Board may make such by-laws as are necessary or expedient in relation to the administration, management, control, business, assets and affairs of the Corporation, including the rules and procedures to be observed by the directors at Board meetings.

This By-law is made by the Board and relates generally to the regulation of the affairs and conduct of the business of *Perbadanan Insurans Deposit Malaysia* (the "Corporation").

PART 1 – INTERPRETATION

1.1 Definitions

In this By-law, unless another meaning is stated or is dictated by the context, words or phrases have the meaning given to them in the Malaysia Deposit Insurance Corporation Act 2005 and:

"Act" means the Malaysia Deposit Insurance Corporation Act 2005,

"Board" means the board of directors of the Corporation,

"Chairperson" means the chairperson of the Board,

"Chief Executive Officer" means the chief executive officer of the Corporation,

"Committee" means any committee of the Board,

"Corporate Secretary" means the corporate secretary of the Corporation,

"Director" means any Director of the Corporation, and a reference to a particular Director means the individual holding that position for the time being,

"employee" means any employee of the Corporation, whether full-time or part-time and whether employed for an indefinite or a fixed or otherwise limited term,

"ex-officio Director" means any of the Governor of Bank Negara Malaysia or the Secretary-General of the Treasury, appointed as a Director pursuant to paragraphs 11(2)(b) and (c) of the Act, and "non ex-officio Director" correspondingly means any of the other Directors,

"Officer" means any officer of the Corporation appointed by the Board, and a reference to a particular Officer means the individual holding that office for the time being, and

"person" includes an individual, a body corporate, a general or limited partnership, a joint venture, a trust, an unincorporated organisation or association, a government or an agency or instrumentality of a government.

1.2 Statutory References

In this By-law a reference to a statute includes any regulation made under the authority of that statute and includes such statute or regulation as amended or re-enacted from time to time.

1.3 Relation to Statutes

In the event that any provision in this By-law is contrary to a provision of the Act, the provision in the Act prevails.

1.4 Relation to Resolutions

Nothing in this By-law prevents the passage or adoption of any resolution that does not require or permit the taking of an action that is contrary to a provision of this By-law.

1.5 Always Speaking

In this By-law, a reference to a resolution, approval, appointment, delegation or other action includes the same as it may be amended, varied, replaced or revoked from time to time.

PART 2 – THE BOARD

2.1 Composition, appointment and term

- The Board of Directors shall comprise members who are appointed in accordance with the Act¹ and members shall hold office for such term in accordance with the Act².

¹ Subsection 11(2) of the Act.

² Subsection 13 of the Act specifies that the directors shall hold office for a term not exceeding 3 years and shall be eligible for reappointment and that ex-officio Directors hold for the duration of their tenure in the relevant office.

CORPORATE BY-LAWS

- 2) The office of a Director shall be vacated if the Director is:

- removed from office by the Minister of Finance³.
- resigns by notice in writing not exceeding thirty (30) days to the Minister of Finance in accordance with the Act⁴;
- ceases to be a Director by virtue of any provision of the Act or becomes prohibited from being a Director by any provision of law⁵.

2.2 Directors' allowances and expenses

- Directors shall be paid such allowances as may be approved by the Minister of Finance⁶.
- Directors may be paid all travelling, accommodation and other expenses as may be properly incurred by them in connection with their attendance at meetings or otherwise in connection with the discharge of their duties including their attendance at any event for orientation and training of Directors in connection with the discharge of their duties.

2.3 Powers of the Board of Directors

The Act places the responsibility on the Directors to manage the business and affairs of the Corporation and confers the authority to the Board of Directors to exercise all powers and do all acts which may be done or exercised by the Corporation⁷.

PART 3 – MEETINGS OF THE BOARD

3.1 Frequency of Meetings

The Board shall meet as often as may be required but not less than four (4) times a year as required under the Act⁸.

3.2 Chairperson

The Chairperson shall preside at all meetings of the Board and in his absence, the Directors present shall elect a chairperson among the Directors with relevant private sector experience and the person so elected shall preside and have all the powers of the Chairperson⁹ for that meeting.

3.3 Calendar and Attendance at Meetings

- Meeting dates will be scheduled in advance so that the Board has a calendar for the Corporation's entire financial year, which will be reviewed and updated regularly.
- No Director shall be absent, except with leave granted by the relevant person from two (2) of the Board meetings in any period of twelve (12) months. The relevant person in the case of the Chairperson is the Minister of Finance, and in the case of the rest of the Board members, the Chairperson¹⁰.

3.4 Calling of Meetings

- The Chairperson may call a meeting of the Board by giving notice to all of the other Directors stating the time and place of, and the business to be transacted at the meeting, or by causing the Corporate Secretary to do so.
- Subject to the other provisions of this By-law, notices of meetings of the Board must be in writing. Notices may be given either personally or in writing including with the use of electronic communication to the address for the time being given to the Corporation.
- Notices of regular meetings shall unless waived be given no less than fourteen (14) days¹¹ before the meeting.

- Notice of the reconvening of an adjourned meeting of the Board is not necessary if the time and place of the reconvened meeting is announced at the time of adjournment. However if a meeting is adjourned for a period of more than forty-eight (48) hours, any Director who was not present at the time of the adjournment must be notified by the Chairperson or the Corporate Secretary of the time and place of the reconvened meeting. Such notification may be written or oral, but if oral should be confirmed in writing as soon as practicable.

3.5 Special Calling of Meetings

- If, in the opinion of the Chairperson, it is necessary or advisable for a specific matter to receive the attention of the Board at a meeting before notice can be given in the usual manner, the Chairperson may determine the period and content of the notice provided to the other Directors for that meeting. Notice of such a meeting may be given in writing or orally, but if given orally should be confirmed in writing as soon as practicable.
- Any two (2) Directors may request that the Chairperson call a meeting of the Board, stating the business requested to be transacted, and upon receiving such a request the Chairperson shall forthwith call the meeting. Such a request may be made in writing or orally, but if made orally should be confirmed in writing as soon as practicable.
- If the Chairperson is absent or incapacitated and, in the opinion of any four (4) of the other Directors, it is necessary or advisable for a meeting of the Board to be called before the Chairperson will be able to do so, those Directors may call a meeting in place of the Chairperson.
- Except as modified by this section, the other provisions of this By-law apply to meetings called pursuant to this section, being adapted to the case as nearly as practicable.

3.6 Waivers of Notice

A Director may waive notice of a meeting of the Board by any means. Attendance by a Director at a meeting is a waiver of notice unless he or she attends in order to object to a default or defect in the giving of notice of the meeting and does so expressly.

3.7 Validity of Actions

- A resolution passed or other action taken at a meeting of the Board in respect of which notice has been given shall be valid even if, by inadvertence, the notice is not actually received by a particular Director or there is an error in or omission from the contents of the notice which does not affect its substance¹².
- The Board may act notwithstanding any vacancy and its proceedings or all acts done by any meeting of the Directors or committee shall not be invalidated by (a) the absence of any Director (b) any defect afterwards discovered in the appointment or qualification of any Director or the constitution of the Board (c) any omission, defect or irregularity in the convening or conduct of the meeting or (d) the presence or participation of a person who is not a Director of the Board¹³.

3.8 Place of Meetings

A meeting of the Board may be held at any place in Malaysia.

3.9 Quorum for Meetings

The quorum for a meeting of the Board shall be not less than four (4) Directors, at least two (2) of whom must comprise *ex-officio* Directors or a director appointed from the public sector¹⁴.

3.10 Procedure at Meetings

Subject to the other provisions of this By-law and to any resolution of the Board respecting a specific matter, the Chairperson shall determine the procedure at and conduct of meetings of the Board.

3.11 Voting at Meetings

Board decisions shall be made by a majority of the votes of the Directors present and voting¹⁵. In the event of an equality of votes the Chairperson has a casting vote¹⁶.

3.12 Participation by teleconferencing, live video, etc.

The Chairperson may authorise a Director to use telephone conference, live video, television links or other appropriate communication or multimedia facilities to participate in any meeting of the Board or Board Committee provided that, prior to the meeting, the Director has by notification to the

3 Subsection 14(2) of the Act provides the circumstances under which the Minister may terminate or suspend the appointment of the director including if he becomes of unsound mind or otherwise becomes incapable of carrying out his duties, or any form of restriction or supervision under any law relating to the prevention of crime, etc., or he becomes a bankrupt, suspends payment or compounds with his creditors, charged with a criminal offence punishable with imprisonment, guilty of serious misconduct in relation to his duties under the Act, or is absent, except with leave granted by the Minister in the case of the Chairman or by the Chairman in the case of all other directors from 2 of the meetings of the Board in any 12 month period.

4 Subsection 14(3) of the Act.

5 Subsection 14(1) of the Act sets out the circumstances under which a Director would be disqualified from acting as such.

6 Section 16 of the Act.

7 Subsection 11(1) of the Act. Section 25 of the Act specifically sets out the powers of the Corporation.

8 Subsection 18(1) of the Act.

9 Subsection 18(2) of the Act.

10 Subsection 14(2)(f) of the Act.

11 As recommended in the Putrajaya Committee on GLC High Performance's Green Book on "Enhancing Board Effectiveness".

12 Subsection 15(1) of the Act provides that the proceedings of the Board shall not be invalidated by any omission, defect or irregularity in the convening of conduct of a meeting.

13 Section 15 of the Act.

14 Subsection 18(3) of the Act.

15 Subsection 18(4) of the Act.

16 Subsection 18(5) of the Act.

CORPORATE BY-LAWS

Chairperson, requested for such authorisation¹⁷, and the facilities are such that all persons participating in the meeting can hear each other. Participating in a meeting pursuant to this provision shall constitute presence in person (including for the purposes of quorum) at such meeting.

3.13 Circular Resolutions in Writing

A circular resolution in writing, signed by all the Directors for the time being entitled to notice of a meeting of the Directors, shall be valid and effectual as if it had been passed at a meeting of the Directors duly convened and held and any such resolution may consist of several documents in like form, each signed by one (1) or more Director¹⁸.

3.14 Declarations of Interest or Notices of Dissent

- 1) A written declaration of interest by a Director respecting an actual or proposed material contract with the Corporation or any other declaration of an actual, perceived or potential conflict of interest or a written notice of dissent by a Director in respect of a resolution passed or other action taken at a meeting of the Board at which the Director was not present shall be sufficiently made or given if provided to the Corporate Secretary.
- 2) If a Director makes a written declaration of interest or a Director who was not present at a meeting gives a written notice of dissent, a copy shall be sent to all of the other Directors by the Corporate Secretary as soon as practicable.
- 3) For avoidance of doubt where a conflict of interest arises or becomes known to the Director during a meeting of the Board or committee, it shall be sufficient for that Director to declare the same at the meeting. Such conflict and the decision of the Board or Committee in relation thereto shall be recorded in the minutes of the meeting.

3.15 Coordination Through Chairperson

The Chairperson is the principal channel of communication for matters of significance concerning the Corporation between individual Directors and the Board or between the Board and the Chief Executive Officer.

3.16 Minutes of Meetings

- 1) The Corporate Secretary is the secretary of meetings of the Board, but where he or she is not present at a meeting the Chairperson shall select another officer, employee or Director of the Corporation to be the acting secretary.
- 2) The Chairperson may require the Corporate Secretary to absent himself or herself from some or all of any particular meeting of the Board.
- 3) Minutes of the proceedings of the Board shall be recorded by the Corporate Secretary or any acting secretary and maintained by the Corporate Secretary.
- 4) The Corporate Secretary shall send a draft of the minutes of each meeting of the Board to all of the Directors before the time of the next meeting or within such greater or lesser period as the Chairperson directs for the draft minutes of any particular meeting.
- 5) The Chairperson shall so confirm the minutes of proceedings of the Board after they have been approved by the Board.

3.17 Manner of Sending Notices

- 1) Any written communication or other document required by this By-law to be given or sent shall be sufficiently given or sent if dispatched by courier service, mail or any electronic means of sending messages that is capable of producing a paper record of the contents.
- 2) Items dispatched by courier service shall be deemed to arrive on the day of delivery, those sent by electronic means shall be deemed to arrive on the day of transmission and items mailed shall be deemed to arrive on the fifth day following the post-mark date.
- 3) Each Director shall provide the Corporate Secretary from time to time with a current address to which written communications and other documents can be dispatched to his or her attention.
- 4) A written communication or other document delivered or transmitted to the address most recently provided by a Director shall be deemed received by that Director.

CORPORATE BY-LAWS

3.18 Substitute for Corporate Secretary

Where, due to absence or incapacity, the Corporate Secretary is unable to give or send a written communication or other document required by this By-law, another officer, employee or Director selected by the Chairperson may do so in his or her stead.

PART 4 – COMMITTEES OF THE BOARD

4.1 Audit Committee

- 1) There shall be an Audit Committee comprising at least three (3) members of the Board, of which two (2) must be non *ex-officio* Directors and one (1) must be an *ex-officio* Director, as named by the Board.
- 2) The Audit Committee shall be chaired by one of its members, as selected by the Board, and such member shall be a person with financial expertise.
- 3) The Audit Committee will carry out such functions as are set out in its Board-approved Charter and any incidental activities as the Committee or the Board deems necessary or appropriate.
- 4) The Committee will meet at the discretion of the chair but not less frequently than four (4) times each year.
- 5) The Audit Committee will carry out the functions of the *Jawatankuasa Pengurusan Kewangan dan Akaun* ("JPKA").
- 6) The auditor of the Corporation shall be provided with notice of meetings of the Audit Committee at the same time and in the same manner as its members.
- 7) The presence of two (2) members constitutes a quorum for a meeting of the Audit Committee.
- 8) A matter put to a vote at a meeting of the Audit 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.

4.2 Governance Committee

- 1) There shall be a Governance Committee comprising at least three (3) members of the Board, the members of which shall be the Chairperson and one (1) non *ex-officio* Director and one (1) *ex-officio* Director, as named by the Board.

- 2) The Governance Committee shall be chaired by the Chairperson of the Board.
- 3) The Governance Committee will carry out such functions as are set out in its Board-approved Charter and any incidental activities as the Committee or the Board deems necessary or appropriate.

- 4) The Committee will meet at the discretion of the chair but not less frequently than two (2) times each year.
- 5) The presence of two (2) members constitutes a quorum for a meeting of the Governance Committee.
- 6) A matter put to a vote at a meeting of the Governance Committee shall be decided by a majority of the votes cast. In the event of an equality of votes its chair has a second vote.

4.3 Remuneration Committee

- 1) There shall be a Remuneration Committee, the members of which shall be two (2) non *ex-officio* Directors and one (1) *ex-officio* Directors, as named by the Board.
- 2) The Remuneration Committee shall be chaired by one of its members, as selected by the Board.
- 3) The Remuneration Committee will carry out such advisory or other functions on the subject of human resource and compensation issues as are set out in its Board-approved Charter and any incidental activities as the Committee or the Board deems necessary or appropriate.
- 4) The Committee will meet at the discretion of the chair but not less frequently than two (2) times each year.
- 5) The presence of two (2) members constitutes a quorum of the Remuneration Committee.
- 6) A matter put a vote at a meeting of the Remuneration Committee shall be decided by a majority of the votes cast. In the event of an equality of votes its chair has a second vote.

¹⁷ Subsection 19(7) of the Act.

¹⁸ Subsection 18(6) of the Act.

CORPORATE BY-LAWS

4.4 Other Committees

The Board may establish other Committees with such terms of reference or mandates, and with such membership from among Board members or other persons and for such duration as the Board may determine.

4.5 Terms of Membership

The Board may set lengths of term for members of Committees named or selected by the Board.

4.6 Minutes of Meetings

- 1) The Corporate Secretary is the secretary of meetings of the Committees, but where he or she is not present at a meeting the chair of the Committee shall select another officer, employee or Director to be the acting secretary.
- 2) The chair of a Committee may require the Corporate Secretary to absent himself or herself from some or all any particular meeting of the Committee.
- 3) Minutes of the proceedings of the Committees shall be recorded by the Corporate Secretary or any acting secretary and maintained by the Corporate Secretary.
- 4) Copies of the minutes of the proceedings of a Committee shall be sent by the Corporate Secretary to all of the Directors once they have been approved by the Committee.

4.7 Application of General Rules

Except as modified by this Part, the provisions of this By-law relating to meetings of the Board apply to meetings of Committees, being adapted to the case as nearly as practicable.

PART 5 – OFFICERS

5.1 Chief Executive Officer

- 1) The Chief Executive Officer shall be appointed by the Minister, on recommendation of the Board.
- 2) The Chief Executive Officer shall be responsible for the day-to-day administration of the business and affairs of the Corporation.
- 3) The Chief Executive Officer shall be answerable and accountable to the Board for the exercise of his powers and the performance of his duties.

¹⁹ Section 21 of the Act.

- 4) In the absence or incapacity of the Chief Executive Officer, the Board may authorise an officer of the Corporation to perform the duties, functions and responsibilities of the Chief Executive Officer.
- 5) The Chief Executive Officer shall be an officer of the Corporation subject to the terms and conditions of service determined by the Board and enjoy such compensation and other amenities as approved by the Minister upon recommendation of the Board.

5.2 Board-Appointed Officers

Subject to the Board establishing additional officers with the Corporation that require Board appointment, the holders of the following offices must be appointed by the Board:

- i) Chief Financial Officer;
- ii) General Counsel and Corporate Secretary.

5.3 Terms of Appointment

- 1) An Officer appointed by the Board holds that office at the pleasure of the Board and on terms and conditions as may be determined by the Board¹⁹.
- 2) An individual may hold more than one office with the Corporation for an interim period to fill a vacancy until the vacant office is substantially filled.

5.4 Position Descriptions

The Board shall approve general descriptions of the respective roles and responsibilities and authorities of:

- i) The Chairperson,
- ii) The Chief Executive Officer; and
- iii) Those Officers who are appointed by the Board.

PART 6 – CONFLICT OF INTEREST

6.1 Conflicts of Interest

- 1) Every Director, Officer and employee shall abide by the applicable provisions of a conflicts of interest code of the Corporation approved by the Board, both during and, to the extent therein provided, after his or her tenure with or employment by the Corporation²⁰.

²⁰ Section 12 of the Act provides that the Board may make such by-laws as may be necessary or expedient in relation to the Corporation including the conflict of interest in respect of serving directors, officers and employees of the Corporation and those directors, officers and employees who have left the service of the Corporation.

CORPORATE BY-LAWS

- 2) Directors shall disclose to any designated person or the Board any conflict of interest that the Director may have and is aware of. No Director may vote on a matter where the Director has a conflict of interest. Should a conflict of interest arise or come to his or her knowledge during the meeting, the Director shall immediately declare his or her conflict and leave the meeting until discussion on the item in question is concluded.
- 3) Where a Director has disclosed to any designated person any conflict of interest or any interest or directorships or other positions it holds in accordance with any policies or guidelines applicable to Directors that may give rise to a conflict of interest, the designated person may inform the meeting of the conflict of interest, whether actual, apparent or potential. If the meeting is not already informed of the actual, apparent or potential conflict of interest, the Director should then inform the meeting of such interest.
- 4) Where there is a potential, apparent or actual conflict of interest of any Director in relation to any matter to be brought in the agenda of which the Chairperson is aware, the Chairperson may arrange to have any Director's copy of any materials provided to the Board for the meeting expurgated as seems reasonably necessary to prevent the Director receiving any non-public information bearing on the matter.

PART 7 – PROTECTION OF DIRECTORS AND OFFICERS

7.1 Liability to be Individual

A present or former Director or officer or auditor shall not be liable to the Corporation, whether jointly, jointly and severally or otherwise, for any loss, damage or expense suffered or incurred by it as a result of any neglect or default of any other present or former Director or officer or auditor.

7.2 Indemnification

Subject to the provisions of the law and provided he or she has acted in good faith, each Director, officer or auditor of the Corporation shall be entitled to be indemnified against all costs, charges, losses, expenses and liabilities suffered and incurred by him or her in the execution of his or her duties or in relation thereto.

²¹ Section 6 of the Act provides that any document or instrument which, if executed by any person not being a body corporate, would not be required to be under seal may in a like manner be executed by the Corporation, and any such document or instrument may be executed on behalf of the Corporation by any officer of the Corporation generally or specifically authorised by the Board in that behalf.

7.3 Claims for Indemnification

- 1) If a present or former Director, officer or auditor claims indemnification against costs, charges and expenses incurred in respect of an action or proceeding to which he or she is a party, the Corporation will pay the same on behalf of or reimburse the individual as and when incurred, or if so requested, make one or more advances to the individual or for his or her account in order to pay such costs, charges and expenses, provided that:
 - a) in the opinion of the Board, there is no substantial reason to doubt that the individual is entitled to be indemnified, and
 - b) the individual agrees that the Corporation shall be entitled to any costs, charges and expenses which the individual recovers from any other person.
- 2) The Corporation will have a policy setting out the circumstances under which such individual if at all would qualify for an advance or funding with regard to such costs, charges and expenses.
- 3) The benefits of this Part shall enure to the heirs, executors, administrators and legal personal representatives of a present or former Director or Officer.

PART 8 – EXECUTION OF DOCUMENTS

8.1 Authorities

Contracts for the purchase or other acquisition of property or services, or for the disposition or supply of property or services, by the Corporation, guarantees, indemnities and similar commitments by the Corporation, cheques and other negotiable or non-negotiable orders for payment issued or received by the Corporation and promissory notes, bonds, debentures and other negotiable or non-negotiable promises of payment made or received by the Corporation may be signed or endorsed on behalf of the Corporation in accordance with resolutions of the Board²¹.

CORPORATE BY-LAWS

8.2 Signatures by Proxy

- 1) If the occasion requires, the Chairperson may designate another Director or the Chief Executive Officer to sign a document or instrument in his or her name.
- 2) If the occasion requires, the Chief Executive Officer may designate another employee to sign a document or instrument in his or her name.

8.3 Facsimile Signatures

The signature of an individual on a document or instrument to be signed on behalf of the Corporation may be affixed manually or printed, stamped, engraved, lithographed or otherwise mechanically reproduced²².

8.4 Common and Facsimile Seal

- 1) The common and facsimile seal shall be used with the authority of the Board and in accordance with any resolution and policy of the Board from time to time in force and every instrument to which the common seal is affixed shall be signed by a Director and shall be countersigned by the secretary or by a second Director or such other person as appointed by the Board²³.
- 2) The Corporation may have a facsimile seal and the signature of any Director or secretary may be affixed manually or printed, stamped, engraved, lithographed or otherwise mechanically reproduced²⁴.
- 3) Every instrument to which a facsimile seal is affixed and signed by a Director and secretary by printing or other mechanical means shall have the same force and validity as if the common seal had been affixed and such instrument properly signed.
- 4) The common and facsimile seal shall be kept in accordance with the provisions of the Act²⁵.
- 5) The seal, an impression of which appears as the Schedule to this By-law is the common seal of the Corporation.

²² Subsection 5(2) of the Act provides that the Board may provide for a facsimile seal and may authorise the signature of any director or secretary be produced by printing or other mechanical means.

²³ Subsection 5(3) of the Act.

²⁴ Subsection 5(2) of the Act provides that the Board may provide for a facsimile seal and may authorise the signature of any director or secretary be produced by printing or other mechanical means.

²⁵ Section 5(6) of the Act.

²⁶ Section 33 of the Act which cross-refers to the Statutory Bodies (Accounts and Annual Reports) Act 1980.

²⁷ Section 34 of the Act.

²⁸ Section 35 of the Act requires the Corporation, within three (3) months from the close of its financial year transmit a copy of the annual accounts certified by the Auditor-General and an annual report on the working of the Corporation throughout the year to the Minister, who shall, as soon as possible, cause them to be laid before the Dewan Negara and the Dewan Rakyat.

PART 9 – ACCOUNTS AND AUDIT

9.1 Accounts and Audit

- 1) The Directors shall cause accounting records to be kept in accordance with the Act²⁶.
- 2) The accounts of the Corporation shall be audited by the Auditor General²⁷.
- 3) The Directors shall, in accordance with the Act, cause to be prepared and transmitted to the Minister of Finance such annual accounts and annual reports as are required by the Act to be so prepared and transmitted²⁸, for tabling by the Minister of Finance at the Dewan Rakyat and Dewan Negara.

PART 10 – REVIEW OF BY-LAW

10.1 Annual Review

- 1) The Chief Executive Officer shall undertake a review of this By-law, or cause the General Counsel and the Corporate Secretary to do so, annually, and shall report to the Chairperson any suggested changes.
- 2) Any such report shall be tabled before the Board, accompanied by any recommendations of the Chairperson.

SCHEDULE

Common Seal

The seal, an impression of which appears below, is the common seal of the Corporation.

[Seal]

POLICY FOR DISCLOSURE OF INFORMATION CONCERNING WRONGDOING IN THE WORKPLACE

1) INTRODUCTION

1. Whistleblowing is basically a form of disclosure. It involves a person i.e. the whistleblower raising serious concerns at an early stage about risks of wrongful activities or reporting a wrongdoing.
2. The whistleblower usually works in or with the organisation and has knowledge of the underpinning facts and circumstances surrounding a wrongdoing within that organisation.
3. The Corporation recognises that having a whistleblowing system contributes to a more efficient and effective organisation.
4. This whistleblowing policy (hereinafter referred to as “this Policy”) is intended to enable employees and other persons to make disclosures about wrongdoings at an early stage to a designated person in the Corporation without fear of reprisal so that problems can be identified and resolved quickly within the Corporation.
5. At the same time, this Policy is to also ensure people exercise their right (to make a disclosure) responsibly and sensibly when suspecting something amiss.
6. The development of this Policy is guided by the following principles:
 - 6.1 The Corporation is committed to the values of transparency, integrity, impartiality and accountability in the conduct of its business and affairs. It expects wrongdoings such as fraud, corruption, serious financial impropriety and gross mismanagement to be reported and facilitates this through internal mechanisms.
 - 6.2 A whistleblowing policy reflects the Corporation’s philosophy to stand ready at all times. It covers disclosures about risks that a wrongdoing is likely to happen. Such disclosures act like an early warning system to identify problems or pre-empt a situation detrimental to the Corporation. It also makes the Corporation better prepared to manage risks and contingencies including how to avoid similar problems in future or prevent similar wrongdoings from recurring.
 - 6.3 The Corporation promotes an open communication and honest work culture by setting up internal

procedures to address concerns. This Policy complements the normal channels of communication and reporting lines within the Corporation. It provides an alternative route for employees to raise concerns if the usual lines of communication are not available as the complaint relates to his or her immediate supervisor or head of division.

- 6.4 The Corporation encourages its employees to aspire to achieve the highest possible legal and ethical standards. This Policy demonstrates the Corporation’s and its employees’ commitment to high legal and ethical standards. Integrating whistleblowing policies into our practices and culture helps to deter fraud, corruption and mismanagement. Through an effective implementation of this Policy, the Corporation is able to preserve its integrity and stand up to public scrutiny. This in turn enhances and builds credibility with our stakeholders.

7. The purpose and objectives of this Policy are as follows:

- 7.1 To facilitate the making of a disclosure as early as possible and in a responsible manner by putting into place internal procedures.
- 7.2 To address a disclosure in an appropriate and timely manner. When disclosure matters are addressed, they may be prioritised according to the nature or gravity of the alleged wrongdoings or reported risks and the magnitude of the repercussions.
- 7.3 To protect a whistleblower from reprisal as a direct consequence of making a disclosure and to safeguard such person’s confidentiality.
- 7.4 To treat both the whistleblower and the alleged wrongdoer fairly. The whistleblower will be informed of the status of his or her disclosure. The alleged wrongdoer will be informed of the allegations (though not necessarily at the start of the investigation) and given an opportunity to answer the allegations. The identities and personal information of the whistleblower and the alleged wrongdoer will be revealed to persons involved in investigations or any other processes on a “need to know” basis only.

POLICY FOR DISCLOSURE OF INFORMATION CONCERNING WRONGDOING IN THE WORKPLACE

II) MONITORING AND REVIEW

1. In general, all disclosures pursuant to this Policy are to be made to the Prescribed Officer who is an officer of the Corporation designated by the Chief Executive Officer ("CEO") from time to time.
2. The Prescribed Officer is responsible for ensuring compliance with this Policy and will prepare annual reports for the Board of Directors ("Board").
3. The Board will be apprised of disclosure matters which are serious in nature or of grave repercussions.
4. This Policy may be reviewed and amended from time to time, as and when necessary, to ensure its relevance and effectiveness in keeping with the Corporation's changing business environment or administrative or operational needs.

III) PROCEDURES

PRELUDE

This Policy is intended to complement the normal channels of communication and reporting lines within the Corporation. Employees should first consult or raise their concerns with their immediate supervisors or heads of divisions, or the head of the Human Capital Division or, where necessary, the CEO. However, if their complaints relate to such persons or if their concerns remain unresolved, this Policy provides a facility for employees to make formal disclosures.

A. WHO CAN DISCLOSE

1. Any of the following people ("Whistleblower") can make a disclosure:
 - The Corporation's employees including employees on contract terms, temporary or short-term employees and employees on secondment.
 - People performing services for the Corporation including contractors and consultants ("Servicers").
 - Members of the public who are natural persons, not being incorporated or unincorporated bodies.

B. WHAT TO DISCLOSE

1. A disclosure ("Disclosure") may be made if it relates to one or more of the following wrongdoings by any person in the conduct of the Corporation's business or affairs ("Wrongdoing"):
 - Corruption or fraud.
 - Criminal offence.
 - Misuse of the Corporation's funds or assets.
 - Gross mismanagement within the Corporation.
 - Serious financial irregularity or impropriety within the Corporation.
 - Serious breach of the Corporation's Code Of Business Conduct And Ethics or Conflict Of Interest Code for its employees and directors.
 - An act or omission which creates a substantial and specific danger to the lives, health or safety of the Corporation's employees or the public or the environment.
 - Failure to comply with the provisions of the Malaysia Deposit Insurance Act 2005.
 - Failure to comply with the provisions of the other Acts of Parliament where the wrongdoer, knowingly, disregards or does not comply with such provisions.
 - Knowingly directing or advising a person to commit any of the above Wrongdoings.

2. This Policy excludes any issues, complaints or concerns about:

- 2.1 matters which are trivial or frivolous or malicious or vexatious in nature or motivated by personal agenda or ill will;
- 2.2 matters covered by the Corporation's Employee Grievance Procedures;
- 2.3 matters pending or determined through the Corporation's disciplinary proceedings; and

POLICY FOR DISCLOSURE OF INFORMATION CONCERNING WRONGDOING IN THE WORKPLACE

- 2.4 matters pending or determined through any tribunal or authority or court, arbitration or other similar proceedings.

3. A Wrongdoing could occur in the course of the Corporation's business or affairs or at any workplace i.e. any place related to the Corporation's business or affairs, for example, on the Corporation's premises, at a charity event organised by the Corporation, or during a conference attended by its employee in the course of his or her work.

4. If an employee is unsure whether a particular act or omission constitutes a Wrongdoing under this Policy, he or she is encouraged to seek advice or guidance from his or her supervisor or head of division, or the head of Human Capital Division or, where necessary, the CEO.

C. WHEN TO DISCLOSE

1. A Whistleblower should come forward with any information or document that he or she, in good faith, reasonably believes discloses a Wrongdoing is likely to happen, is being committed or has been committed.
2. The Whistleblower needs to demonstrate that he or she has reasonable grounds for the concerns. However, he or she is not expected to first obtain substantial evidence of proof beyond reasonable doubt when making a Disclosure. If he or she knows as a matter of fact that there are serious risks that a Wrongdoing is going to take place, such genuine concerns should be raised at that early stage.
3. Disclosure should be made within three (3) months of coming upon such information or document. Delaying the Disclosure may be detrimental to the Whistleblower as well as any investigation, and makes it harder for the Corporation to address and resolve the concerns.
4. If a Whistleblower was or is involved in a Wrongdoing, he or she is encouraged to make a Disclosure and the voluntary admission will be given due consideration. The protection provided by this Policy may not apply depending on the nature or gravity of the Whistleblower's involvement or the Wrongdoing.

D. HOW TO PROCEED

1. Generally, all Disclosures pursuant to this Policy are to be made to the Prescribed Officer except in the circumstances specified below. The Prescribed Officer is currently the General Counsel.

Initial Disclosure

2. A Disclosure can be made in writing or orally.
3. The Prescribed Officer will commit to writing a Disclosure made verbally and the Whistleblower is to confirm the written statements. As far as reasonably practicable, such Disclosure will be made in a private room within the Corporation's office.
4. A Disclosure shall include at least the following particulars:

- 4.1 a) if the Whistleblower is an employee of the Corporation, his or her name, designation, current address and contact numbers; or
- b) if the Whistleblower is not an employee of the Corporation, his or her name, name of employer and designation, current address and contact numbers;

- 4.2 basis or reasons for his or her concerns including as many details of the Wrongdoing as reasonably possible, for example, its nature, the date, time and place of its occurrence and the identity of the alleged wrongdoer;

- 4.3 particulars of witnesses, if any; and

- 4.4 particulars or production of documentary evidence, if any.

5. The Whistleblower may be asked to provide further clarifications and information from time to time, for example, if an investigation is conducted.

Screening

6. The Prescribed Officer will screen and assess the Disclosure to determine whether it is related to a Wrongdoing or excluded from the scope of this Policy, and will prepare general recommendations to the deciding authority. This initial process should not

POLICY FOR DISCLOSURE OF INFORMATION CONCERNING WRONGDOING IN THE WORKPLACE

take more than one (1) month from the day the Prescribed Officer receives the Disclosure. It may be completed immediately if the Wrongdoing is capable of causing irreparable harm to the Corporation.

7. A Disclosure can be made directly to the CEO in either of the following circumstances:

7.1 where the Wrongdoing involves the Prescribed Officer; or

7.2 where the Wrongdoing does not involve the Prescribed Officer but the Whistleblower, in good faith, reasonably believes that there will be a cover-up or that the Prescribed Officer is personally conflicted (for example, the Prescribed Officer is a close friend of the alleged wrongdoer).

7.3 In either circumstance, there will be no referral to a higher authority. The CEO has the authority to make final decisions including but not limited to any of those mentioned under paragraph 8 below. The CEO may designate any persons, other than the Prescribed Officer, from within or without the Corporation to conduct any investigation or to carry out any other process pursuant to this Policy (for example, any meeting or an internal audit).

Referral To Deciding Authority

8. Following paragraph 6 above, the Disclosure together with the general recommendations will be referred by the Prescribed Officer to the CEO who has the authority to make final decisions including but not limited to any of the following:

- Rejection of the Disclosure.
- Directing the concerns or any part thereof for consideration under other internal procedures, such as the Employee Grievance Procedures or the disciplinary procedures, if appropriate and applicable.
- Resolution without recourse to an investigation.
- Directing investigations of the Disclosure and any persons involved or implicated.

- Suspending the alleged wrongdoer or any other implicated persons from work to facilitate any fact-finding or to avoid any employee's exposure to a threat or harm.

- Designating the Prescribed Officer or any other persons from within or without the Corporation to conduct any investigation or to carry out any other process pursuant to this Policy (for example, any meeting or an internal audit).

- Obtaining any other assistance (for example, external auditors or legal advice).

- Referral to the police or any other appropriate enforcement authority.

9. If the Disclosure involves the CEO, following paragraph 6 above, the Disclosure will be referred directly to the Chairperson of the Remuneration Committee who will then be responsible for the investigation and recommendation to the Board. The Chairperson of the Remuneration Committee may refer the Disclosure to the Chairperson of the Audit Committee if the Wrongdoing comes within the purview of the Audit Committee (for example, the Wrongdoing is financial in nature e.g. fraud). In the latter event, the Chairperson of the Audit Committee is responsible for the investigation and recommendation to the Board. In either case, the Board has the authority to make final decisions and, if applicable, make a recommendation to the Minister of Finance for the removal of the CEO.

10. If the Disclosure involves a Director of the Corporation (except the Chairperson of the Board), following paragraph 6 above, the Disclosure will be referred directly to the Chairperson of the Board who will then be responsible for the investigation and recommendation to the Board. A Disclosure involving the Chairperson of the Board is to be referred to the Chairperson of the Audit Committee who will then be responsible for the investigation and recommendation to the Board. In either case, the Board has the authority to make final decisions and, if applicable, make a recommendation to the Minister of Finance for the removal of the Director concerned.

POLICY FOR DISCLOSURE OF INFORMATION CONCERNING WRONGDOING IN THE WORKPLACE

Being Informed, Opportunity To Be Heard

11. The Whistleblower will be informed of the status of his or her Disclosure matter as far as reasonably practicable.

12. The Whistleblower and the alleged wrongdoer are expected to give his or her full cooperation in any investigation or any other process carried out pursuant to this Policy.

13. The alleged wrongdoer may be asked to attend a meeting to discuss the allegations ("Meeting") and must take all reasonable steps to attend the Meeting. He or she will be given an opportunity to answer the allegations at the Meeting, and his or her answers will be recorded in the minutes of the Meeting. The Meeting may be adjourned for the Corporation to get any advice or make any further investigation. A Meeting may not necessarily be held within the early stages of an investigation.

14. In the event the Whistleblower is implicated or discovered to be or have been involved in any Wrongdoing, he or she may also be investigated so as to complete the fact-finding process. An investigation is not and shall not be treated as a reprisal against the Whistleblower. It is to facilitate decision-making. The Whistleblower may then be asked to attend a meeting to discuss the allegations and must take all reasonable steps to attend that meeting. He or she will be given an opportunity to answer the allegations at that meeting, and his or her answers will be recorded in the minutes of that meeting. That meeting may be adjourned for the Corporation to get any advice or make any further investigation.

15. The Whistleblower and, if applicable, the alleged wrongdoer will be notified in writing of the decision on the Wrongdoing (e.g. the Wrongdoing occurred or not; the alleged wrongdoer is guilty or not), and the basis thereof.

Consequence Of Wrongdoing Or Wrongful Disclosure

16. If an employee of the Corporation has, or is found to have:

- a) committed a Wrongdoing;
- b) taken serious risks which would likely cause a Wrongdoing to be committed;

c) made a disclosure not in accordance with the requirements of this Policy (for example, dishonest, mischievous or malicious complaints); or

d) participated or assisted in any process pursuant to this Policy otherwise than in good faith,

The corrective actions to be taken against that employee will be determined by the CEO or, if so delegated by the CEO, the Management, which may include disciplinary measures, formal warning or reprimand, demotion, suspension or termination of employment or services with the Corporation or monetary or other form of punishment.

E. PROTECTION

1. Upon making a disclosure in good faith, based on reasonable grounds and in accordance with the procedures pursuant to this Policy:

1.1 The Whistleblower will be protected from a reprisal within the Corporation as a direct consequence of his or her disclosure; and

1.2 The Whistleblower's identity will be protected i.e. kept confidential unless otherwise required by law or for purposes of any proceedings by or against the Corporation.

2. The identities and personal information of the Whistleblower and the alleged wrongdoer may be revealed to persons involved in investigations or any other processes on a "need to know" basis.

3. A reprisal means disciplinary measures, demotion, suspension or termination of employment or services with the Corporation or a threat to do any of these actions.

4. a) If an employee of the Corporation, in good faith, reasonably believes he or she is being subjected to harassment, victimisation or a reprisal as a direct consequence of having made a disclosure under this Policy, he or she ("Complainant") may consult the Prescribed Officer in confidence. Essentially, the complaint will be processed in a similar manner as a whistleblowing disclosure above and is subject to similar requirements.

b) The wrongdoing being addressed in this instance is the retaliatory conduct or action complained of.

POLICY FOR DISCLOSURE OF INFORMATION CONCERNING WRONGDOING IN THE WORKPLACE

c) i) if an employee of the Corporation is found guilty of the wrongdoing i.e. harassment, victimisation or reprisal complained of; or

ii) if the complaint was made by the Complainant otherwise than in good faith and based on reasonable grounds,

the CEO or, if so delegated by the CEO, the Management will determine the action to be taken which may include disciplinary measures, formal warning or reprimand, demotion, suspension or termination of employment or services with the Corporation or monetary or other form of punishment.

5. Any aspects and elements relating to employee protection and employer-employee rights, benefits and obligations do not apply to Servicers and members of the public.

6. Any employees of the Corporation, Servicers or members of the public who made, or are discovered to have made, a disclosure otherwise than in good faith and based on reasonable grounds will automatically lose the above protections (where applicable).

IV) QUICK CHECKLIST FOR A WOULD-BE WHISTLEBLOWER

Do

- Promptly make a note of concerns and documentary evidence;
- Disclose responsibly and in good faith – think of the consequences before acting;
- Follow this Policy and consult the appropriate officer.

Don't

- Be afraid to raise genuine concerns;
- Accuse any individuals directly;
- Use this Policy because of ill will or personal agenda.

CORPORATE SCORECARD

The Corporate Scorecard shown below incorporates selected Key Performance Indicators to ensure that our initiatives are met within specified timelines and within set targets.

CORPORATE OBJECTIVES			KEY PERFORMANCE INDICATORS	TARGET		
				2007	2008	2009
STAKEHOLDERS	1	Well governed and well managed organisation	1. Board assessment on: a. Best practices of governance adopted b. Management practices adopted c. Compliance with significant policies d. Timeliness and relevance of information and quality of recommendation provided by Management for the Board to make informed decisions and fulfill responsibilities	High satisfaction High satisfaction 100% High satisfaction	High satisfaction High satisfaction 100% High satisfaction	High satisfaction High satisfaction 100% High satisfaction
			2. Engagement and responsiveness to other stakeholders' needs	Develop mechanism and establish baseline	Action on assessment and feedback received	Action on assessment and feedback received
			3. Successful completion of key initiatives: a. Development of a Crisis Communication Management plan b. Development and implementation of an Enterprise Risk Management framework: i. Introduction and buy-in programme ii. Development of an Enterprise Risk Management foundation and governance process iii. Initial high level risk identification and assessment iv. Ongoing risk assessment and review c. Development and implementation of an Internal Control framework d. Development of a Succession Management framework for the Board	Complete Complete Complete Complete Complete Complete	 Review	 Review
	2	Educated and informed stakeholders	4. Public awareness index	30%	40%	50%
			5. Successful completion of key initiatives: a. Implementation of an Integrated Communications Plan i. Implementation of advertising programmes ii. Implementation of public relations programmes b. Implementation of ongoing stakeholders' engagement programmes: i. Conduct of Deposit Insurance briefings, seminars and roadshows	Implement Implement Implement	Implement Implement Implement	Implement Implement Implement
	3	Effective partnerships	6. PIDM's relationship with: a. Bank Negara Malaysia b. Member Institutions c. Suppliers d. International Deposit Insurers	Strong Satisfactory Strong Strong	Strong Satisfactory Strong Strong	Strong Satisfactory Strong Strong
			7. International recognition	Develop mechanism and establish baseline	Action on assessment and feedback received	Action on assessment and feedback received
			8. Successful completion of key initiatives: i. Establishment of a base of strategic partners ii. Hosting of IADI 6th Annual Conference iii. Hosting of IADI Asian Regional Committee	Develop Complete	Develop	Complete Complete
	FINANCIAL	4	Optimal use of resources	9. Actual vs.Approved Budgets	±10% variance	±10% variance
10. Successful completion of key initiatives: a. Implementation of an ALCO framework b. Development and implementation of a Provisioning/Deposit Insurance Funding framework				Implement	Review Develop	Review Implement

CORPORATE SCORECARD

CORPORATE OBJECTIVES			KEY PERFORMANCE INDICATORS			TARGET		
						2007	2008	2009
INTERNAL PROCESSES	5	Operational excellence	11. Internal Control compliance 12. Successful completion of key initiatives: a. Development and implementation of Differential Premium Systems: i. Issuance of a consultation paper on Differential Premium Systems ii. Development of Differential Premium Systems Regulations iii. Implementation of a Differential Premium Systems framework iv. Development and implementation of Differential Premium Systems IT infrastructure b. Development and implementation of comprehensive Risk Assessment and Monitoring frameworks: i. Phase 1 - Basic infrastructure ii. Phase 2 - Enhancement c. Development of comprehensive Intervention and Resolution frameworks: i. Phase 1 - Research and development of scope of framework ii. Phase 2 - Development of specific resolution methodology, policy, process and criteria iii. Phase 3 - Development of comprehensive intervention and resolution frameworks d. Development of Deposit Insurance policies and regulations: i. Terms and Conditions of Membership Regulations: • Issuance of a consultation paper • Development of draft regulations ii. Information Regulations: • Issuance of a consultation paper • Development of draft regulations iii. Criteria for Insurability of Conventional and Islamic Deposit Products Regulations: • Development of a concept paper • Issuance of a consultation paper • Development of draft regulations iv. Interest Payable and Return on Deposits Regulations: • Development of a concept paper • Issuance of a consultation paper • Development of draft regulations e. Implementation of the IT infrastructure enhancement plan: i. Phase 2 - IT infrastructure ii. Phase 3 - IT operational system iii. Phase 4 - Technology Enhancement and User Empowerment f. Development and implementation of a Quality Assurance framework g. Development and implementation of the plan for relocation to new work premise			Complete framework	Strong	Strong
						Complete Develop	Complete Implement Develop	Implement
						Complete	Complete	
						Complete	Complete	Complete
						Complete Complete		
						Complete Complete Complete		
							Complete Complete Complete	
						Complete	Complete Complete Implement	Review
						Complete		
LEARNING AND GROWTH	6	Competent and knowledgeable workforce	13. Successful completion of key initiatives: a. Development and assessment of employees' competency: i. Development and assessment of competency gap analysis ii. Development and assessment of specific training need analysis iii. Development of annual Training Plan for individuals b. Development and implementation of a Succession Management framework			Complete Complete Complete Develop	Outcome KPI Complete Complete Implement	Outcome KPI Complete Complete
	7	Conducive corporate environment	14. Employee satisfaction index 15. Successful completion of key initiatives: a. Development and implementation of Recognition and Reward programmes			75%	80%	85%
						Implement	Implement	Implement

GLOSSARY OF TERMS

ADVERSE SELECTION

The tendency for higher-risk banks to opt for deposit insurance and lower-risk banks to opt-out of deposit insurance when membership in a deposit insurance system is voluntary.

BASEL CAPITAL ADEQUACY FRAMEWORK

A framework established by the Basel Committee on Banking Supervision that sets out minimum capital adequacy standards for banks with the objective to improve the soundness of financial systems. The first framework was called Basel I.

BASEL II

The Basel II Framework describes a more comprehensive measure and minimum standard for capital adequacy that national supervisory authorities are now working to implement through domestic rule-making and adoption procedures. It seeks to improve on the existing rules by aligning regulatory capital requirements more closely to the underlying risks that banks face. In addition, the Basel II Framework is intended to promote a more forward-looking approach to capital supervision, one that encourages banks to identify the risks they may face, at present and in the future, and to develop or improve their ability to manage those risks. As a result, it is intended to be more flexible and better able to evolve with advances in markets and risk management practices.

BENCHMARK

A standard or guideline to which other items or processes can be compared.

BLANKET GUARANTEE

A declaration by the government that all deposits and perhaps other financial instruments will be protected.

COINSURANCE

An arrangement whereby depositors are insured for a pre-specified portion, less than 100% of their deposits.

COLLATERALISATION

The taking of a mortgage, pledge, charge or other form of security by a creditor over one or more assets of a debtor.

CONVENTIONAL DEPOSIT INSURANCE FUND

All premiums received by PIDM and interests earned minus the direct cost of operating conventional deposit insurance system.

DEPOSITOR PRIORITY

The granting of preferential treatment to depositors such that their claims must be paid in full before remaining creditors can collect on their claims.

DIFFERENTIAL PREMIUM/RISK ADJUSTED DIFFERENTIAL PREMIUM

A levy on a bank assessed on the basis of that bank's risk profile.

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.

EX-ANTE FUNDING

The accumulation of a fund to cover deposit insurance claims in anticipation of the failure of a member bank.

EX-POST FUNDING

An assessment levied after the failure of a member bank to provide funds to cover deposit insurance claims.

FAILURE RESOLUTION METHOD

This is a general term to refer to commonly accepted approaches undertaken by regulators and deposit insurers to resolve an ailing, failing or insolvent bank.

GLOSSARY OF TERMS

FINANCIAL SAFETY NET

Usually comprises the deposit insurance function, prudential regulation and supervision, and the lender-of-last-resort function.

FOREIGN BANK

A foreign-bank subsidiary is incorporated as a separate entity in the host country. A foreign-bank branch, on the other hand, is an extension of the foreign bank itself into a host country. Foreign-bank branches and subsidiaries may be subject to different rules and supervised differently by a host country.

INSURED DEPOSITS

Insured deposits are all eligible deposits that are insured under the Malaysia Deposit Insurance Corporation Act 2005. Eligible deposits include current, savings, fixed and investment deposits, payment instructions drawn or made against a deposit account and any other financial instruments as may be specified by PIDM from time to time.

ISLAMIC DEPOSIT INSURANCE FUND

All premiums received by PIDM and returns made minus the direct cost of operating an Islamic deposit insurance system.

LEAST-COST RESOLUTION

A procedure that requires the deposit insurer or other designated entity to implement the resolution alternative that is determined to be less costly to the system than all other resolution alternatives, including the liquidation of the failed bank.

LIMITED-COVERAGE DEPOSIT INSURANCE

A guarantee that the principal and the interest accrued on protected deposit accounts will be paid up to a specified limit.

MANDATE

A mandate is a set of official instructions or statement of purpose of a Corporation.

MARKET DISCIPLINE

A situation where depositors or creditors assess the risk characteristics of a bank and act upon such assessments to deposit or withdraw funds from a bank.

MEMBER INSTITUTIONS

Member institutions are all commercial banks (including foreign banks operating in Malaysia) and finance companies 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 Malaysia Deposit Insurance Corporation Act 2005.

MORAL HAZARD

The incentive for additional risk taking that is often present in insurance contracts and arises from the fact that parties to the contract are protected against loss.

NETTING/NETTING ARRANGEMENTS

This refers to the reduction of an account holder's insured deposits by the amount of outstanding loans in a failed institution or the reduction of an account holder's outstanding loans by the amount of deposits above the coverage limit.

OPEN-BANK ASSISTANCE

A resolution method in which an insured bank in danger of failing receives assistance in the form of a direct loan, an assisted merger, or a purchase of assets.

GLOSSARY OF TERMS

PURCHASE-AND-ASSUMPTION TRANSACTION (SALES)

A resolution method in which a healthy bank or group of investors assume some or all of the obligations, and purchase some or all of the assets of the failed bank.

RECEIVER

The legal entity that undertakes the winding down of the affairs of an insolvent bank.

REGULATORY DISCIPLINE

Governs the establishment of new banks; qualifications of directors and managers; business activities; change of control; and standards for risk management, internal controls and external audits.

TOTAL INSURED DEPOSITS

The sum of deposits insured by PIDM, held by a member institution, which would be paid out by PIDM in the event that member fails.

SET-OFF

Refers to situations where the claim of a creditor in an insolvent bank (for example, a deposit) is deducted from a claim of the bank against the creditor (for example, a loan).

SITUATIONAL ANALYSIS

An examination that policymakers undertake to assess factors such as: the state of the economy; current monetary and fiscal policies; the state and structure of the banking system; public attitudes and expectations; the state of the legal, prudential regulatory and supervisory; accounting and disclosure regimes.

SUPERVISORY DISCIPLINE

Requires that banks are monitored for safety and soundness as well as compliance issues and that corrective actions are taken promptly, including the closure of a bank when necessary.

FREQUENTLY ASKED QUESTIONS

1. What is Deposit Insurance?

Deposit Insurance is a system established by the Government to protect depositors against the loss of their insured deposits placed with member institutions in the unlikely event a member institution is unable to meet its obligations to depositors. This system was launched in Malaysia on 1 September 2005.

2. What is Perbadanan Insurans Deposit Malaysia (PIDM) or Malaysia Deposit Insurance Corporation (MDIC)?

We are an independent statutory body that provides protection for depositors in the remote event a member institution is unable to repay its depositors holding insured deposits. Within the country, we wish to be known as PIDM being short for Perbadanan Insurans Deposit Malaysia.

3. What is the role of PIDM or MDIC?

PIDM or MDIC's role is to administer a deposit insurance system and protect depositors. PIDM provides incentives for sound risk management in the financial system, and promotes and contributes to the stability of the financial system.

4. How does PIDM contribute to the stability of the financial system?

PIDM reinforces and complements the existing regulatory and supervisory framework by promoting incentives for financial institutions to implement sound risk management practices. We contribute to the stability of the financial system by dealing with any individual non-viable bank expeditiously thereby preventing it from affecting other banks or the banking system. In carrying out our mandate, PIDM is empowered to acquire assets from member institutions, make loans or advances with or without security, acquire shares of member institutions and take all other necessary measures.

5. Who are member institutions?

Member institutions are all commercial banks (including foreign banks operating in Malaysia) and finance companies licensed under the Banking and Financial Institutions Act 1989 and all Islamic banks licensed under the Islamic Banking Act 1983. Membership is compulsory as provided

under the Malaysia Deposit Insurance Corporation Act 2005 (MDIC Act). A list of member institutions can be obtained either by contacting PIDM at 1-800-88-1266 or by accessing PIDM's website at www.pidm.gov.my

6. Must I apply for deposit insurance coverage?

No, you don't need to. Eligible deposit accounts are automatically insured at no charge to you.

7. Who pays for the insurance premium?

Your member institution is required to pay annual premiums to the deposit insurance system administered by PIDM.

8. What is the deposit insurance coverage limit?

PIDM insures eligible deposits up to RM60,000 per depositor per member institution. The RM60,000 limit includes both the principal amount of a deposit and the interest/return.

9. Can I buy additional insurance for my deposits if it is more than RM60,000?

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

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

Current and savings deposit accounts, fixed deposits, investment deposits and certified cheques and bank drafts drawn or made against a deposit account are eligible for deposit insurance protection.

11. What types of deposits are NOT insured?

Deposits not payable in Malaysia, foreign currency deposits, money market deposits, negotiable instruments of deposits (NIDs), other bearer deposits and repurchase agreements are not insured.

12. Are Islamic and conventional deposits insured separately?

Yes. Islamic and conventional deposits are eligible for a separate coverage limit of RM60,000 each.

FREQUENTLY ASKED QUESTIONS

13. Do joint accounts and trust accounts enjoy separate deposit insurance coverage?

Yes. Joint accounts and trust accounts enjoy separate deposit insurance coverage limit each, provided the records of the member institution disclose the names of the joint or trust account holders and their individual interests in the deposit.

14. Are repurchase agreements, money market placements and unit trusts eligible for deposit insurance?

No. Repurchase agreements, money market placements and unit trusts are not eligible for deposit insurance.

15. Are there other accounts that are separately insured?

Yes. Deposits held under a sole proprietorship or a partnership or held by a depositor who carries on any professional practice are separately insured, provided such information has been disclosed on the records of the member institution.

16. If I have deposits in several member institutions, will all my deposits be added up for deposit insurance purposes?

No. Deposits in different member institutions are insured separately. The RM60,000 coverage limit is applicable per depositor per member institution.

17. If I have deposits in different branches of the same member institution, will all my deposits be insured separately?

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

18. What happens to my deposit if two member institutions merge?

You will continue to be separately insured for a period of two years or upon maturity or until withdrawal, whichever is earlier.

19. Are deposits made by a non-resident of Malaysia insured?

Your place of residence or nationality doesn't affect deposit insurance coverage. Deposits placed with a member institution of PIDM will be covered up to RM60,000 per depositor per member institution.

20. How can I maximise coverage for my deposits in a single bank?

The RM60,000 limit is for each separate legal ownership of the deposit account. If the ownership of several accounts is different from one another, deposit insurance coverage would be given separately for each account. For example, if you hold an individual account, three joint accounts with different individuals, be part of a partnership or professional practise account, you will enjoy separate coverage of up to RM60,000 for all the five accounts totalling up to RM300,000.

21. If that is so, why did PIDM decide on coverage of up to RM60,000 per eligible deposit account?

The current coverage limit was set based on statistics showing 95% of deposits will already be protected in full. Under current rules, almost all depositors are protected by deposit insurance.

22. How do I make a claim?

In the unlikely event a member institution is not able to meet its obligations, you don't have to make any claim. PIDM will announce how, where and when you will be paid up to your insured amount. PIDM will be transparent and pay you speedily.

23. Does it mean our financial institutions are no longer supervised by Bank Negara Malaysia (BNM)?

No. BNM remains the primary supervisor and regulator of the financial system. It continues to be responsible for maintaining the stability of the financial system. PIDM complements BNM's role and contributes to stability of the system by managing this deposit insurance system in a manner that encourages prudent risk management in member institutions.

CONTACT DETAILS

For more information about PIDM:

- Contact Customer Service Call Centre at toll free 1-800-88-1266 from 8.30am to 5.30pm Monday to Friday
- Visit PIDM's website at: www.pidm.gov.my
- E-mail to: info@pidm.gov.my
- Write to:
Communications and Public Affairs Division
Perbadanan Insurans Deposit Malaysia
Level 22, Dataran Kewangan Darul Takaful
No. 4, Jalan Sultan Sulaiman
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