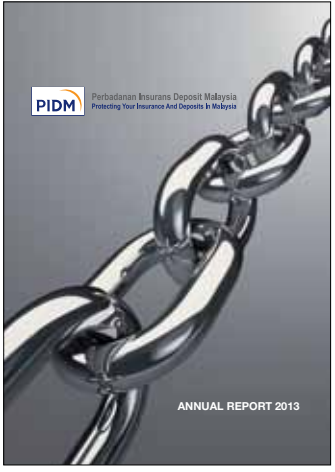




Perbadanan Insurans Deposit Malaysia  
Protecting Your Insurance And Deposits In Malaysia

A large, highly reflective, metallic chain link dominates the right side of the cover. It is rendered in a 3D style with bright highlights and deep shadows, giving it a sense of weight and strength. The link is part of a chain that extends from the top right towards the bottom left.

**ANNUAL REPORT 2013**



An effective financial safety net is an integral part of a sound financial system as it contributes to economic stability. In a continually changing environment and uncertain economic circumstances, maintaining the right equilibrium for the stability of the financial system is a constant challenge that requires the collaboration of all safety-net players. The successful achievement of this common goal is linked to the ability to ensure clarity in mandates, identify roles and responsibilities and how each safety-net player fits into the bigger picture.

As part of the safety net in Malaysia, PIDM's mandate is to administer the financial consumer protection systems in order to promote public confidence in the financial system. We are only one small part of the system and we recognise that effective inter-relationships among safety-net players is key to its stability. It can be said that whatever may be the strength of the rest, we can be no greater than that of the weakest link of the chain. The coordination and close cooperation among safety-net players is therefore crucial as the combined strengths of each is far greater than the sum of individual contributions.



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

## VISION

To be a best practice financial consumer protection authority

## MISSION

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

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

## CORPORATE VALUES

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

## CORPORATE OBJECTIVES

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

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# Section 1

## INTRODUCTION

### INTRODUCTION CORPORATE PROFILE

Perbadanan Insurans Deposit Malaysia (PIDM) is a statutory body established in 2005 under the Malaysia Deposit Insurance Corporation Act (PIDM Act) 2011 to protect certain financial consumers. PIDM reports to Parliament through the Minister of Finance and is governed by a nine-member Board of Directors. The Corporation is also known internationally as the Malaysia Deposit Insurance Corporation.

As an integral part of the national financial safety net system, PIDM administers the Deposit Insurance System (DIS) and the Takaful and Insurance Benefits Protection System (TIPS). PIDM insures depositors and protects takaful certificate and insurance policy owners in the event of a member institution failure up to the limits as set out in the PIDM Act. The Corporation is also mandated to provide incentives for sound risk management in the financial system, as well as to promote and contribute to the stability of the financial system.

PIDM's member institutions comprise:

- commercial banks (including locally incorporated subsidiaries of foreign banks operating in Malaysia) licensed under the Financial Services Act 2013;
- Islamic banks licensed under the Islamic Financial Services Act 2013;
- insurance companies (including locally incorporated subsidiaries of foreign insurance companies operating in Malaysia) licensed under the Financial Services Act 2013 to conduct life and / or general insurance business in Malaysia; and
- takaful operators licensed under the Islamic Financial Services Act 2013 to conduct family and / or general takaful business in Malaysia.

As at 31 December 2013, PIDM's membership comprises 43 member banks (27 commercial banks and 16 Islamic banks) and 44 insurer members (32 insurance companies and 12 takaful operators).

PIDM's operations are funded by annual premiums and levies collected from member institutions. The Corporation administers six separate and distinct Funds:

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

The Islamic DIS and TIPS Funds are administered in accordance with Shariah principles.

#### FINANCIAL SYSTEM STABILITY

In carrying out its mandate, PIDM works closely with Bank Negara Malaysia (BNM), the primary regulator and supervisor. The relationship is detailed in the PIDM Act and a Strategic Alliance Agreement, and enables timely exchange of information on member institutions as well as collaboration in risk assessment and monitoring, and intervention and failure resolution activities.

PIDM complements the existing regulatory and supervisory framework by providing incentives for member institutions to implement sound risk management practices. The Corporation is the resolution authority in Malaysia for member banks and insurer members and has at its disposal a range of legislative powers to intervene early in distressed member institutions to mitigate the possibility of a member institution failure. If necessary, once a member institution is deemed to be no longer viable by BNM, the Corporation can assume control over the institution or take such intervention action to resolve the member institution in a manner that minimises costs to the financial system.

Timely and clear communications to ensure public confidence in DIS and TIPS are key to PIDM's efforts in promoting and contributing to the stability of the financial system. As such, the Corporation carries out a multi-year public awareness programme as well as education initiatives through various channels to enhance the level of awareness and understanding about the benefits, coverage and limitations of PIDM's financial consumer protection systems.

## INTRODUCTION

### THE YEAR AT A GLANCE

PIDM continued to subscribe to best practices in governance and management in the provision of financial consumer protection to depositors as well as insurance policy owners. For 2013, the Corporation's key efforts in line with its strategic direction were focused on initiatives to:

- sustain PIDM's capacity and capabilities by enhancing employee competencies and developing the necessary infrastructure;
- strengthen operational readiness in relation to intervention and failure resolution; and
- enhance financial consumers' level of education and public awareness in relation to PIDM's protection systems.

The majority of our key initiatives, as set out in our Corporate Plan 2013 - 2015, were completed within the approved financial plan. The initiatives completed were aimed at further strengthening our operational capacity and developing our human capital, while we continue to develop our infrastructure and enhance our policies and procedures in order to ensure that they remain current and relevant.



## HIGHLIGHTS OF PIDM'S ACCOMPLISHMENTS IN 2013

### Stakeholders

- Implemented the Integrated Communications Plan (ICP) initiatives, including advertising through various channels and educated PIDM's stakeholders through briefings, training sessions, road shows and exhibitions.
- Executed a collaborative agreement with the Federation of Chinese Associations Malaysia (or *Hua Zong*) and collaborated with the Federation of Malaysian Consumers Associations (FOMCA) to create awareness pertaining to financial consumer protection to the community.
- Implemented our education programme, with the introduction of new components including the PIDM Project MoneySmart Campus Challenge, Photography with Best Caption Competition and the PIDM MoneySmart Ambassador Programme.
- Executed Memoranda of Understanding with the Philippine Deposit Insurance Corporation and the Korea Deposit Insurance Corporation.
- Continued to maintain good relationships with BNM and other deposit insurers and safety nets around the world through participation in the International Association of Deposit Insurers (IADI) and in the International Forum of Insurance Guarantee Schemes (IFIGS).
- Organised and hosted study visits and workshops to share and exchange knowledge on DIS and TIPS-related matters.

### Governance and Internal Processes

- Proposed a package of legislative amendments to the PIDM Act 2011.
- Held several Board education sessions about the operations of the Corporation and its governance responsibilities as part of the Board of Directors' continuous training and education.
- Established a Board Committee for Chief Executive Officer (CEO) succession planning.
- Continued to demonstrate commitment towards our Corporate Social Responsibility (CSR) programme.
- Continued to support the Financial Institutions Directors' Education (FIDE) Programme and provided support for the alumni association, FIDE Forum.
- Developed a Takaful and Insurance Risk Assessment Framework (TIRAF) for takaful operators and Guidelines on the Differential Levy System (DLS) for conventional insurer members.
- Issued Guidelines on Validation Programme: Differential Levy System and Premiums Calculation.
- Issued Guidelines on Deposit Information Systems and Submission (DISS) and the Guidelines on Validation Programme for DISS.
- Conducted Intervention and Failure Resolution (IFR) training sessions and simulation exercise for selected employees.
- Conducted a simulation exercise to test the Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP) at our interim Disaster Recovery Site (DRS), with a focus on most time-critical functions, i.e. call centre, reception and communication to relevant stakeholders.
- Reviewed and updated PIDM's Authority Matrix, which summarises the Board and Management's delegated authorities for the day-to-day administration of the Corporation's business and affairs.

### Learning and Growth

- Completed the annual competency mapping exercise to identify competency gaps for employee development purposes.
- Organised and delivered leadership training programmes for employees with a supervisory role.
- Conducted the Employee Voice Survey to gauge the employee engagement index. Achieved an Employee Engagement Index of 90% and a Sustainable Engagement Index of 94%.

### External Recognition

- Received the "Best Annual Report of Non-Listed Organisations" Award for the 2012 Annual Report, by the National Annual Corporate Report Awards (NACRA), for the fifth consecutive year.
- Received the Order of Merit for the "Best Brand-Building Campaign Award" under the Malaysian Chapter, by the Promotion Marketing Awards of Asia (PMAA).



## A Commitment To Excellence

**PIDM aims to be a best practice financial consumer protection authority and is strongly guided by its corporate values in creating a culture of excellence to fulfil its mandate. PIDM's efforts have earned many accolades, both locally and internationally.**

### NACRA BEST ANNUAL REPORT OF NON-LISTED ORGANISATIONS 2009, 2010, 2011, 2012, 2013

PIDM has been recognised for producing the "Best Annual Report of Non-Listed Organisations" by the National Annual Corporate Report Awards (NACRA) for five consecutive years.

NACRA's objective is to promote greater accountability and corporate governance of organisations through the publication of relevant, insightful, reliable, and credible annual reports to inspire confidence and instil greater trust among stakeholders.

The award confirms PIDM's adherence to the highest standards of corporate disclosure and reporting. It is also a testament of PIDM's continuous commitment to upholding high standards of governance and transparency, and contributing to public confidence in the stability of the financial system in Malaysia.

### IADI DEPOSIT INSURANCE ORGANISATION OF THE YEAR 2011

PIDM's work has also received recognition by the International Association of Deposit Insurers (IADI), with the "IADI Deposit Insurance Organisation Of The Year 2011" award, for its efforts and accomplishments in strengthening deposit insurance in Malaysia and its knowledge-sharing and training initiatives provided to other IADI members.

### IIAM QUALITY ASSURANCE REVIEW CERTIFICATION 2011

PIDM has been certified by the Institute of Internal Auditors Malaysia (IIAM) in recognition of its conformity with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing. This is an acknowledgement that PIDM's internal audit function adheres to quality work performance and international standards as well as uses successful auditing practices.

### PMAA DRAGONS OF ASIA (BEST BRAND-BUILDING CAMPAIGN) – BRONZE DRAGON 2012 AND ORDER OF MERIT 2013

PIDM was rewarded with the Bronze award in 2012 and the Order of Merit in 2013 for its brand-building campaign by the Promotion Marketing Awards of Asia (PMAA), Malaysian chapter. These awards were in recognition of the communications initiatives executed for the Corporation's advertising campaign in 2011 and 2012 respectively.

PMAA, a regional awards organiser, recognises the "best from the best" promotion marketing programmes run in Asia.



## INTRODUCTION FIVE-YEAR HIGHLIGHTS OF OUR ACCOMPLISHMENTS

# 2009

#### Stakeholders

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

#### Governance

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

#### Internal Processes

- Commenced development of the detailed policies, processes and procedures for IFR activities.
- Implemented Phase 1 of the Payout System i.e., Deposit Liability Information Management System (DLIMS) and Depositor Support Management System.
- Developed the Target Fund and Provisioning Framework.
- Implemented the Information Classification Policy and the Policy and Procedures on Public Disclosure of Information.
- Implemented the External Auditor Validation Programme on Differential Premium Systems (DPS) and Return on Total Insured Deposits.
- Conducted Information Technology (IT) network and security infrastructure enhancements.
- Developed the BCP, and Haze and Infectious Disease Plan.

#### Learning and Growth

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

#### Other Achievement

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

#### External Recognition

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

# 2010

#### Stakeholders

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

#### Governance

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

#### Internal Processes

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

#### Learning and Growth

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

#### Other Achievements

- Developed and implemented the transition package to exit the Government Deposit Guarantee.
- Recommended a new Act and developed requisite regulations to replace the PIDM Act 2005.
- Undertook the development and implementation of TIPS.

#### External Recognition

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

# 2011

#### Stakeholders

- Implemented the enhanced PIDM Project MoneySmart education programme, which included TIPS-related questions.
- Implemented the Provision of Information on Deposit Insurance Regulations 2011.
- Executed a Memorandum of Understanding (MOU) with the Central Deposit Insurance Corporation, Taiwan.
- Hosted the international seminar on auditing the risk assessment function.

#### Governance

- Held several Board education sessions.
- Completed the remaining ERM Board Risk Policies on Reputation Risk, Assessment and Monitoring Risk, Strategic and Governance Risk, Operational Risk and IFR Risk.

#### Internal Processes

- Issued guidelines to insurer members and enhanced guidelines applicable to member banks.
- Developed the comprehensive Risk Assessment Methodology and Framework as well as the Supervisor Validation for the Returns on Calculation of Premiums for TIPS.
- Conducted two mini simulations and one two-and-a-half-day simulation exercise.
- Completed the integration between the Payout system modules, and the development of the audit programme for DLIMS.
- Developed the Authority Matrix.
- Completed the development of the interim DRS and tested the BCP.

#### Learning and Growth

- Conducted training sessions on IFR for all employees.
- Developed the Knowledge Management framework in support of continuous knowledge sharing among the employees.
- Conducted the employee satisfaction survey and achieved a 90% Employee Engagement Index.

#### External Recognition

- Recipient of the "2011 Deposit Insurance Organisation of the Year" Award, presented by IADI.
- Recipient of the NACRA 2011 for "Best Annual Report of Non-Listed Organisations" Award for our 2010 Annual Report.
- Recipient of the Quality Assurance Review certification by the Institute of Internal Auditors Malaysia.

# 2012

#### Stakeholders

- Implemented the first year of the ICP 2012 - 2016.
- Conducted the first separate dialogue session for insurer members, in conjunction with the 2011 Annual Report launch.
- Implemented the enhanced education programme, with new components.

#### Governance

- Conducted eight Board education sessions.
- Issued the Note on Takaful Benefits Protection System for takaful operators.

#### Internal Processes

- Developed the DLS framework and regulations for conventional insurer members.
- Implemented the Supervisor Validation framework on Returns on Calculation of Premiums for TIPS.
- Implemented the MDIC (Return or Interest on an Index-linked Deposit held by a Deposit Taking Member) Rules 2012.
- Incorporated five subsidiaries, namely, four bridge institutions and one asset management company, for the purpose of IFR.
- Conducted the first simulation exercise on failure of an insurance company.
- Completed the trial run on the validation of Standard File Format for member banks.
- Completed the research on Claims Management System and infrastructure.
- Triggered the business continuity and mobilised resources to the interim DRS following the earthquake in Aceh.

#### Learning and Growth

- Completed the competency mapping exercise for employee development purposes.
- Following the Employee Voice Survey 2011, briefings were conducted to communicate the results, to identify and address gaps.
- Conducted training sessions, for selected employees, on failure of an insurance company.
- Developed the Knowledge Management Policy and Practices.

#### External Recognition

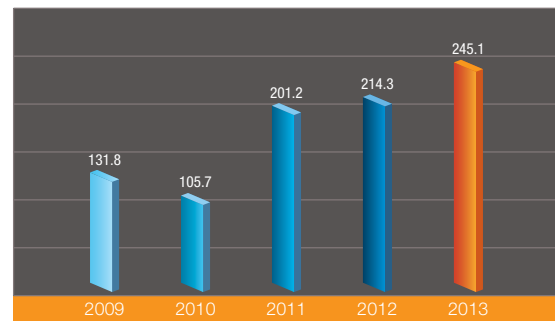
- Recipient of the NACRA 2012 for "Best Annual Report of Non-Listed Organisations" Award for our 2011 Annual Report.
- Recipient of the PMAA Bronze award for the "Best Brand-Building Campaign Award" under the Malaysian Chapter.
- Under the joint International Monetary Fund and World Bank's Financial Sector Assessment Programme, PIDM was found to be a strong institution and the deposit insurance framework broadly conforms to the "Core Principles for Effective Deposit Insurance Systems".



## INTRODUCTION

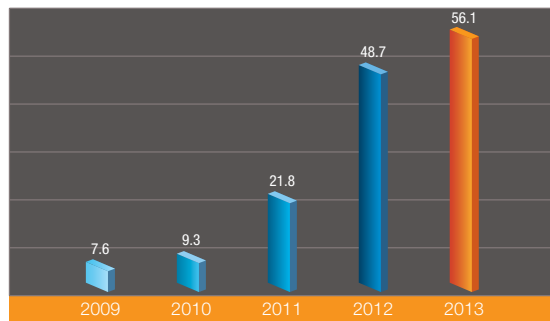
### FINANCIAL SUMMARY: FIVE-YEAR PERFORMANCE

PREMIUM REVENUES



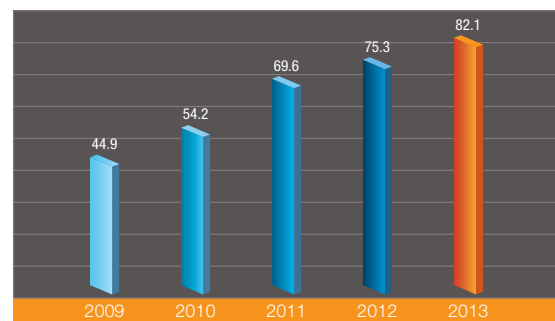
Amount denoted in RM Million

INVESTMENT INCOME



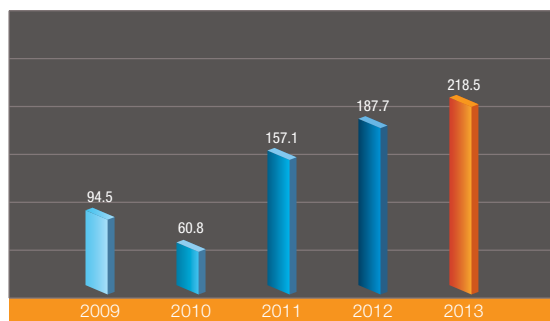
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OPERATING EXPENDITURES



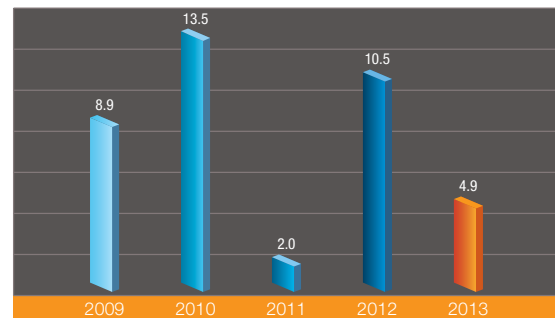
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OPERATIONAL NET SURPLUS



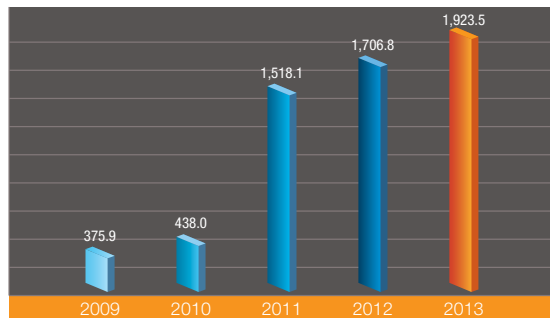
Amount denoted in RM Million

CAPITAL EXPENDITURES CONTRACTED



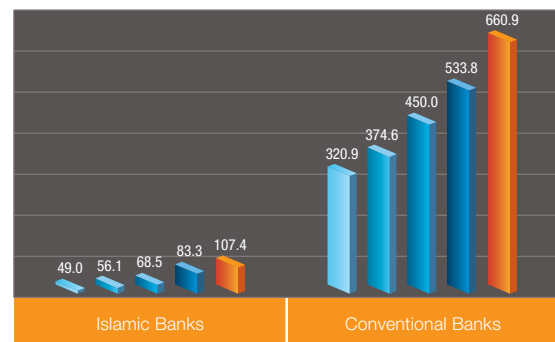
Amount denoted in RM Million

TOTAL ASSETS



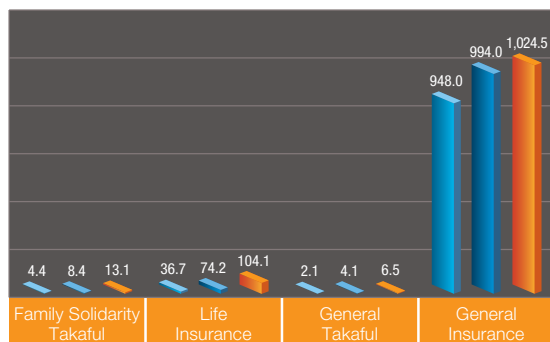
Amount denoted in RM Million

DEPOSIT INSURANCE FUNDS



Amount denoted in RM Million

TAKAFUL AND INSURANCE BENEFITS PROTECTION FUNDS



Amount denoted in RM Million

#### SELECTED ITEMS FROM THE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER

	2013	2012	2011 RM Million	2010	2009
<b>Premium Revenues</b>	<b>245.1</b>	<b>214.3</b>	<b>201.2</b>	<b>105.7</b>	<b>131.8</b>
Deposit Insurance Funds	180.3	126.5	120.5	105.7	131.8
Takaful and Insurance Benefits Protection Funds	64.8	87.8	80.7	-	-
<b>Investment Income</b>	<b>56.1</b>	<b>48.7</b>	<b>21.8</b>	<b>9.3</b>	<b>7.6</b>
Deposit Insurance Funds	20.5	16.5	12.9	9.3	7.6
Takaful and Insurance Benefits Protection Funds	35.6	32.2	8.9	-	-
<b>Realised gains / (losses) from divestment of investment securities</b>	<b>(0.6)</b>	<b>-</b>	<b>3.7</b>	<b>-</b>	<b>-</b>
Deposit Insurance Funds	-	-	-	-	-
Takaful and Insurance Benefits Protection Funds	(0.6)	-	3.7	-	-
<b>Total Revenues</b>	<b>300.6</b>	<b>263.0</b>	<b>226.7</b>	<b>115.0</b>	<b>139.4</b>
<b>Operating Expenditures</b>	<b>82.1</b>	<b>75.3</b>	<b>69.6</b>	<b>54.2</b>	<b>44.9</b>
<b>Operational Net Surplus</b>	<b>218.5</b>	<b>187.7</b>	<b>157.1</b>	<b>60.8</b>	<b>94.5</b>
<b>Moneys and investments received from Insurance Guarantee Scheme Funds</b>	<b>-</b>	<b>-</b>	<b>922.4</b>	<b>-</b>	<b>-</b>
<b>Net Surplus for the Year</b>	<b>218.5</b>	<b>187.7</b>	<b>1,079.5</b>	<b>60.8</b>	<b>94.5</b>
<b>Net gains / (losses) on available-for-sale investments</b>	<b>0.2</b>	<b>0.4</b>	<b>(0.6)</b>	<b>-</b>	<b>-</b>
<b>Total Comprehensive Income for the Year</b>	<b>218.7</b>	<b>188.1</b>	<b>1,078.9</b>	<b>60.8</b>	<b>94.5</b>

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

<b>Total Assets</b>	<b>1,923.5</b>	<b>1,706.8</b>	<b>1,518.1</b>	<b>438.0</b>	<b>375.9</b>
<b>Total Liabilities</b>	<b>7.0</b>	<b>9.0</b>	<b>8.4</b>	<b>7.3</b>	<b>6.0</b>
<b>Funds and Reserves</b>	<b>1,916.5</b>	<b>1,697.8</b>	<b>1,509.7</b>	<b>430.7</b>	<b>369.9</b>
<b>Deposit Insurance Funds</b>	<b>768.3</b>	<b>617.1</b>	<b>518.5</b>	<b>430.7</b>	<b>369.9</b>
Islamic Deposit Insurance Fund	107.4	83.3	68.5	56.1	49.0
Conventional Deposit Insurance Fund	660.9	533.8	450.0	374.6	320.9
<b>Takaful and Insurance Benefits Protection Funds</b>	<b>1,148.2</b>	<b>1,080.7</b>	<b>991.2</b>	<b>-</b>	<b>-</b>
Family Solidarity Takaful Protection Fund	13.1	8.4	4.4	-	-
Life Insurance Protection Fund	104.1	74.2	36.7	-	-
General Takaful Protection Fund	6.5	4.1	2.1	-	-
General Insurance Protection Fund	1,024.5	994.0	948.0	-	-
<b>Total Liabilities, Funds and Reserves</b>	<b>1,923.5</b>	<b>1,706.8</b>	<b>1,518.1</b>	<b>438.0</b>	<b>375.9</b>

## INTRODUCTION

### GOING FORWARD



PIDM's Corporate Plan sets out the strategic direction, focus and priorities that drive the activities of the Corporation for the planning period 2014 - 2016. This three-year rolling plan is updated annually and includes the initiatives and respective performance targets to ensure fulfilment of PIDM's mandate as well as the supporting financial plan for 2014.

A copy of our Corporate Plan is disseminated to our key stakeholders each year and we report our performance against it in our Annual Report. Our Corporate Plan is available in four languages through our website [www.pidm.gov.my](http://www.pidm.gov.my).

In administering the financial consumer protection systems, PIDM will continue to embark on new initiatives and enhance its current control framework to strengthen its operational effectiveness and readiness by increasing and sustaining its employee competencies and talent management; as well as contribute to public confidence by improving the level of public awareness and education of financial consumers. As an integral part of the financial safety net, our efforts will also be channelled to enhance our relationships with key stakeholders.



## MESSAGE FROM THE CHAIRMAN

### TAN SRI DATUK DR. ABDUL SAMAD HAJI ALIAS

#### INTRODUCTION

It has been five years since the global financial crisis. The road to recovery has been long and sluggish. Finally we are beginning to see some signs of progress in the United States, Europe and around the world but not without a sense of nervousness. In the words of Christine Lagarde, Managing Director of International Monetary Fund, "Overall, the direction is positive, but global growth is still too low, too fragile, and too uneven."

The global financial crisis has also spawned a spate of new financial regulations. The last five years have seen regulations growing apace. Yet laying the foundations to mitigate the effects of future crises is a must. Fostering financial and fiscal stability in the wake of a global crisis of such epic proportions understandably remains a preoccupation for many not only at a national but international level.

As 2013 progressed and global banking scams continued to emerge, it also became increasingly clear that consumer confidence must be restored, in order for the return of more significant spending and investments. It is an era that calls for more macro prudential oversight, regulatory changes, more consumer protection and pressure for greater capital buffers with a strong focus on systemic risk.

#### OUR CIRCUMSTANCES

For Malaysia, I am happy to note that our financial services landscape has been much less turbulent, that our member institutions are doing well, and that the reputation of our financial services industry remains intact. Nevertheless, and quite rightly, our regulators have been proactive in learning lessons from these events and in taking steps to lay the right foundations for the future. There has been a continued emphasis on prudential supervision, with a focus on risk management, compliance and transparency. On 30 June 2013, the Financial Services Act (FSA) 2013 and Islamic Financial Services Act (IFSA) 2013 came into force. These pieces of legislation are forward-looking and aim to introduce a more risk-focused and integrated approach to the regulation and supervision of financial institutions.

As for our Deposit Insurance System (DIS), you will learn from our article in Section 6 that we have received external validation that it conforms to best international practices. At a structural level, I believe, we have covered all of the key aspects of the legal, governance and fundamental prescriptions that lay the foundations for success. In short, I would offer the view that we have a vast arsenal of regulatory tools to address a variety of possible issues and events.

At the same time, I would make this observation. We must learn from the experiences of others and anticipate the future. Nevertheless we recognise, as we must, that the adoption of international solutions or prescriptions is not a cure for all evils. I am not suggesting in the least that we ignore these developments and fail to adopt regulations and institutions that are relevant to us.

I merely note that, as a matter of caution:

- First, we should always be in a position to use the tools already available to us. We must therefore maintain and sharpen our tools to keep them in good condition. We need quality people, trained and in a constant state of readiness. We will also need the collaboration of others.



# INTRODUCTION

## MESSAGE FROM THE CHAIRMAN

- Second, we should understand and study the nature of our own risks and rewards structures in the relevant sectors of our economy and the behaviour of our participants. This is so that, as regulators, we can identify the real issues in our own backyard and ensure that we have the right tools and avenues to deal with them. In this connection, we must also understand the impact of global prescriptions for our unique circumstances and be in a position to contribute to international discussions to put forward our perspectives. Our financial safety net has much to contribute.
- Finally, we must know that we operate in a continually changing environment and uncertain economic circumstances. We must be prepared to deal with these uncertainties.

### PIDM in 2013

**Governance.** On the first matter, PIDM has continued to work to ensure that our foundations are sound. Ensuring high standards of governance and management practices has always been part of how we run our business and affairs. The Board continually reviews its governance arrangements against global best practices.

A significant initiative in 2013 was the appointment of an external corporate governance advisor by the Board. This is in line with best practice, which is to have an external review of the board performance every three years.

I am pleased to report that the advisor has rated the overall effectiveness of the Board and its governance practices as “Strong”. Details are found in the Statement on Governance, on page 43. As with all such reports, there are always areas for improvement and an action plan will be developed and implemented in 2014.

Our Board is also keenly aware that its job is to ensure that we have the right leader at the helm and to ensure there are plans for successors. In 2013, the Board established the Succession Planning Committee, whose terms of reference include supporting the Board by reviewing the existing Chief Executive Officer (CEO) succession plan.

**Readiness.** In our field it is necessary to be prepared at all times. To maintain this level of operational readiness, our monitoring and warning systems must be fine-tuned and in working order. We must ensure that the tools necessary to carry out our mandate remain current and relevant. Our employees must also be capable of using these tools when called upon to do so.

Key among our readiness efforts in 2013 were the following:

- (a) the enhancement of the Risk Assessment and Monitoring Framework for both DIS and Takaful and Insurance Benefits Protection System;

- (b) the development of the Rating Prediction Model for the Early Warning System for DIS;

- (c) a simulation exercise to train our employees for an intervention and failure resolution to allow for experiential learning and continuous training to enhance capabilities; and

- (d) the review of the Malaysia Deposit Insurance Corporation Act 2011 to address matters of alignment with the FSA 2013 and the IFSA 2013.

More details are found in Section 3 of this Annual Report.

### International activities

I now turn to the need to be connected in the international sphere. I believe that we must participate at an international level, not only so that we may learn. We should also be in a position to contribute to standards-setting and policy making decisions at the international level.

In 2013, two of our senior management were elected to several more committees of the International Association of Deposit Insurers (IADI). Encik Rafiz Azuan Abdullah was elected Chairperson of the Islamic Deposit Insurance Group, whilst Ms. Lee Yee Ming, already an Executive Committee member of IADI, has taken over the Chairmanship of the Data and Survey Standing Committee. Our CEO was also just recently invited by the Executive Committee to be a member of the Governance Committee of the IADI and provide his knowledge and expertise.

PIDM was also one of the 15 founding members of the International Forum of Insurance Guarantee Schemes (IFIGS), which was officially established and launched in May 2013. IFIGS aims to facilitate and promote international cooperation between insurance guarantee schemes and other stakeholders. Ms. Lee has also been elected onto its Executive Committee.

I am satisfied that we can, and that we should, make representations at these committees and task forces and contribute where we can to standards-setting and related initiatives with our neighbours.

In 2013, PIDM signed Memoranda of Understanding (MOUs) with the Korea Deposit Insurance Corporation and the Philippine Deposit Insurance Corporation respectively. We also agreed with the Indonesia Deposit Insurance Corporation and the Deposit Protection Agency Thailand, to renew the existing MOU (the Tripartite MOU) that is targeted to be signed in March 2014. These collaborations allow for exchange of ideas and experiences among each other. They also provide important opportunities for relationship-building, which, in my experience, can be of tremendous significance when called upon to address cross-border crises.

### Beyond 2013

There will be many key initiatives that will occupy us going forward. I would however highlight one initiative that, in my mind, has bearing on us as a financial consumer compensation scheme provider and a resolution authority for member banks, insurer members and provide our perspective on this.

Among our work in 2013 included a collaboration with Bank Negara Malaysia (BNM) to establish the inter-agency Policy Steering Committee For Recovery and Resolution Planning Framework. This Committee oversees the development and implementation of a framework for Recovery and Resolution Planning (RRP) in Malaysia.

The RRP has been proposed by international regulatory and political bodies including the G20 and the Financial Stability Board (FSB) as part of a wider set of reforms to make the financial system safer. Among others, it is to promote more effective and intensive supervision of domestic systemically important financial institutions (D-SIFIs) and global systemically important financial institutions (G-SIFIs). Several jurisdictions such as the United States, the United Kingdom and Canada have made considerable progress in this regard. Asian jurisdictions are also at various differing stages of development in regard to resolution planning.

This initiative will involve ascertaining how the FSB's Key Attributes of Effective Resolution Regimes for Financial Institutions can be applied in the context of Malaysia, recognising that there should be some level of international consistency in resolution regimes.

From the perspective of a financial compensation scheme provider, the RRP's greatest significance relates to its ability to limit concerns about moral hazard, i.e. that there will be institutions that are too complex or too-big-to-fail, and therefore incentives for these institutions to take excessive risks. Steps within the RRP<sup>1</sup> will include requiring certain financial institutions to engage in resolution planning, or to prepare “living wills”. This will mean that relevant institutions must have a resolution plan that will set out the options open to authorities to allow for its orderly demise. These institutions must identify and enhance their risk management processes and improve operational efficiencies as needed. The RRP may also involve refinements or amendments to bankruptcy laws as applied to large financial institutions. Legal impediments, if any, to private sector arrangements to reduce instability may also need to be addressed. Once in place, resolution planning would allow large financial firms to be resolved without Government (and taxpayer) support.

Much work is clearly needed to achieve all this, as a result of the complexity and potential interconnectedness of these institutions. Collaboration with relevant resolution authorities across borders will also be necessary. While we expect that this will be a challenging effort, as a resolution authority we regard this as a critical initiative.

<sup>1</sup> The main objective of the “Recovery Plan” is to identify measures to reduce the risk profile of the financial institution as well as the appropriate strategic and recovery options to enable an institution's prompt recovery from financial stress while maintaining it as a going concern. However, if that recovery measures are not feasible and the institution becomes non-viable, the “Resolution Plan” would enable the relevant authority to execute the pre-specified resolution strategies and options to resolve the failed financial institution in an orderly manner without severe systemic disruption to the financial system

### CONCLUSION

You would appreciate, from the above, and from our Corporate Plan 2014 - 2016 (available also at [www.pidm.gov.my](http://www.pidm.gov.my)), that we have our work well cut out for the future. At the same time I am pleased to say that, in the company of my Board Members and our team at PIDM, I am actually looking forward to a few more challenging but productive years.

I wish to record my appreciation to our ex officio Directors, Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz and Tan Sri Dr. Mohd Irwan Serigar Abdullah, as well as our non-ex officio Directors, for their commitment, contribution and support. I am also pleased to report that the Minister of Finance, on the recommendation of the Board, has reappointed three of our non-ex officio Directors, namely, Dato' Halipah Esa, Mr. Lim Tian Huat and Mr. George Anthony David Dass, for further terms of three years respectively.

I would thank our CEO, Mr. JP Sabourin, for leading the Corporation to achieve its set initiatives and I congratulate him and his team on their achievements, and well-deserved awards in recognition of their quality work.

I would also extend my thanks to our fellow safety-net players, our strategic partners and member institutions for their cooperation and invaluable feedback as we tackle key issues for the stability of the financial system. We are conscious that we are only one small part of the entire financial services ecosystem and that maintaining the right equilibrium for the stability of the financial system is a constant challenge that needs the collaboration of many players.

It is my pleasure to present our Annual Report detailing our accomplishments in 2013.



TAN SRI DATUK DR. ABDUL SAMAD HAJI ALIAS

# INTRODUCTION

## BOARD OF DIRECTORS: MEMBERS AND PROFILES



**Tan Sri Datuk Dr. Abdul Samad Haji Alias**  
*Chairman*

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

A Fellow of the Institute of Chartered Accountants in Australia, Tan Sri Datuk Dr. Abdul Samad has had extensive experience in auditing and accounting. He is the Chairman of Malaysia Venture Capital Management Berhad and was appointed as an independent non-executive Director of Bursa Malaysia Berhad in July 2011. He is also a member of the Malaysian Institute of Certified Public Accountants and the Malaysian Institute of Accountants. In 2006, Tan Sri Datuk Dr. Abdul Samad received global recognition through the Association of Chartered Certified Accountants' Award for Achievement in Asia.



**Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz**

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

At the Central Bank, Dr. Zeti had a key role in successfully managing the recovery of the financial system and the economy in Malaysia during the Asian Financial Crisis. She also had an important role in the formulation and implementation of two consecutive 10-year plans for the development of the financial system which has resulted in wide-ranging financial reforms, and the successful enactment of eight new major legislations for the financial sector.

Dr. Zeti is actively involved in strengthening regional cooperation and financial integration in the Asian region. She chaired the Executives' Meeting of East Asia Pacific Central Banks Taskforce on "Regional Cooperation among Central Banks in Asia" that prepared the report for future Central Bank financial cooperation in the region which still continues today. She is a founding member of the Bank for International Settlements (BIS) Asian Consultative Group for Asia and the first co-chair of the Financial Stability Board (FSB) Regional Consultative Group for Asia. Dr. Zeti also participates extensively in international forums. She was a member of the United Nations General Assembly Commission of Experts on Reforms of the International Monetary and Financial System in 2009, a high level task force established to examine reforms in the global financial system and is currently the chair of BIS Central Bank Governance Group, which she has been a member since 2001.

Dr. Zeti continues to be actively involved in the global development of Islamic Finance. This included being a part of the group of Governors that established the Islamic Financial Services Board (IFSB) and International Islamic Liquidity Management (IILM). She headed a task force that prepared a report on "Islamic Finance: Global Financial Stability" which identified the building blocks which would further strengthen the institutional arrangements in the Islamic financial system. In Malaysia, the recent decade saw the transformation of the Islamic financial system including its expansion and internationalisation. Dr. Zeti also had a significant role in the development of talent in the Islamic financial services industry.

Dr. Zeti received her Bachelor of Economics from the University of Malaya and her PhD in Economics from the University of Pennsylvania, USA.



**Tan Sri Dr. Mohd Irwan Serigar Abdullah**

Tan Sri Dr. Mohd Irwan Serigar Abdullah was appointed the Secretary General of Treasury, Ministry of Finance (MOF), since 24 August 2012 and holds an ex officio position on the Board of PIDM.

Tan Sri Dr. Irwan began his career in the public sector at the Economic Planning Unit (EPU) of the Prime Minister's Department in 1984. During his tenure at EPU he served in various capacities in the areas of urban development, energy and privatisation.

He joined the MOF in October 2003 where he held various positions including in the Economic Division, and later as Section Head, Deputy Secretary and Secretary of the Economic Analysis and International Division (Macro Economy). He then served at the MOF as Deputy Secretary General (Policy) from December 2010 to August 2012, before his appointment as the Secretary General of Treasury.

Tan Sri Dr. Irwan also serves as a Board Member of notable organisations including the Malaysian Airline System Berhad (MAS), Petroliaam Nasional Berhad (PETRONAS), Federal Land Development Authority (FELDA), MASS Rapid Transit Corporation Sdn. Bhd. (MRT Corp), Regional Corridor Development Authority (RECODA), Bank Negara Malaysia (BNM), Razak School of Government (RSOG), Lembaga Tabung Haji (TH) and the International Islamic University Malaysia (IIUM). He is also the Chairman of Retirement Fund Incorporated, Inland Revenue Board of Malaysia, Prokhas Sdn. Bhd. and Cyberview Sdn. Bhd.

He holds a PhD in Economics from IIUM and a Masters of Science in Energy Management and Policy from the University of Pennsylvania, USA. He also received his Bachelor of Arts (Honours) degree in Demography from the University of Malaya.



**Datuk Dr. Rahamat Bivi Yusoff**

Datuk Dr. Rahamat Bivi Yusoff was appointed as a Board Member on 1 January 2012 and her current term continues until 2 January 2015.

Datuk Dr. Rahamat has been in the Malaysian Civil Service for over 30 years, starting out as Assistant Secretary (Tax Division) in the Ministry of Finance (MOF), and later served in various positions including Director for Budget at the MOF, Deputy Director of Macro Economy Section at the Economic Planning Unit (EPU), Project Officer at Institut Tadbiran Awam Negara (INTAN) and Director at the Energy Commission. Before assuming her current post as the Director General of the EPU, she was the Deputy Secretary General of Treasury, MOF in charge of the System and Control Division.

Datuk Dr. Rahamat is also a Member of the Board of Directors in other agencies such as Malaysia-Thailand Joint Authority (MTJA), Federal Land Development Authority (FELDA) and MASS Rapid Transit Corporation Sdn. Bhd. (MRT Corp). She is also a council member of Iskandar Regional Development Authority (IRDA), Sabah Economic Development and Investment Authority (SEDIA), Regional Corridor Development Authority (RECODA) and East Coast Economic Region Development Council (ECERDC).

Datuk Dr. Rahamat holds a Bachelor of Social Sciences (Economics) (Honours) degree from Universiti Sains Malaysia and a Masters degree in Economics from the Western Michigan University, USA. She has also been conferred a PhD from the Australian National University.



# INTRODUCTION

## BOARD OF DIRECTORS: MEMBERS AND PROFILES



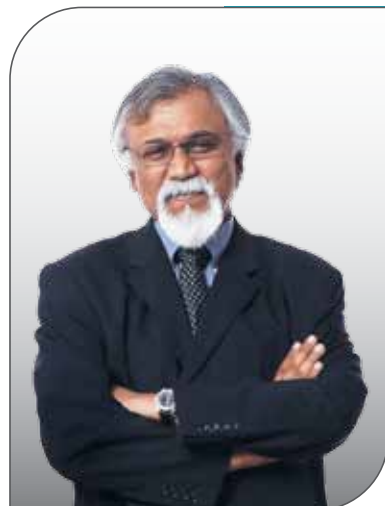
**Dato' Halipah Esa**

Dato' Halipah Esa was appointed as a Board Member on 14 August 2010 for a three-year term. Her term of appointment has been extended for another three years until 15 August 2016.

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

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

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



**Mr. George Anthony David Dass**

Mr. George Anthony David Dass was appointed as a Board Member on 3 February 2009 and his term of appointment has been extended twice until 2 February 2017.

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

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

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



**Mr. Lim Tian Huat**

Mr. Lim Tian Huat was appointed as a Board Member on 14 August 2010 for a three-year term. His term of appointment has been extended for another three years until 15 August 2016.

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

He has served as Commissioner to the United Nations Compensation Commission and as member of the Corporate Law Reform Committee (CLRC) under the purview of the Companies Commission of Malaysia. He co-authored a book entitled "The Law and Practice of Corporate Receivership in Malaysia and Singapore".

He is a Director of UEM Sunrise Berhad, Malaysia Building Society Berhad, PLUS Malaysia Berhad and Opus Group Berhad. He is also a Director of Bank of Yingkou, China.

Mr. Lim is the founding President of the Insolvency Practitioners Association of Malaysia (IPAM). He is a member of the Malaysian Institute of Accountants, member of the Malaysian Institute of Certified Public Accountants and a Fellow of the Association of Chartered Certified Accountants. He holds a BA Economics (Honours) degree.



**Mr. Alex Foong Soo Hah**

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

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

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



**Encik Mohamad Abdul Halim Ahmad**

Encik Mohamad Abdul Halim Ahmad was appointed as a Board Member on 1 January 2012 and his current term continues until 2 January 2015.

Encik Mohamad Abdul Halim was the Group Chief Executive of the Peremba Group of Companies until his retirement on 31 January 2014. In 1988, he served as General Manager of Finance and Finance Director of Landmarks Berhad, which is involved in a wide range of activities including hotel business, property investment and development, healthcare services and infrastructure works. From 11 March 1996 to 2 November 2005, he was the Managing Director of Landmarks Berhad. From 1994 to 2008, he sat on various boards including Rashid Hussain Berhad, Saujana Consolidated Berhad, Shangri-La Hotels (Malaysia) Berhad, Landmarks Berhad and TDM Bhd.

Encik Mohamad Abdul Halim is a member of the Malaysian Institute of Accountants. He qualified as a Chartered Accountant (ACA) in 1985 and is an Associate Member of the Institute of Chartered Accountants of England and Wales. Encik Mohamad Abdul Halim holds a Bachelor of Science (Honours – First Class) degree in Civil Engineering from Imperial College, University of London.



## MESSAGE FROM THE CHIEF EXECUTIVE OFFICER JEAN PIERRE SABOURIN

### INTRODUCTION

Nobel Laureate and behavioural economist, Herbert A. Simon, is often quoted for saying that "... a wealth of information creates a poverty of attention ....". In this age of computer communication networks, today's information is available to us at higher speeds and greater volumes than ever before. But the greatest challenge lies in the limitations of human ability to make sense of all this information. In this environment, a few things can happen - one, we focus all our attention on what has just happened around us, forgetting to focus on what is relevant; or, we defer making decisions because the information is too complex. In either case, the outcome may not be the best.

The Asian Financial crisis, the recent global financial crisis, scares about changes in bank policies on withdrawals of deposits in Europe, the even more recent runs in Thailand and Ukraine in February of 2014. All this reminds us that bank runs can be precipitated by a number of things, whether they are on a systemic scale with the bursting of asset bubbles, by the exploitation of economic vulnerabilities, by political instability, or simply by a misguided perception that banks will not for whatever reason repay depositors on demand.

By just looking at the most recent events, we can already see the vast array of variables that can precipitate a loss of confidence in a bank. Essentially, what we need to grasp is that it is the nature of the banking business and the human instinct to protect their savings that makes banks inherently vulnerable to runs.

### OUR PRIORITIES

For this reason, we at PIDM, have always considered it a matter of urgency that we should always have clear priorities, and we come to developing our priorities by paying attention to the information most relevant to our statutory objects. In this regard, I would highlight that our statutory objects see a role for PIDM not only upon a failure, but before, to promote sound risk management and public confidence in the financial system.

Some of the information that occupies us is this:

- (a) **Readiness.** We cannot always know how bank runs will happen. All we can say is that we know they can happen and it can happen under unexpected circumstances. Hence, we must always be ready in our environment of uncertainties. Chief among our objects is to make reimbursements to depositors and policy owners and we plan to do it as efficiently as we possibly can.
- (b) **Monitoring.** That is not to say that we should ignore portents of possible crises or fail to learn from history. We must watch for warnings and work closely with our fellow safety-net players in this regard.





# INTRODUCTION

## MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

(c) **Sound risk management and corporate governance.** We do not forget the role of human beings and values in all of this. Senator Paul Volcker, when speaking about financial crises, points to some very human emotions that underlie them – greed, fear and hubris. We must thus work on creating the right institutions and incentives for market participants to carry out their business responsibly. Apart from incentives in the form of differential premium systems, as you know, Bank Negara Malaysia (BNM) and PIDM has been engaging with industry to ensure that we build up our financial institutions’ standards of corporate governance, internal audit and controls for some time now.

I would also point out that, in a time of crisis, there is little time for delay. Hence, the mandates among the safety-net players must be clear. It is quite apparent that many jurisdictions are still, to this day, discussing what safety-net players will be responsible for in the resolution of troubled financial institutions. Under our current financial safety-net regime, who is primarily accountable for the performance of respective roles in a failure, and when, is clearly stated in legislation as well as set out in mutual agreements such as our Strategic Alliance Agreement with BNM. PIDM is the resolution authority for all member banks and insurer members while BNM is mandated to resolve other financial institutions.

### OUR WORK IN 2013

I am pleased to report that in 2013, PIDM achieved all of our key initiatives within the set deadlines and within budget. We pursued a range of key initiatives in line with our priorities, which we will continue to build upon as follows:

#### Readiness

• **Deposit Information Systems and Submission.** In 2013, we required member banks to submit annual detailed deposit information to PIDM, in line with the Guidelines on Deposit Information Systems and Submission (DISS Guidelines). Among others this requirement is designed to allow us to assess the readiness of member banks to provide accurate and reliable deposit information to PIDM for purposes of prompt reimbursement to depositors and in future, to assess the reliability of deposit data for premium purposes. We will continue to work with relevant member banks to improve the standard of data submission and on their compliance with the minimum requirements for an effective deposit liability system.

- **Simulations.** Our mandate as a resolution authority demands that we must rigorously plan and practise so that we can identify any problems with our contingency plans and improve their quality, as well as ensure that our employees are ready to deal with crises or a member institution's intervention and resolution action. In 2013, we carried out our annual training and simulation for an intervention and failure resolution. We also tested our business continuity plan. We will continue with more simulations going forward.
- **Policies and Procedures for Intervention and Failure Resolution (IFR).** We are also pleased to report that after completing our exercise to establish policies and procedures for IFR in relation to member banks in 2011, we completed the development of policies and procedures for insurer members. These serve as a guide and provide clarity on the key resolution approaches, options and steps that we should take in such an event.

#### Sound risk management

- **Differential Levy System (DLS) for Conventional Insurer Members.** We successfully implemented the DLS for conventional insurer members. This major milestone places these insurer members on the same platform as member banks, as the levies payable by these insurer members will be assessed according to their risk profiles.
- **Differential Premium Systems (DPS) for Member Banks.** We are in the midst of enhancing the DPS regulations. We consulted closely with industry on changes to the DPS Framework, and we are satisfied that we have developed a novel approach to assessing premiums that fairly reflects the risk profiles of member banks as well as incorporates ways of dealing with different types of risks. We plan to implement our revised DPS in 2015.
- **FIDE Forum.** We also supported the Board and Management of the FIDE Forum, the alumni of the Financial Institutions Directors’ Education (FIDE) Programme. The FIDE Forum is executing important work on corporate governance and working towards building a pool of future high calibre candidates for directorships in financial institutions.

#### Monitoring

- **Takaful and Insurance Risk Assessment Framework.** We completed the development of the Takaful and Insurance Risk Assessment Framework for takaful operators and enhanced the framework for conventional insurer members. This allows us to monitor the state of health of insurer members in a comprehensive and detailed manner.
- **Member Banks’ Risk Assessment and Monitoring Framework.** We reviewed our Risk Assessment and Monitoring Framework, so as to ensure that our monitoring of our member banks remains effective.
- **Rating Prediction Model.** We also completed a significant part of our Rating Prediction Model as part of our Early Warning System for member banks. This is in its final stages of development and will be completed by 2014.

#### Public Confidence

- **Communications and Awareness.** As part of our mandate to promote and maintain public confidence in the stability of the financial system in Malaysia, we continue to implement our Integrated Communications Plan initiatives. The results of our annual nationwide consumer survey shows steady improvements in both PIDM and Deposit Insurance System (DIS) levels, whilst awareness of the Takaful and Insurance Benefits Protection System (TIPS) registered a slight drop. We will continue to review and enhance our communications initiatives and channels to ensure enhanced understanding and greater reach.
- **Transparency and Accountability.** As part of our focus on transparency and as part of our accountability regime, we published and distributed our Corporate Plan to our key stakeholders. This Plan describes our objectives, goals and initiatives for the planning period. In 2013, our efforts was again recognised with PIDM’s Annual Report being awarded the “Best Annual Report of Non-Listed Organisations” from the National Annual Corporate Report Awards (NACRA). This recognition confirms that we continue to strive to be transparent in the way we manage our business and affairs, and that we are setting best practices for others to follow.

#### GOING FORWARD

We will carry on with our work on the above and continue to build our capabilities and capacity, in line with our need to be ready. We will continue to execute

our Integrated Communications Plan, strive to be transparent in the way we manage our business and affairs as well as work on cementing our relationships with fellow safety-net players, strategic partners and key stakeholders. We will also be rolling out new key initiatives as part of our regulatory function, such as our guidelines on compliance with PIDM laws.

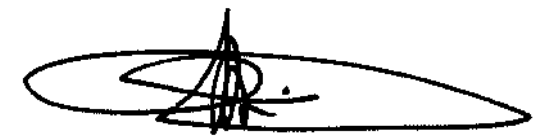
As to a question that I am often asked, “are we ready for an intervention or failure resolution?”, I will answer with an emphatic “yes”. Yet, to the question “have we completed our work on intervention and failure resolution?”, I would say, “given our continually changing environment, that will never happen. As a financial compensation scheme provider and resolution authority, ours is an unfinished business. We may be ready for circumstances that may exist today but the environment is ever changing and tomorrow we may no longer be ready”.

What this demands is for us to be ever vigilant and to work continuously to be ready to respond to any number of eventualities.

#### CONCLUSION

Ask what qualities a good financial regulator should possess in today’s complex and uncertain world, and I would say that it should encapsulate a mixture of knowledge and experience, nerve, creativity and adaptability. And a good measure of grit and integrity. For those who serve, “The purpose of life is not to be happy. It is to be useful, to be honourable, to be compassionate, to have it make some difference that you have lived and lived well” (Ralph Waldo Emerson).

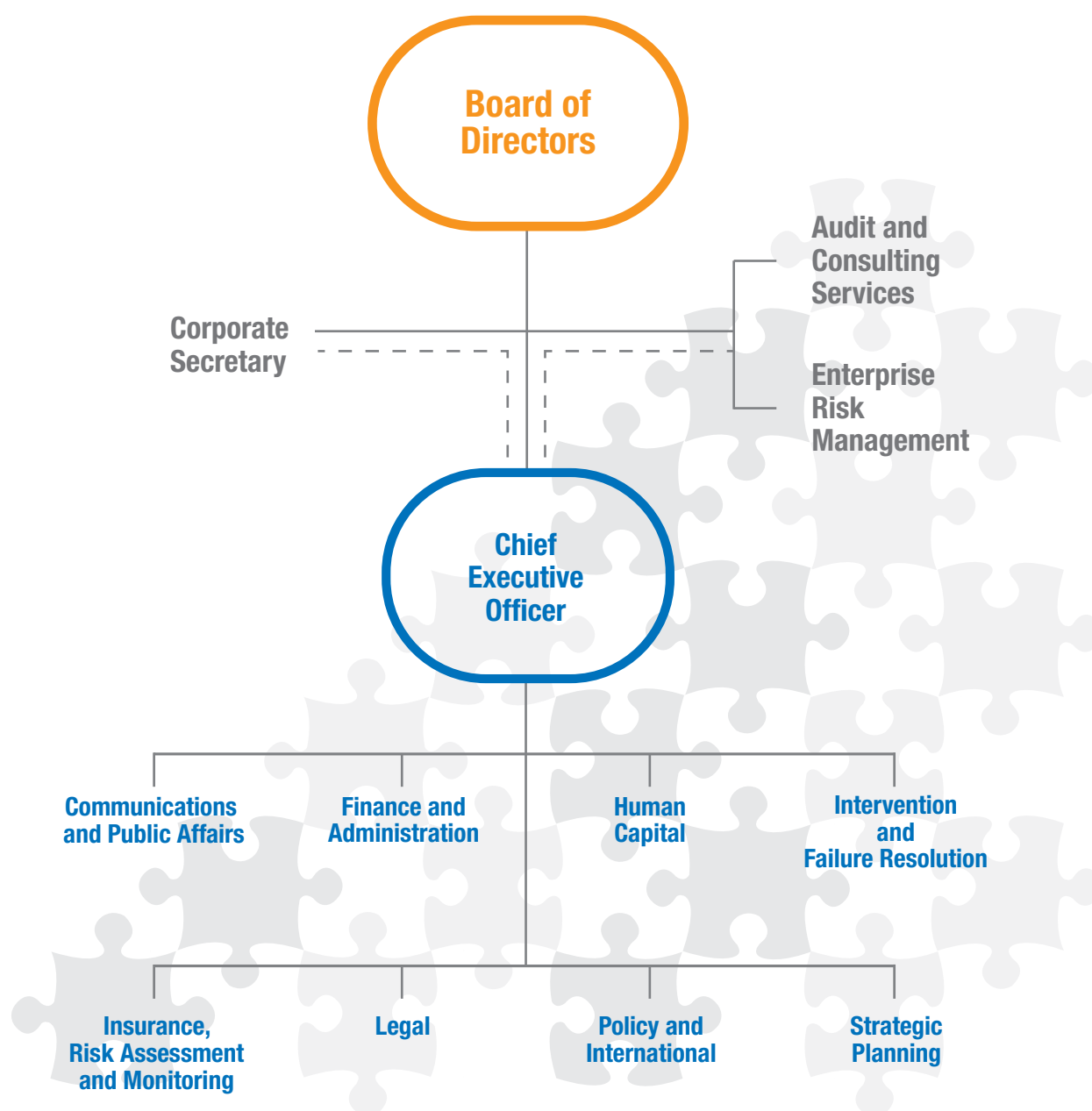
I am confident that we have these qualities and sense of purpose in our Board and employees, to all of whom I would like to express my sincere gratitude for their contributions. The purpose of regulation is to safeguard the interests of the public as a whole and I believe that in carrying out our roles, this is something we should not lose sight of.



JEAN PIERRE SABOURIN

## INTRODUCTION

### ORGANISATION CHART



## INTRODUCTION

### EXECUTIVE MANAGEMENT COMMITTEE: MEMBERS AND PROFILES

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



**Jean Pierre Sabourin** is the Chief Executive Officer (CEO) of PIDM and has held this position since PIDM was established in 2005. Over his 35-year career in the field of deposit insurance both in Malaysia and Canada, Mr. Sabourin has gained unparalleled expertise and experience in all aspects of deposit insurance. His expertise is widely sought by many jurisdictions around the world planning to establish or improve their deposit insurance systems. He is also a much sought-after speaker in the areas of governance in government enterprises, intervention and failure resolutions, and on leadership and sound management for effective deposit insurance systems.

Mr. Sabourin's many accomplishments include chairing the International Study and Working Groups of the Financial Stability Forum (FSF), now the Financial Stability Board (FSB), on the establishment of Effective Deposit Insurance Systems beginning in 1999 and ending 2001. Mr. Sabourin also led the first-ever Asia-Pacific Economic Cooperation (APEC) Policy Dialogue on Deposit Insurance which made recommendations to APEC Ministers on enhancing deposit insurance systems. In May 2002, he led the development and establishment of the International Association of Deposit Insurers (IADI) and was elected as the first Chair of the IADI Executive Council and President, a post he held until 2007. The work carried out for the FSF and the research and guidance completed by IADI under his leadership led to the development of the Core Principles for Effective Deposit Insurance Systems, jointly adopted by IADI and the Basel Committee on Banking Supervision in 2009 and subsequently endorsed by the FSB.

Mr. Sabourin began his career at the Canada Deposit Insurance Corporation (CDIC) in 1976 and moved progressively to more senior positions until his appointment by the Government of Canada as President and CEO in 1990, a position he held for 15 years until his retirement in April 2005. Under his leadership, CDIC developed into a best practice deposit insurer while successfully resolving over 40 financial institution failures. In 2006, CDIC was recognised by the members of IADI and received the IADI Deposit Insurance Organisation of the Year Award for its achievements and contributions to the development of effective deposit insurance systems.

In August 2005, Mr. Sabourin was sought out by the Malaysian Government to establish PIDM and was appointed its first-ever CEO, a position he continues to hold. PIDM has over the years developed into a well governed and well managed financial consumer protection and resolution authority.

In 2011, PIDM received the IADI Deposit Insurance Organisation of the Year Award for its contributions towards strengthening and advancing effective deposit insurance systems and for helping IADI achieve its objectives. Also in 2011, PIDM's legislative mandate was expanded to protect policy owners of insurance companies. PIDM currently administers six separate and distinct compensation funds (conventional and Islamic banks, and life and general insurance, both conventional and takaful).

Under his leadership, PIDM has been recognised for its transparency and accountability to key stakeholders through its public disclosure of the Corporate Plan and its performance against it. PIDM's Annual Report (2008 - 2012) has been the recipient of the National Annual Corporate Report Awards (NACRA) for non-listed organisations, five years in a row, for the quality of disclosure and standards of corporate governance.

Mr. Sabourin is a member of the Board of Directors of the ICLIF Leadership and Governance Centre located in Kuala Lumpur and a member of Bank Negara Malaysia's Financial Stability Executive Committee. He holds a Master of Business Administration from the University of Toronto, Canada.



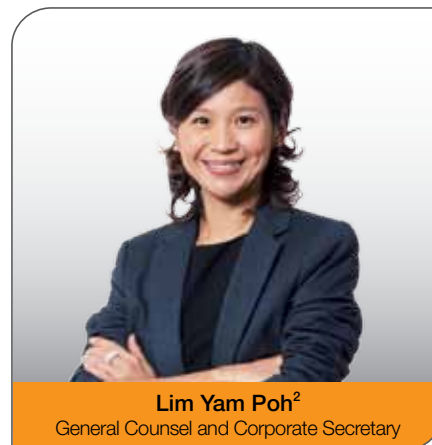
# INTRODUCTION

## EXECUTIVE MANAGEMENT COMMITTEE: MEMBERS AND PROFILES

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

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

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



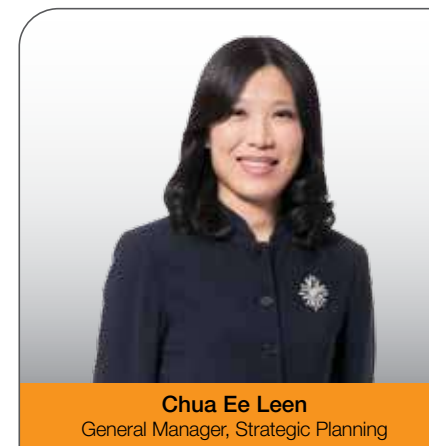
**Noorida Baharuddin** was appointed the Chief Internal Auditor in 2006 and heads the Audit and Consulting Services Division. Her main responsibilities include providing independent and objective assurance and consulting services which are designed to improve the effectiveness and efficiency of PIDM's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

She has over 20 years of combined experience in external and internal auditing, risk management and policy development gained through her career with Price Waterhouse, Malaysian Airline System Berhad (MAS), two regulatory bodies – Securities Commission (SC) and Labuan Financial Services Authority (LFSA), as well as an attachment with the Islamic Financial Services Board (IFSB). Her auditing experience includes supervisory examination where she had led examinations of capital market institutions and intermediaries licensed and supervised by the SC as well as offshore financial and insurance institutions licensed by the LFSA. She was also involved in the development and implementation of enterprise-wide risk management for LFSA. On attachment with the IFSB, she gained experience in the development of standards for the Islamic financial services industry.

Noorida holds a Bachelor of Business degree in accounting from the University of Tasmania, Australia and a Bachelor of Law degree from Universiti Institut Teknologi Mara (UiTM), Malaysia. She is a Certified Practising Accountant (Australia), a Chartered Member of the Institute of Internal Auditors Malaysia and a Certified Financial Planner with the Financial Planning Association of Malaysia. She obtained her Certification in Risk Management Assurance from the Institute of Internal Auditors in 2013.

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

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



**Chua Ee Leen** was appointed the General Manager, Strategic Planning Division in 2012. Prior to that, she headed the division as a Senior Manager. She is responsible for the implementation of PIDM's strategic planning process and assists the Board and Management in setting the strategic direction as well as the development of strategic and financial plans, taking into account the opportunities and risks facing the Corporation. She is also responsible for monitoring and reporting performance against the approved plan, including financial performance against budgets. She is involved in facilitating risk management matters at the operational level across PIDM and heads the committee that recommends, provides oversight and monitors the development and implementation of Information Technology strategies, plans and budgets.

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

Prior to joining PIDM in 2007, she has seven-and-a-half years of experience in auditing, risk management, as well as the development of policies and procedures through her career at the Ernst & Young Kuala Lumpur office, including a one-year secondment to a global group of energy and petrochemical companies. Her auditing experience includes external and internal auditing, Sarbanes-Oxley independent compliance review as well as certification-related review. She holds a Bachelor of Commerce degree in accounting and finance from Curtin University of Technology, Perth, Western Australia. She is a Certified Practising Accountant (Australia) and a member of the Malaysian Institute of Accountants.

**Lee Yee Ming** was appointed the General Manager, Policy and International Division in 2011. She is responsible for PIDM's key policy areas and international relations. Her main responsibilities are to proactively assess, develop and propose policies that concern the mandate and operations of PIDM and which help advance the views and interests of PIDM as well as position PIDM internationally in its mission and vision. She was previously the Chief Risk Officer of PIDM, heading the ERM Division.

In October 2011, Yee Ming was elected to the Executive Council (EXCO) of the International Association of Deposit Insurers (IADI) for a three-year term. The roles of the IADI EXCO include recommending the process for developing and establishing the guidance to enhance the effectiveness of deposit insurance systems; and developing policies for the provision of advice on deposit insurance issues. She was also elected in October 2013 as a member of the Executive Committee of the International Forum of Insurance Guarantee Schemes (IFIGS) for a two-year term. The key responsibility of the IFIGS Executive Committee is to direct the activities of IFIGS in achieving its objectives for cooperation, participation and sharing of information among members for the implementation of an effective insurance guarantee scheme.

Prior to joining PIDM in 2007, Yee Ming has 10 years of consulting and banking experience in ERM, Basel II, corporate governance and internal audit. She began her career in the United States with a financial institution in Illinois and subsequently joined Ernst & Young in the Kuala Lumpur, Malaysia and Taipei, Taiwan offices. She had advised organisations in Malaysia and internationally on the implementation of their respective ERM frameworks, and also project managed Basel II system implementation and Basel II-related implementation projects for Taiwanese banks. She holds an honours degree in business administration (summa cum laude) and a Master of Business Administration degree in finance from Western Michigan University, USA. She is also a Certified Internal Auditor.



<sup>2</sup> Corporate officers appointed by the Board of Directors

# INTRODUCTION

## EXECUTIVE MANAGEMENT COMMITTEE: MEMBERS AND PROFILES



**Lim Kong Kuan**  
General Manager, Intervention and  
Failure Resolution

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

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

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

**Margaret Fong** was appointed the General Manager, Human Capital Division in November 2012. Her responsibilities include the development of human capital strategies and plans to maximise both organisational and individual effectiveness and the provision of the full range of human capital policies, programmes and services to ensure that PIDM can continuously attract, select, develop and retain the highest calibre workforce to fulfil its mandate.

Margaret has more than 20 years of experience in various human capital positions in the food, motor, chemical and insurance industries. In addition, she has seven years of experience in operations encompassing underwriting, customer service, claims and branch operations in a leading insurance company.

Margaret has a degree in business administration from Ottawa University, USA, Diploma from the Life Office Management Association, USA, Diploma from the Institute of Administrative Management, UK and a Masters in Human Resource Management from Canberra University, Australia.



**Margaret Fong Gook Pheng**  
General Manager, Human Capital

**Rafiz Azuan Abdullah** was appointed the General Manager of Insurance, Risk Assessment and Monitoring Division in 2010. He is responsible for the analysis and monitoring of the risk level of member institutions as well as the premium and levy collection function of PIDM. He joined PIDM in January 2007 and spearheaded the completion of the Risk Assessment System for PIDM. In 2011, with the expanded mandate of PIDM to also include Takaful and Insurance Benefits Protection System (TIPS), Rafiz led the establishment of the risk assessment and the Differential Levy System (DLS) framework for insurer members. At the international front, Rafiz was appointed the Chairman of the Islamic Deposit Insurance Group (IDIG), one of the groups within the Research and Guidance Committee of the International Association of Deposit Insurers (IADI) in 2013. IDIG conducts research on Islamic deposit insurance and issues guidance and core principles to help policymakers develop effective Islamic deposit insurance systems. PIDM is appropriately positioned to lead this group with its experience as a pioneer deposit insurer among IADI members that operates dual Islamic and conventional deposit insurance systems.

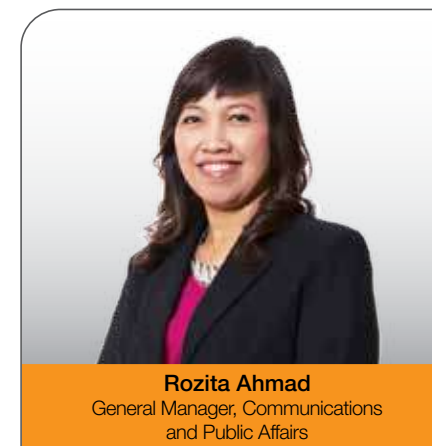
Prior to PIDM, Rafiz was attached for more than 10 years with Rating Agency Malaysia, where he specialised in ratings of financial institutions, real estate and construction companies. During that period, Rafiz was also seconded for a year to the Corporate Debt Restructuring Committee at Bank Negara Malaysia in December 1999 to assist on the restructuring of distressed companies as a result of the economic recession. Rafiz graduated from Lancaster University, UK in 1995 majoring in Accounting and Finance. He then immediately pursued a professional accounting qualification (ACCA) at Emile Woolf College in London and completed the required papers in one sitting in September 1996.

**Rozita Ahmad** was appointed the General Manager, Communications and Public Affairs Division in November 2012. She is responsible for the full range of communications initiatives for the Corporation's public awareness programmes, public relations, publications and stakeholder engagement programmes.

Rozita has over 20 years of experience in the public relations and communications field which include media relations, crisis and issues management, internal communications, corporate social responsibility, marketing communications, government relations, events management and consumer affairs.

She started her career as a Public Relations Officer in Maybank and subsequently moved on to head the Communications Department at EPE Power Corporation Berhad and Syarikat Pengeluar Air Sungai Selangor Sdn. Bhd. (SPLASH). Rozita later joined Hill & Knowlton (SEA) Sdn. Bhd., an international public relations agency where she handled clients from many different industries. She has also worked with well-known brands at Unilever (Malaysia) Holdings Sdn. Bhd. and later, at Glaxo Smithkline Consumer Healthcare.

Rozita holds a Masters in Business Administration (MBA) from Governors State University and a Bachelor of Science degree in management from Northern Illinois University, both in Illinois, USA.



**Rozita Ahmad**  
General Manager, Communications  
and Public Affairs



**Afeiz Abdul Razak**  
Acting Chief Risk Officer and Acting  
General Manager, Enterprise Risk Management

**Afeiz Abdul Razak** was appointed the Acting Chief Risk Officer and Acting General Manager of the ERM Division in 2013. He is responsible for the implementation of PIDM's ERM framework and Business Continuity Management framework and assists the Board, Audit Committee and Management to ensure that PIDM's significant risks are continuously identified, assessed, managed, monitored and reported on accordingly.

He has vast experience in providing assurance services to both private and public-listed companies in Malaysia and in countries such as Hong Kong, China and the United States, focussing on ERM, internal audit, grant audit, due diligence and corporate governance. Prior to PIDM, he was the General Manager, Internal Audit of Kumpulan Perangsang Selangor Berhad and the Head of Internal Audit of Malaysian Technology Development Corporation. He has also worked at IBM and KPMG in the Risk Advisory & Internal Audit Services Practice.

Afeiz is actively involved in the Governance, Risk and Compliance (GRC) as well as the Business Continuity Management (BCM) fraternity where he is a regular speaker at seminars and conferences locally and abroad. He is a member of the Executive Committee of the Malaysian Association of Risk and Insurance Management in 2013. In addition, he was elected and served as a member of the Board of Governors of the Institute of Internal Auditors Malaysia from 2010 to 2013.

He holds a Bachelor's Degree in Business Administration majoring in Finance and is a Certified Financial Services Auditor (USA), Certified Business Continuity Institute (CBCI)(UK) professional, Chartered Member of the Institute of Internal Auditors Malaysia and Associate Member of the Business Continuity Institute (UK). He is also accredited by The Institute of Internal Auditors Inc. USA to perform Internal Quality Assessment or Validation for Internal Audit Functions.



# INTRODUCTION

## OTHER MANAGEMENT COMMITTEES

### SENIOR MANAGEMENT COMMITTEE

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

### ENTERPRISE RISK MANAGEMENT COMMITTEE

The Enterprise Risk Management (ERM) Committee is a management committee established to provide assurance that risks are appropriately identified and managed, as well as advise and provide the Audit Committee (AC) and the Board an understanding of the significant risks affecting PIDM. The ERM Committee also provides oversight on business continuity management related matters of PIDM.

The ERM Committee comprises the following members:

- Chief Executive Officer (CEO) (Chair)
- Chief Financial Officer (CFO)
- General Counsel and Corporate Secretary, Legal Division
- General Manager, Communications and Public Affairs Division
- General Manager, Human Capital Division
- General Manager, Insurance, Risk Assessment and Monitoring Division
- General Manager, Intervention and Failure Resolution Division
- General Manager, Policy and International Division
- General Manager, Strategic Planning Division
- Acting Chief Risk Officer (CRO)
- Deputy General Manager, Economics and Research, Policy and International Division
- Manager, Enterprise Risk Management Division (Secretary)
- Chief Internal Auditor (CIA) (Observer)
- Any other officer or employee of PIDM as required from time to time, to be determined by the Chair

### STRATEGIC PLANNING AND ERM WORKING COMMITTEE

The Strategic Planning and ERM (PERM) Working Committee is a management committee established to identify, monitor, update, advise and support the ERM Committee in facilitating and coordinating ERM and related strategic planning activities across PIDM.

The PERM Working Committee comprises representatives from all divisions:

- General Manager, Strategic Planning Division (Chair)
- Acting CRO
- Representatives of the following divisions in PIDM:
  - CEO's Office
  - Communications and Public Affairs Division
  - Finance and Administration Division
  - Human Capital Division
  - Insurance, Risk Assessment and Monitoring Division
  - Intervention and Failure Resolution Division
  - Legal Division
  - Policy and International Division
  - Strategic Planning Division
- Manager, Enterprise Risk Management Division (Secretary)
- Representative from the Audit and Consulting Services Division (Observer)
- Any other officer or employee of PIDM as required, to be determined by the Chair

### ASSET AND LIABILITY MANAGEMENT COMMITTEE

The Asset and Liability Management Committee (ALCO) is an advisory committee that reviews matters relating to funding, liquidity, investment and financial risk management of PIDM. It also acts as a forum to discuss investment and financial risk management practices that may influence investment and funding strategies as well as the implications of decisions with respect to PIDM's asset and liability management.

The Committee members are:

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

### INFORMATION TECHNOLOGY STEERING COMMITTEE

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

The ITSC members are:

- General Manager, Strategic Planning Division (Chair)
- CEO (ex officio)
- CFO
- General Manager, Communications and Public Affairs Division
- General Manager, Human Capital Division
- General Manager, Insurance, Risk Assessment and Monitoring Division
- General Manager, Intervention and Failure Resolution Division
- General Manager, Policy and International Division
- Deputy General Manager, Information Technology Department
- Senior Legal Counsel
- Project Administrator, Information Technology Department (Secretary)
- CIA (Observer)
- Acting CRO (Observer)

### CORPORATE COMPLIANCE COMMITTEE

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

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

# INTRODUCTION

## OTHER MANAGEMENT COMMITTEES

Its members are:

- General Counsel (Chair)
- CFO
- CIA
- General Manager, Insurance, Risk Assessment and Monitoring Division
- Acting CRO
- Senior Manager, Communications and Public Affairs Division
- Senior Manager, Human Capital Division
- Senior Manager, Intervention and Failure Resolution Division
- Senior Manager, Organisation and Methods Department
- Legal Advisor (Secretary)

### SAFETY AND HEALTH COMMITTEE

The Safety and Health Committee, established in accordance with the Occupational Safety and Health Act 1994 and the Occupational Safety and Health (Safety and Health Committee) Regulations 1996, assists Management to promote and maintain a safe, healthy and conducive working environment for all its employees, contractors, consultants, visitors and any others who have dealings with PIDM. The main function of the Committee is to ensure the maintenance of safe and healthy conditions in the workplace as well as the provision of adequate facilities for the welfare of employees. The Committee is also responsible to review the measures taken to ensure safety and health at the workplace, conduct investigation on any matters related to safety and health, and to resolve those matters.

The Committee members are:

- General Manager, Human Capital Division (Chair)
- General Manager, Strategic Planning Division
- Deputy General Manager, Insurance, Risk Assessment and Monitoring Division
- Deputy General Manager, Intervention and Failure Resolution Division
- Deputy General Manager, Policy and International Division
- Senior Manager, Facilities and Materials Management Department
- Manager, Human Capital Division (Secretary)
- Representatives of the following divisions in PIDM:
  - CEO's Office
  - Human Capital Division
  - Insurance, Risk Assessment and Monitoring Division
  - Legal Division
- Any other officer or employee of PIDM as required, to be determined by the Chair

### POLICIES AND PROCEDURES COMMITTEE

The Policies and Procedures Committee is a committee that facilitates discussions on matters relating to the development, review and approval of PIDM's corporate operational policies and procedures except for those that relate to intervention and failure resolution, employee welfare or human capital matters. This Committee also provides oversight and direction for the work of the Organisation and Methods Department on the streamlining, centralisation and integration of key operational policies and procedures for PIDM, taking into consideration the outcome of internal and external audits as well as the operational risks review and assessment.

Its members are:

- CFO (Chair)
- CIA (non-executive)
- Acting CRO (non-executive)
- General Manager, Strategic Planning Division or representative
- Deputy General Manager, Communications and Public Affairs Division
- Deputy General Manager, Finance Department

- Deputy General Manager, Insurance, Risk Assessment and Monitoring Division
- Deputy General Manager, Intervention and Failure Resolution Division
- Senior Legal Counsel
- Representative from the Organisation and Methods Department (Secretary)

### CORPORATE SOCIAL RESPONSIBILITY COMMITTEE

The Corporate Social Responsibility (CSR) Committee helps to carry out PIDM's commitment to carry on its business and affairs in a socially responsible, sustainable and meaningful way through community involvement and environmental protection.

The CSR Committee comprises representatives from the following divisions:

- CEO's Office
- Communications and Public Affairs Division
- Finance and Administration Division
- Human Capital Division
- Insurance, Risk Assessment and Monitoring Division
- Intervention and Failure Resolution Division
- Legal Division
- Policy and International Division



# Section 2

## CORPORATE GOVERNANCE

### CORPORATE GOVERNANCE

#### STATEMENT ON GOVERNANCE

##### INTRODUCTION

The Board Governance Policy was approved by the Board of Directors in 2006 and sets out 15 standards that are expected of a board of a statutory body. The Board Governance Policy draws on recognised best practices and corporate governance principles, and has been adapted, where relevant, to the circumstances of the Corporation as a statutory body. The Board Governance Policy itself, available in full on our website at [www.pidm.gov.my](http://www.pidm.gov.my), cites the sources from which the standards are drawn and is reviewed annually.

As there are no “corporate governance codes” that apply to the Corporation as a statutory body with public policy objectives, the Board uses the Board Governance Policy as a guide to our Board’s responsibilities and as a tool for us to account to our stakeholders in respect of our governance. The Board, therefore, reports annually to our stakeholders against the standards in the Board Governance Policy.

The following table provides an overview of the standards in the Board Governance Policy.

<b>Standard 1: Independence of the Board</b>
Board Members will exercise independent judgement.
<b>Standard 2: Board effectiveness and governance responsibilities</b>
The Board will obtain and maintain an understanding of the Corporation’s objects and powers, as well as of its governance responsibilities.
<b>Standard 3: Roles and responsibilities of Committees</b>
Where the Board appoints a committee, it will establish the responsibilities and authority of Board Committees, as well as accountability requirements for them.
<b>Standard 4: Board composition and succession</b>
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.
<b>Standard 5: Roles and responsibilities of the Chief Executive Officer</b>
The responsibilities and accountability of the Chairman and the Chief Executive Officer (CEO) should be clearly distinguished and documented.
<b>Standard 6: Appointment of senior corporate officers</b>
The Board will appoint the senior corporate officers of the Corporation (other than the CEO) and determine their terms of office and compensation.
<b>Standard 7: Compensation of officers</b>
The Board will satisfy itself, on a regular basis, that the compensation of PIDM’s officers and employees is consistent with the sustainable achievement of the Corporation’s objects, the prudent management of its affairs and the risks to which it is exposed and adherence to its policies and procedures. The Board will review the compensation programme for all Directors, and make recommendations to the Minister of Finance in that regard.

# CORPORATE GOVERNANCE

## STATEMENT ON GOVERNANCE

Standard 8: Succession planning
The Board will plan for the succession of the CEO and review succession plans for key senior management.
Standard 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.
Standard 10: Significant risks to the Corporation
<p>The Board will:</p> <ul style="list-style-type: none"> <li>(i) obtain an understanding of the principal risks of the Corporation's business;</li> <li>(ii) ensure that appropriate and prudent risk management systems to manage these risks have been implemented and are reviewed regularly;</li> <li>(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; and</li> <li>(iv) ensure that the Chief Risk Officer (or in his absence, the Deputy General Manager from the Enterprise Risk Management Division) should regularly attend all scheduled Board meetings.</li> </ul>
Standard 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.
Standard 12: In control
The Board will obtain, on a regular basis, reasonable assurance that the Corporation is "in control".
Standard 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.
Standard 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, policy owners, member institutions and other relevant parties.
Standard 15: Review of Board Governance Policy
The Board will annually review the Board Governance Policy to ensure that it remains responsive to the circumstances and needs of the Corporation and that it continues to reflect the legislation to which the Corporation is subject to, the Corporation's mandate, guidance on matters of governance specific to statutory bodies and recognised best practices.

This Statement on Governance reports on how the Board has complied with these standards in 2013.

### STATEMENT ON GOVERNANCE

The Board believes that strong governance is essential to the effective and efficient delivery of the Corporation's mandate, and to the ability of the Corporation to achieve consistent and sustainable performance over the long term.

For the year 2013, the Board is pleased to report full compliance with the 15 standards in the Board Governance Policy. A detailed description of how the Board has complied with this Policy is found on pages 43 - 51.

#### Shariah Governance

PIDM also ensures compliance with Shariah requirements in relation to the protection systems it administers and the various Funds. The Corporation seeks the advice and endorsements from the Shariah Advisory Council (the Council) of BNM on Shariah issues relating to the operations of the Islamic Deposit Insurance System (DIS) and the Takaful Benefits Protection System (TBPS).

### OVERVIEW OF THE KEY WORK DONE BY THE BOARD IN 2013

The following areas are the key highlights of the work of the Board in 2013:

#### (a) Standard No. 2: Board effectiveness and governance responsibilities

- Board evaluation:** Annually, the Board's practice is to conduct an evaluation of its effectiveness as well as the effectiveness of its Board Committees. The Board also evaluates Management's support to the Board in providing information. In previous years, the evaluation has been conducted internally, i.e. the Board itself has evaluated effectiveness in all of these areas. For 2013, the Board decided to appoint an external corporate governance advisor to evaluate the effectiveness of the Board, the Board Committees and Management's support to the Board in terms of providing information. The Board also asked the advisor to advise on the current Board-approved self-evaluation process. The external corporate governance advisor reported that the overall effectiveness of the Board and its governance practices is "Strong". Further details are found on page 43 of this report.
- Establishment of the Succession Planning Committee (SPC):** In 2013, the Board established another Board Committee, the Succession Planning Committee (SPC). The SPC's role is to assist the Board to review the existing plans for the CEO succession. The SPC will make recommendations to the Board on matters such as the CEO profile. If needed, and in accordance with the Board-approved CEO Succession Plan, the SPC will help identify candidates who might be able to fill the CEO's position. The newly established SPC is chaired by Tan Sri Datuk Dr. Abdul Samad Haji Alias, with Mr. Alex Foong and Mr. Lim Tian Huat as its committee members.
- Composition of the Board Committees:** In line with the Policy on Rotation of Committee Members, in December 2013, the Board considered the rotation of the Board Committee members and made changes to the composition of certain Board Committees. Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz retired as the Chairman of the Remuneration Committee (RC), having served on the RC since 2005. Tan Sri Dr. Mohd Irwan Serigar Abdullah retired from the Governance Committee (GC). Mr. Alex Foong assumed the role as the Chairman of the RC and Encik Mohamad Abdul Halim Ahmad is now a member of the RC.
- Board education:** Several Board education sessions were held in 2013. The Board Education Programme identifies and implements training for Board Members in relation to new developments affecting the Corporation's business and affairs as well as other areas of interest to the Board. Details of the Board education sessions held in 2013 are found on pages 44 - 45.



## CORPORATE GOVERNANCE

### STATEMENT ON GOVERNANCE

#### How the Board is Trained and Developed

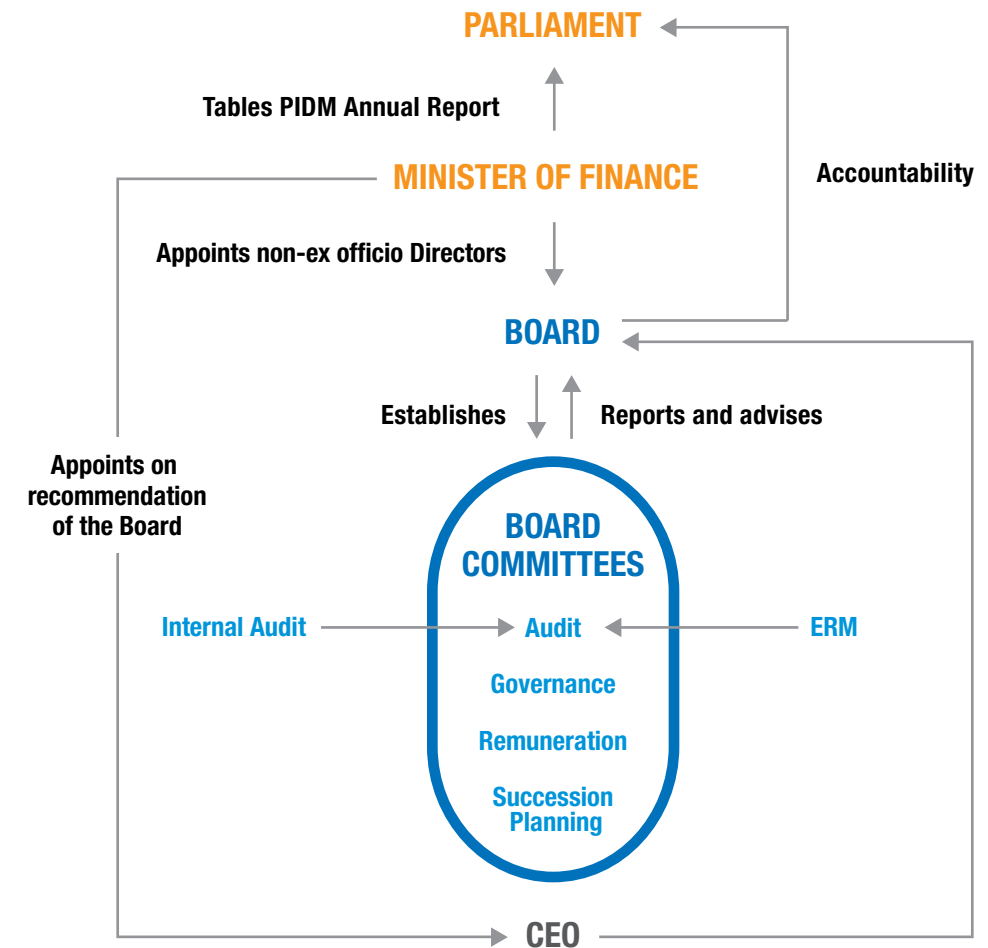


#### (b) Standard No. 4: Board composition and succession

There were no new appointments to the Board in 2013. The terms of three existing Board Members have been renewed by the Minister of Finance to serve for another three years. Dato' Halipah Esa and Mr. Lim Tian Huat were reappointed to serve from 16 August 2013 until 15 August 2016, and Mr. George Anthony David Dass was reappointed to serve from 3 February 2014 until 2 February 2017.

#### OUR GOVERNANCE FRAMEWORK

The Corporation subscribes to the principles of "Openness (Transparency), Integrity (including Objectivity) and Accountability".<sup>1</sup> The Board's accountability is to meet its mandate and report on the Corporation's activities, as illustrated below.



Over the years, the Board has continued to benchmark its governance policies and procedures against international and local best practices to ensure that its approach to governance remains current and relevant. Where applicable, the Board will adopt leading practices on governance. For example, the Chief Internal Auditor and the Chief Risk Officer report directly to the Board through the Audit Committee (AC).

The following documents are key components of the Corporation's governance framework. These documents can be found on the Corporation's website, [www.pidm.gov.my](http://www.pidm.gov.my), under "How PIDM is Governed".

- Board Governance Policy;
- Board Committee Charters;
- Position descriptions of the Chairman, CEO and Members of the Board of Directors;
- Code of Business Conduct and Ethics for Directors and the Code of Business Conduct and Ethics for Employees;
- Conflict of Interest Code for Directors and the Conflict of Interest Code for Employees;
- Policy for Disclosure of Information Concerning Improper Conduct;
- Policy and Procedures on Public Disclosure of Information;
- Policy on Workplace Harassment; and
- Compliance Programme.

The Board has approved an "Authority Matrix" that makes clear the matters that are reserved for Board decisions and the specific authorities delegated to Management.

<sup>1</sup> Core principles recommended by the Cadbury Committee in the Cadbury Report (1992) as adapted for the public sector, "Governance in Public Sector: A Governing Body's Perspective" by the International Federation of Accountants (August 2001)

## CORPORATE GOVERNANCE

### STATEMENT ON GOVERNANCE



#### BOARD OF DIRECTORS

##### Composition, Appointment and Remuneration

PIDM's Board comprises nine Directors, with diverse skills, expertise and experience, both from the private and public sectors. Two of these Directors are ex officio Members of the Board, namely, the Governor of BNM and the Secretary General of Treasury, Ministry of Finance.

All Directors are non-executive, so that Board independence is maintained and its role is focused on oversight. The CEO is not a Member of the Board, and he is responsible by statute for the day-to-day management of the business and affairs of the Corporation. Thus, there is a clear separation between the Board and Management's responsibilities, which is supported by documentation.

The seven non-ex officio Directors are appointed by the Minister of Finance on the recommendation of the Board. Two of the non-ex officio Directors are from the public sector and have public sector experience and the remaining five non-ex officio Directors are from the private sector. Under the Malaysia Deposit Insurance Corporation Act (PIDM Act) 2011, the Chairman must have "relevant private sector experience".

In 2013, the terms of the three non-ex officio Directors have been renewed for a further three years. They are Dato' Halipah Esa, Mr. Lim Tian Huat and Mr. George Anthony David Dass.

In 2013, the Directors collectively received a total of RM626,000 as remuneration for Board and Committee work.

##### Board Responsibilities

The PIDM Act sets out the Corporation's mandate, and the Board's overall responsibility for the conduct of the Corporation's business and affairs. It also sets out the Directors' duties to, at all times, act honestly and in the best interest of the Corporation, and to use reasonable diligence in the discharge of their duties.

The Board's responsibilities are elaborated in the Board Governance Policy. Position descriptions for the Chairman, Members of the Board and the CEO are also in place. The Board Governance Policy, and the position descriptions can be found in PIDM's website, [www.pidm.gov.my](http://www.pidm.gov.my), under the section "How PIDM is Governed".

##### Board and Committee Meeting Attendances

There were six regular Board meetings in 2013, in line with the schedule set at the beginning of the year. In addition, the Board also met at two Special Board meetings arranged during the year. The Special Board meetings were organised to address specific matters in greater detail. These two Special Board meetings in 2013 were to report on the results of the Board's and Committees' performance in 2013 and Management's support in terms of providing information to the Board, and to consider the Corporation's Strategic Plan for 2014 - 2016.

There were five AC meetings, two RC meetings, five GC meetings and one SPC meeting in 2013.

The attendances of the Members during their terms are as follows:

BOARD OF DIRECTORS	REGULAR BOARD MEETINGS	SPECIAL BOARD MEETING	AUDIT COMMITTEE MEETING	REMUNERATION COMMITTEE MEETING	GOVERNANCE COMMITTEE MEETING	SUCCESSION PLANNING COMMITTEE MEETING
Tan Sri Datuk Dr. Abdul Samad Haji Alias (Chairman)	6/6	2/2	Attended the AC meeting to consider the Corporate Plan 2014 - 2016		5/5	1/1
Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz (ex officio)	6/6	1/2		2/2		
Tan Sri Dr. Mohd Irwan Serigar Abdullah (ex officio)	2/6	0/2			0/5	
Datuk Dr. Rahamat Bivi Yusoff	5/6	2/2			4/5	
Dato' Halipah Esa	6/6	2/2	Attended the AC meeting to consider the Corporate Plan 2014 - 2016	2/2		
Mr. George Anthony David Dass	5/6	2/2	4/5		4/5	
Mr. Lim Tian Huat	5/6	2/2	5/5			0/1
Mr. Alex Foong	5/6	2/2	5/5	2/2		1/1
Encik Mohamad Abdul Halim Ahmad	4/6	1/2	4/5			

The shading indicates current membership on the relevant Committee



# CORPORATE GOVERNANCE

## STATEMENT ON GOVERNANCE

### DETAILS OF THE WORK OF THE BOARD

The following sections describe the manner in which the Board has complied with the standards set out in the Board Governance Policy in detail. As usual, we have also prepared the Table that sets out the detailed progress report of the Board against each of the standards on pages 43 - 51.

#### Early Years 2006 - 2012

The Board established its corporate governance arrangements in 2006. Since then, it has worked to achieve and maintain full compliance with the Board Governance Policy. Since 2008 and every year thereafter, the Board has been able to report full compliance with this Policy.

#### Board Objectives in 2013

Since 2009, the Board has adopted the practice of setting annual objectives for itself at the beginning of each year. It also considers the action plans to support the achievement of these objectives.

One of the Board objectives set in 2013 was to focus on obtaining in-depth understanding in the areas of deposit insurance, financial compensation schemes and related core issues. The Board had also agreed to focus on the following strategic items at Board meetings:

- (a) the development of the interim differential levy system for takaful operators;
- (b) legislative changes and subsidiary legislation, in particular key Takaful and Insurance Benefits Protection System (TIPS)-related legislation;
- (c) oversight of risk and strategy development, and the implementation of strategies to ensure the long-term sustainability of the Corporation such as succession planning for the Board and key Management positions;
- (d) oversee the state of readiness of the Corporation for an intervention and failure resolution; and
- (e) oversee the risk assessment and monitoring of member institutions.

The Board has achieved the objectives set for itself in 2013. The following paragraph provides the key highlights of the Board’s work to achieve these objectives.

#### Strategic Items for 2013

The Board focused on all the strategic items identified for 2013 as follows:

- (a) the Board considered how to develop the differential levy system framework for takaful operators and agreed that it be deferred for implementation in 2015 in view of the new Risk-Based Capital Framework for Takaful Operators and the need for more reliable data;
- (b) the Board considered and approved the proposed legislative amendments to the PIDM Act and subsidiary legislation;
- (c) the Board established the SPC for CEO succession planning;
- (d) the Board considers the reports on the state of readiness of the Corporation for an intervention and failure resolution regularly; and
- (e) the Board considers the reports on the risk assessment and monitoring of member institutions regularly during Board meetings.

#### Board Effectiveness

During 2013, the Board undertook an independent Board and Committee review. The review was conducted by Cameron Ralph Pty Ltd (trading as Cameronralph Navigator) – an Australian-based firm with over 10 years experience in the field.

The review incorporated a review of Board and Committee papers, completion by Directors and senior executives of a customised diagnostic questionnaire and face-to-face interviews with the reviewers.

The review noted that the Board of PIDM faced a unique set of challenges, and found a diverse mix of skills amongst the Directors, the advantage of very senior perspectives and rigorous governance practices.

The review cautioned that the Board needed to maintain its disciplined focus on the strategic and regulatory challenges for a cross-sector resolution agency. The report made a number of recommendations in relation to Board processes, designed to maintain this proper focus.

The Board has considered and adopted these recommendations.

Cameronralph Navigator rated the Board of the Corporation as “Strong”.<sup>2</sup> This means that the Board demonstrates strong capabilities across the majority of the critical elements of board effectiveness and is actively minimising governance risk to the organisation and for stakeholders.

In addition, Cameronralph Navigator were asked to review the current framework of internal self-assessment and periodic independent review. The overall framework was found to be sound and of good international practice. Some suggestions were made for strengthening the framework, which will be considered by the GC over the coming months.

### BOARD GOVERNANCE POLICY – DETAILED TABLE

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

DESCRIPTION OF STANDARD	REPORT ON COMPLIANCE IN 2013
Standard 1: Independence of the Board	
Board Members will exercise independent judgement.	The PIDM Act separates the roles of the Chairman and the CEO, so as to ensure independence, and the CEO is not a Member of the Board. All Directors are non-executive and must use their independent judgement to act in the best interests of the Corporation, as required under the PIDM Act.
Standard 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.	The Board (through the GC) ensures that its governance arrangements and approach are up to date and relevant.

<sup>2</sup> Cameronralph Navigator considers material provided by the organisation and interviews with directors and others, to make this assessment, which is solely of the corporate governance risk with respect to this organisation at the specified point of time. The rating cannot, and does not, represent either an organisation effectiveness or operational risk assessment or an assessment with respect to its corporate governance risk at any other time or in changed circumstances

## CORPORATE GOVERNANCE

### STATEMENT ON GOVERNANCE

#### Standard 2: Board effectiveness and governance responsibilities

To achieve this, the Board will:

- (i) develop and maintain approaches to fulfilling those responsibilities and will evaluate objectively, on a regular basis, its effectiveness in doing so; and

- (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.

**Process for evaluating its effectiveness:** The Board reviews its Board Governance Policy and approach on an annual basis to maintain its relevance. Annually, the Board evaluates its effectiveness as well as the effectiveness of the Board Committees. In line with best practices, for 2013, the Board appointed an external corporate governance advisor to independently evaluate the effectiveness of the Board, the Board Committees and Management's support to the Board in terms of providing information, as well as to advise on the current evaluation process adopted by the Board.

**Orientation:** There is a Board-approved orientation programme for new Board Members. In 2013, there were no new Directors appointed to the Board.

**Education Sessions:** At the beginning of each year, the Board will approve the Board Education Programme for the year. The Board Education Programme for 2013 included the following topics:

- (a) Payout System and Issues on Payment and Settlement in a Payout;
- (b) History and Key Philosophies of the Corporation and Key Risks;
- (c) Overview of Insurance and Takaful and Evolution of the Industry;
- (d) Economic Conditions in Malaysia; and
- (e) The Intervention and Resolution Options during an Intervention and Failure Resolution and the Results of the Simulations.

The Board Education Programme for 2013 was successfully carried out, except for (e), which was postponed to coincide with a seminar on this topic scheduled for 2014.

Directors attended some of the meetings in relation to deposit insurance and insurance guarantee schemes organised by the relevant regulators internationally. These events not just enable the Directors to engage with their counterparts in other jurisdictions but also gain deeper understanding of the issues faced by these regulators.

**4<sup>th</sup> Tripartite Meeting with Deposit Insurers in the Region:** The tripartite meeting is an annual meeting between PIDM, the Indonesia Deposit Insurance Corporation (IDIC) and the Deposit Protection Agency (DPA) Thailand. In 2010, a Memorandum of Understanding was signed between PIDM, IDIC and DPA for cooperation and knowledge sharing amongst the three deposit insurers. In 2013, the tripartite meeting was held in Kota Kinabalu, Sabah, hosted by the Corporation.

**11<sup>th</sup> International Association of Deposit Insurers (IADI) Asia Pacific Regional Committee (APRC) Annual Meeting:** Certain Directors attended the APRC meeting in Seoul, Korea in May 2013. The event was hosted by the Korea Deposit Insurance Corporation (KDIC). The topics discussed were "Major Challenges in Operating a Deposit Insurance System and Responses (Country Experience)", "Prerequisites for and Key Elements of Effective Deposit Insurance Systems", "Tasks for the Non-IADI Member Countries in the Region" and "Compliance Assessment with the Core Principles and Examples".

**Claims Settlement and Payout for Internal Auditors and Risk Managers of Deposit Insurers:** Certain Directors attended this seminar hosted by PIDM in Kuala Lumpur in September 2013. Speakers from the Federal Deposit Insurance Corporation, Canada Deposit Insurance Corporation, KDIC, IDIC, Philippines Deposit Insurance Corporation (PDIC) and PIDM were invited to share on the following topics: "Key Areas in Payout Strategy", "Review of Controls in a Payout Process" and "An Approach to Payout Simulation".

**International Forum of Insurance Guarantee Schemes:** Certain Directors also attended this two-and-half-day event that was hosted by the Taiwan Insurance Guaranty Fund in Taipei in October 2013. The topics covered in this seminar included "The Essential Functions of Insurance Guarantee Scheme".

**12<sup>th</sup> IADI Annual Conference and Annual General Meeting:** This event was hosted by the Seguro de Depósitos SA in Buenos Aires, Argentina. Two Directors attended this meeting in November 2013. The IADI Annual Conference was entitled "Navigating through the Financial Reform Landscape".

#### Standard 3: Roles and responsibilities of Committees

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

The responsibilities, authority and accountability requirements of the Board Committees are detailed in their respective charters, and reports on their work are made to the Board at each meeting.

All the Board Committees' charters were reviewed in 2013 to ensure they were current and relevant. No significant changes were made as the charters remained current and relevant.

Each Committee regularly assesses whether it has fulfilled its key responsibilities. Annually, the Committees will report on their activities for that year against the responsibilities set out in their respective Charters.

#### Standard 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 its responsibilities and advise the Minister of Finance of the desired mix that should be sought in filling upcoming non-ex officio Board vacancies; and

**Background:** In 2007, the Board established a Board succession plan, which comprises a Policy on Tenure, Retirement and Succession for Non-Ex Officio Directors, as well as a process to develop a "Board profile" that documents the desired skills set on the Board. This is to allow the Board to assess whether the appropriate mix of skills and expertise is available on the Board that meets the current and future needs of the Corporation. This plan was communicated to and noted by the Minister of Finance as part of the process for the Board's recommendations on the appointment of Directors.

**Board profiles:** The process for developing Board profiles (collective and individual) was established in November 2006. The profiles were developed and are reviewed on an annual basis, taking into consideration the current needs, the stage of development, and aspirations of the Corporation. The profiles then form the basis for determining the skills and experience that should be sought in fulfilling upcoming Board vacancies. Any gaps identified on the current Board would also be considered in developing the list of suitable candidates.



## CORPORATE GOVERNANCE

### STATEMENT ON GOVERNANCE

Standard 4: Board composition and succession	
(ii) have a Board succession plan to recommend to the Minister of Finance the orderly turnover of directors.	<p><b>Skills gap analysis:</b> As in previous years, in 2013, the Board carried out its yearly skills gap analysis, comparing the skills, knowledge and experience that are available on the Board against the desired profiles. This was to determine if there are any skills, knowledge and experience needed on the Board that were not currently available. The conclusion was that the collective skills, expertise and experience currently existing on the Board are adequate for the purpose of the Corporation.</p> <p><b>Implementation of Board succession planning:</b> As part of its Board succession plan, the Board will maintain and add to a list of candidates that can fit the required profile for Board membership. The list is updated from time to time, for the purposes of recommending the appointment of Directors as the need arises.</p>
Standard 5: Roles and responsibilities of the Chief Executive Officer	
<p>The responsibilities and accountability of the Chairman and the CEO should be clearly distinguished and documented.</p> <p>In this connection, the Board will:</p> <p>(i) develop a position description for the CEO;</p> <p>(ii) develop a set of corporate objectives at least annually for which the CEO is responsible for achieving, and evaluate the performance of the CEO against those objectives; and</p> <p>(iii) establish an accountability relationship for the CEO to the Board.</p>	<p>These have been clearly distinguished and documented in the position descriptions for both roles. The Board is responsible for recommending the appointment of the CEO to the Minister of Finance.</p> <p>In this connection:</p> <p>The position description for the CEO has been developed since the establishment of PIDM and has been reviewed periodically to keep it current and relevant.</p> <p>The Key Performance Indicators (KPIs) for the CEO are determined annually based on the approved corporate objectives. The CEO's performance against those KPIs is tracked and considered by the Board, with the assistance of the RC, at the end of each year. The RC reported to the Board on its review of the CEO's performance in 2013.</p> <p>Under the PIDM Act, the CEO is accountable to the Board for the exercise of his powers and the performance of his duties. The CEO's job description also describes that accountability relationship. There is also an "Authority Matrix" that sets out clearly the levels of approvals and the delegation of authorities.</p>

Standard 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.	<p>Senior corporate officers are appointed by the Board and their terms of service and compensation are determined by the Board. Pursuant to the Corporate By-Law, the holders of the following offices must be appointed by the Board:</p> <p>(a) the Chief Financial Officer (CFO);</p> <p>(b) the General Counsel and Corporate Secretary;</p> <p>(c) the Chief Internal Auditor (CIA); and</p> <p>(d) the Chief Risk Officer (CRO).</p>
Standard 7: Compensation of officers	
<p>The Board will satisfy itself, on a regular basis, that the compensation of PIDM's officers and employees is consistent with the sustainable achievement of the Corporation's objects, the prudent management of its affairs and the risks to which it is exposed and adherence to its policies and procedures.</p> <p>The Board will review the compensation programme for all Directors, and make recommendations to the Minister of Finance in that regard.</p>	<p>The RC addresses and reports to the Board on strategic compensation matters. The employee compensation and benefits policy, and the performance management policy have been approved by the Board. The policies are in line with PIDM's business model, which requires a specialised team of people with the ability to achieve PIDM's mandate, assisted by key strategic partners and suppliers when needed. The Board benchmarks the compensation of PIDM's officers and employees against the general market compensation levels to ensure PIDM remains competitive. This is to ensure retention of key skills and experience.</p> <p>With the support of the RC, in 2013 the Board reviewed the compensation and benefits policy as well as the performance management policy. As stated in the PIDM Act, the Minister of Finance determines the Board's remuneration, on recommendation of the Board. Each Board Member is paid an annual fee, and allowances are also paid for attendances for meetings and work of the Corporation. In 2011, the Minister of Finance had approved the Board Members' current remuneration. No review was conducted in 2013.</p>
Standard 8: Succession planning	
The Board will plan for the succession of the CEO and review succession plans for key senior management.	In 2013, the Board has established a new Board Committee, namely the SPC, to consider the CEO succession plan in particular. The GC continues to assist the Board with the oversight of succession plans for key senior management.
Standard 9: Standards of behaviour and ethics	
The Board will ensure that Management develops adequate policies, strategies, processes and controls within the Corporation to maintain an organisational climate that fosters ethical behaviour, employee commitment to the operations of the Corporation and a high degree of employee satisfaction.	The Board has established standards of behaviour and ethics expected of Directors and employees through the Code of Business Conduct and Ethics, as well as the Conflict of Interest Code. The Directors report on compliance with these Codes annually. All employees undergo training on the Codes and must declare compliance annually. Under the Policy for Disclosure of Information Concerning Improper Conduct, there is a mechanism to allow employees and other stakeholders to make reports of any improper conduct to the authorised officer.

## CORPORATE GOVERNANCE

### STATEMENT ON GOVERNANCE

Standard 9: Standards of behaviour and ethics	
	<p>There is also a Board-approved formal compliance programme, which can be found on PIDM's website at <a href="http://www.pidm.gov.my">www.pidm.gov.my</a> in the section under "How PIDM is Governed". This compliance programme has also included the establishment of a Corporate Compliance Committee in 2009, with the objective of ensuring the fulfilment of oversight responsibilities in relation to PIDM's compliance with laws, regulations, industry codes, policies and procedures, contractual obligations and organisational standards that are applicable to the Corporation. The annual report from the General Counsel on compliance with applicable laws and standards was made in 2013 to the Board (through the RC and the AC). The General Counsel also provides an assurance on compliance through a formal letter of representation each year.</p> <p>The Board noted that a mandatory compliance test had been implemented by Management for employees focussing on conduct and behaviour and the handling of information of the Corporation.</p> <p>There is a Board-approved Policy and Procedures for the Engagement of Separate Independent Counsel or Other Advisors, which allows the Board and Committees to appoint independent advisors to assist them to fulfil their responsibilities. The external corporate governance advisor was appointed by the Board in 2013 pursuant to the Policy and Procedures for the Engagement of Separate Independent Counsel or Other Advisors.</p> <p>The Board has a high degree of assurance that a compliance system is in place and that the Corporation is in compliance with laws and key policies.</p>
Standard 10: Significant risks to the Corporation	
The Board will:	
(i) obtain an understanding of the principal risks of the Corporation's business;	<p>In 2013, the Board ensured that appropriate and prudent risk management systems to manage risks were implemented. The Board-approved Enterprise Risk Management (ERM) Policy states and affirms PIDM's commitment to sound ERM and enhances the ability to deliver PIDM's mandate and objectives. In line with its commitment to the ERM Policy, the Board:</p> <ul style="list-style-type: none"> <li>(a) monitors compliance with the ERM programme to ensure consistent application of risk management practices in identifying, assessing, evaluating, monitoring and reporting risks throughout PIDM;</li> <li>(b) monitors Management's undertaking of another complete cycle of the ERM process, and receives regular risk reports that identify controls and risk action plans to mitigate the risks identified;</li> <li>(c) considers and agrees to the key significant risk profiles; and</li> <li>(d) receives a detailed report on its Board Risk Policies.</li> </ul> <p>The CRO functionally reports to the Board through the AC, so as to ensure independence from Management.</p> <p>For details, see the Statement on Risk Management and Internal Control on page 59.</p>

<ul style="list-style-type: none"> <li>(ii) ensure that appropriate and prudent risk management systems to manage these risks have been implemented and are reviewed regularly;</li> <li>(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; and</li> <li>(iv) ensure that the CRO (or in his absence, the Deputy General Manager from the ERM Division) should regularly attend all scheduled Board meetings.</li> </ul>	<p>In 2013, the Board considered and approved the 2013 ERM Corporate-wide Board Risk Report.</p> <p>The Board obtains an understanding of the principal risks to PIDM by receiving and reviewing regular reports on the soundness of member institutions. The Board also receives and reviews regular reports from Management and the ERM Division on risks to its business and affairs, to gain an understanding of the nature and magnitude of significant risks to PIDM.</p> <p>The Board also receives regular reports from the Audit and Consulting Services (ACS) Division on compliance with internal controls and certain key areas of audit. The CIA also validates ERM reports, through audits on compliance with internal controls. This enables the Board to have reasonable assurance that risk management policies are being adhered to. Annually, the CRO provides a formal representation letter to the AC and the Board. Accordingly, the Board has a degree of assurance that ERM systems are in place and are being adhered to.</p> <p>The CRO attends all scheduled Board meetings and in his absence, the Deputy General Manager of ERM Division will attend.</p>
Standard 11: Control environment and internal audit	
<p>The Board will ensure that the Corporation has a control environment that supports the prudent management of its operations and of the risks to which it is exposed (including risks to the attainment of its objects) and has effective policies and practices to assure the integrity of internal controls and management information systems.</p> <p>In this connection, the Board will:</p> <ul style="list-style-type: none"> <li>(i) allocate resources for, and establish an internal audit group, setting out its mandate;</li> <li>(ii) approve its audit plan each year; and</li> <li>(iii) seek from the internal audit group, on a regular basis, reasonable assurance regarding the monitoring of, and compliance with internal controls, the integrity of the system, and that appropriate action is being taken to address any significant weaknesses or breakdowns identified.</li> </ul>	<p>The Board accepts overall responsibility for the Corporation's system of internal control and risk management and obtains assurance from Management, the CRO and the CIA respectively. For details, see the Statement on Risk Management and Internal Control on page 59.</p> <p>In this connection:</p> <p>The Board has established ACS, an internal audit function, approved its charter, and provided adequate resources to ensure that it can fulfil its roles and responsibilities. The audit function's charter is reviewed annually to ensure that the mission, scope of work, accountability and responsibility, authority and standards of conduct of the audit function remain relevant.</p> <p>The Board has put in place a process to approve a rolling three-year audit plan each year. In 2013, the Board approved the Audit Plan for 2014 - 2016. Performance in accordance with the audit plan is reported and reviewed on a semi-annual basis.</p> <p>The Corporation's Internal Control Framework was completed in February 2007 and is reviewed annually. In 2013, the Board considered the internal audit's report on its assessment of Management's compliance with internal controls using agreed criteria. The CIA provides reasonable assurance on the compliance with internal controls and the integrity of the internal control system through the filing of a formal letter of representation to the CEO, the AC and the Board.</p>



## CORPORATE GOVERNANCE

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Standard 12: In control	
<p>The Board will obtain, on a regular basis, reasonable assurance that the Corporation is “in control”.</p> <p>(Note: The concept of being “in control” refers to a state where the Corporation’s operations are subject to effective governance by the Board and are being managed in accordance with an ongoing strategic and risk management process in an appropriate control environment and where significant weaknesses related to those matters will be identified, addressed and brought forward to the Board’s attention.)</p>	<p>In 2013, the Board obtained, in line with the criteria set out in the Internal Control Framework, reasonable assurance that the Corporation’s business and affairs are being managed effectively in accordance with the strategic and risk management processes in place within an appropriate control environment. For details, see the Statement on Risk Management and Internal Control on page 59.</p>
Standard 13: Strategic management process	
<p>The Board is responsible for reviewing and overseeing the development of and approving a strategic plan and direction for the Corporation, taking into account the opportunities and risks facing the Corporation.</p> <p>To fulfil this responsibility, the Board will:</p> <ul style="list-style-type: none"> <li>(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;</li> <li>(ii) adopt a strategic planning process;</li> <li>(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;</li> <li>(iv) regularly evaluate the Corporation’s performance in implementing its approved plans and budgets; and</li> <li>(v) obtain, on a regular basis, reasonable assurance that the Corporation has an effective strategic management process.</li> </ul>	<p>Each year, a special Board meeting is scheduled to consider the strategic direction of the Corporation. In September 2013, Board Members met to consider and approve the strategic direction of the Corporation and its objectives, goals and key activities for the corporate planning period 2014 - 2016. The Board thereafter approved the Corporate Plan for 2014 - 2016 at its December 2013 meeting.</p> <p>The Board annually assesses the Corporation’s objects to ensure its continued relevance. During the year, the Board reviewed and considered amendments to the PIDM Act and made recommendations for amendments to the Minister of Finance.</p> <p>A strategic planning process has been adopted by PIDM since its inception.</p> <p>Annually, the Board approves a three-year rolling Corporate Plan in line with this standard, and the Corporate Plan is published and distributed to key stakeholders as part of PIDM’s transparency and accountability regime.</p> <p>Regular reports on progress against the Corporate Plan are provided to the Board. These reports are considered in detail by the AC and are circulated to all Board Members.</p> <p>The strategic management process is a Board-approved process and is used annually to develop the Board-approved Corporate Plan.</p>

Standard 14: Effective communication	
<p>The Board will ensure that the Corporation communicates effectively with the public, BNM, other statutory bodies or regulators, depositors, policy owners, member institutions and other relevant parties.</p>	<p>The Board continues to ensure that there is engagement with various stakeholders through various means.</p> <p>The Board with the support of the GC oversees the implementation of the five-year Integrated Communications Plan, which is extensive and engages stakeholders, in particular the public and member institutions.</p> <p>Each year, PIDM’s Corporate Plan and Annual Report are distributed to key stakeholders. In previous years, the publication of the Annual Report is held in conjunction with an annual dialogue session with key stakeholders. However, in 2013, the annual dialogue session was not held due to circumstances beyond the Corporation’s control but the Annual Report was distributed to member institutions and other key stakeholders.</p> <p>Board Members participated in the Corporate Outreach programme and met with Government officials and other community business leaders. The Corporate Outreach is an annual event that is organised in one state outside the Federal Territory. In 2013, the Corporate Outreach was held in Melaka from 17 to 18 June 2013.</p> <p>As for regulators and other bodies, in 2013, the Corporation signed Memoranda of Understanding with PDIC and KDIC respectively.</p>
Standard 15: Review of Board Governance Policy	
<p>The Board will annually review the Board Governance Policy to ensure that it remains responsive to the circumstances and needs of the Corporation and that it continues to reflect the legislation to which the Corporation is subject to, the Corporation’s mandate, guidance on matters of governance specific to statutory bodies and recognised best practices.</p>	<p>In its review of the Board Governance Policy in May 2013, the Board found that the policy was current and relevant to the needs and circumstances of PIDM.</p> <p>Additionally, the Board, through the GC, also reviewed its governance arrangements against the corporate governance practices of other regulatory bodies and found our practices to be in line with these practices.</p>

# CORPORATE GOVERNANCE

## STATEMENT ON GOVERNANCE

### RELIABILITY OF INFORMATION

To ensure that the Board can rely on information provided by Management, the Board receives comprehensive representation letters from Management that address the accuracy and reliability of information provided to the Board. The Board obtains a validation from the CIA, on an annual basis, as a basis for reliance. The Board also expects Management to provide comprehensive Board reports detailing the purpose of the report and the issues to be considered as well as quality assessment, analyses and sound recommendations.

At the end of each year, the Board evaluates the support from Management in terms of the information provided to the Board, and the Board gives Management detailed feedback and an overall rating. If needed, the Board can question Management and conduct detailed enquiries about any matter relating to the Corporation.

The CRO does not only report directly to the Board through the AC, but the Board may ask the CRO to confirm whether he has different views and opinions on significant matters brought forward to the Board, as well as question the CRO on the key risks relative to the issue and his views on the reliability of the information provided. The CRO (and in his absence, the Deputy General Manager of the ERM Division) is expected to attend all scheduled Board meetings.

In 2013, the Board was satisfied with the quality of information provided to the Board and its ability to obtain reliable information from Management in a timely manner.

### COMMITTEES

The Board has established four Board Committees, namely the AC, the RC, the GC and the SPC. Their Charters are found in the Appendix of this Annual Report.

#### Audit Committee

##### Members and Meeting Attendances

The AC held five meetings in 2013 and there was a high level of attendance by AC members at all meetings. One of the meetings convened was to specifically deliberate on risk-related matters.

##### Audit Committee Charter

The Charter is reviewed annually. In 2013, there was no change to the Charter.

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

##### Summary of Activities of the AC in 2013

The following is a summary report of the AC's key areas of work in 2013:

- (a) **Internal audit:** In 2013, the AC considered six internal audit reports issued by the ACS Division. These included the annual review on PIDM's internal control compliance; the audit on PIDM's financial reporting for the year ended 31 December 2012; the audit on the Information Technology (IT) security assessment – penetration testing and vulnerability assessment; the audit on the effectiveness of PIDM's recruitment strategies, plans, systems and processes; the audit on the effectiveness of PIDM's enterprise risk management framework, system, methodology and processes; and the audit on the effectiveness of the risk assessment and monitoring functions for DIS and TIPS. Any recommendations emanating from these audits are reported to the AC and Management's response and action plans are considered.

The AC reviewed the ACS Charter, the ACS Division's Audit Plan for 2014 - 2016 and considered the budget resource needs for the Division. The AC monitored the internal audit function's performance against its audit plans. This is carried out on a semi-annual basis. The AC also ensured the independence of the internal audit function. The AC reviewed the CIA's independent reports concerning her observations and advice in respect of the controls, systems and processes governing the development and construction of the Corporation's permanent Disaster Recovery Centre, in the course of the provision of consultancy services to Management.

- (b) **Matters of concern:** The AC has unfettered access to the external auditor and Management, as well as to external independent counsel pursuant to the Policy and Procedures for the Engagement of Separate Independent Counsel or Other Advisors. In 2013, the AC held two *in camera* sessions with different members of Management, the CRO and CIA and with external auditors as part of good governance practices. These sessions also provide opportunities to discuss any areas of concern related to the annual audit, if any. The AC also held *in camera* sessions without Management.
- (c) **Its direct reports:** The CIA and the CRO report directly to the Board through the AC. In 2013, the AC continued to review reports on their performance of their respective functions. The AC assessed the CIA's and the CRO's performances for 2013 in consultation with the CEO.
- (d) **Financial reporting:** The AC obtained an understanding of the financial reports and monitored financial information for accuracy, reliability as well as clarity. It also considered the information provided in the Annual Report and Corporate Plan. As stated in the PIDM Act, PIDM's Annual Report (including its financial statements and the external auditors report), must be provided to the Minister of Finance, three months after year end (31 December).
- (e) **Financial reporting processes, accounting policies and internal control structure:** The AC:
- (i) reviewed and advised the Board with respect to the annual financial statements, management discussion and analysis, the external audit report and the review of the integrity of the financial reporting process and internal control reports as well as management representations;
  - (ii) obtained a written certification from the CIA addressing the Corporation's system of internal controls; and
  - (iii) recommended the adoption of the principles recommended by Management, which included making the appropriate disclosures on contingent liabilities when there is no loss event.
- (f) **Strategic and financial management oversight:** In 2013, the AC fulfilled its responsibilities with regard to financial management oversight, including management of annual budgets and investments. The AC received regular reports on progress against the Corporate Plan 2013 - 2015 and considered and recommended the Corporate Plan 2014 - 2016 that included the annual operating budget and capital plan.
- (g) **Risk management:** In relation to risk management, the AC provided advice and support to the Board in respect of the matters reported against Standards Nos. 10 to 12 of the Board Governance Policy, on pages 48 - 50 of this Annual Report relating to risks and internal control.
- In carrying out its duties, the AC has unrestricted and direct access to the CRO, who regularly reports on the activities of the ERM Division and the corporate risks to the AC and the Board.
- (h) **Ethical and legal compliance:** The AC reviewed the report on compliance with the applicable laws and regulations, as well as the key codes and policies. There were no incidents of non-compliance noted. The AC also noted the report on activities in relation to the Corporation's compliance programme in 2013.
- (i) **Review of Charter:** In 2013, no amendment to the AC Charter was made.

In conclusion, the AC fully fulfilled its responsibilities against the AC Charter in 2013.



## CORPORATE GOVERNANCE

### STATEMENT ON GOVERNANCE

#### Remuneration Committee

##### Remuneration Committee Members and Meeting Attendances

The RC held two regular meetings in 2013. There was full attendance at the RC meetings as set out on page 41.

##### Remuneration Committee Charter

The RC Charter is set out in the Appendix on page 217. The RC Charter requires the RC to meet at least twice a year and to review and make recommendations to the Board on a range of human resource issues, such as compensation, compliance with human resource-related legal requirements, personnel policies, training, succession planning, complaints and other human resource-related matters. A review of the RC Charter was carried out in 2013 and the Board approved certain editorial amendments.

##### Summary of Activities of the RC in 2013

Some of the key matters carried out or reviewed by the RC in 2013 are outlined below. The RC continued to monitor the implementation of the Human Capital strategy for the Corporation. In line with Standard No. 9 of the Board Governance Policy, the RC supported the Board to ensure that the Corporation's strategy allows for an organisational climate that fosters ethical behaviour, employee commitment to the operations of the Corporation and a high degree of employee satisfaction. Also, pursuant to Standard No. 7 of the Board Governance Policy, the RC supports the Board to ensure 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. In particular the RC carried out the following work:

- (a) noted the report on compliance with key human resource-related policies and legal requirements;
- (b) approved the scholarship award programme for the employees' children;
- (c) considered the review of the employees' bonus policy and bonus range for 2013;
- (d) considered the market competitive study to benchmark current compensation against the existing market;
- (e) assessed the CEO's performance against the approved objectives and KPIs for 2013 and made appropriate recommendations to the Board;
- (f) reviewed the outcome of the Employee Voice Survey that was carried out in 2013 and noted action plans to address any areas that may potentially become a problem if not fixed; and
- (g) reviewed reports on the activities of the Human Capital Division.

The RC is satisfied that it has fulfilled its key responsibilities against the RC Charter in 2013. The RC will continue to ensure that the Human Capital strategy continues to be relevant and implemented effectively.

#### Governance Committee

##### Governance Committee Members and Meeting Attendances

The GC held three regular meetings and two special meetings in 2013. Attendances of the GC members at meetings in 2013 are as set out on page 41.

##### Governance Committee Charter

The GC Charter is set out in the Appendix on page 214. The Charter requires the GC to meet at least twice a year. The GC's principal responsibilities include ensuring that appropriate structures and processes are in place to provide effective oversight of, and direction for, PIDM's activities. It also ensures compliance with governance policies and high governance standards, reviews the appropriate balance of skill, experience and knowledge of the Board and identifies skills gaps, as well as recommends future appointments for non-ex officio positions on the Board.

##### Summary of Activities of the GC in 2013

The GC supported the work of the Board on corporate governance, as highlighted in the report in pages 43 - 45. The following are some of the key highlights in relation to the GC's work in 2013:

- (a) the development of the annual Board education plan for the Directors' continuing training and education about the operations of the Corporation and its governance responsibilities;
- (b) the review of PIDM's approach to governance as well as governance-related policies, including the Board Governance Policy, the Policy and Procedures for the Engagement of Separate Independent Counsel and Other Advisors, the Policy for Appointment and Rotation of Board Committee Members, the Charters of all the Committees and the Communications Policy;
- (c) the review of the membership of the Board Committees in line with the Policy for Appointment and Rotation of Board Committee Members;
- (d) the review of the draft terms of reference for the SPC and its composition, for recommendation to the Board;
- (e) the review of the Board profiles, both collectively and individually for 2014 and the skills gap analysis;
- (f) the review of the Board objectives for 2014 and the proposed schedule for Board and Committee meetings for 2014; and
- (g) the review of PIDM's corporate social responsibility activities for 2013.

The GC also continued to monitor developments in corporate governance and best practices in Malaysia and other jurisdictions. In summary, the GC carried out its responsibilities against its Charter.

#### Succession Planning Committee

##### Succession Planning Committee Members and Meeting Attendances

The SPC held one meeting in 2013 as it had only recently been established. Attendance at the meeting in 2013 is set out on page 41.

##### Succession Planning Committee Charter

The SPC Charter is set out in the Appendix on page 224. The Charter requires the SPC to meet at least three times a year. The SPC's principal responsibilities include reviewing the Board-approved CEO succession plan. In particular, the SPC will review the long-term plan for CEO succession planning and the short-term plan in case of an unplanned vacancy.

##### Summary of Activities of the SPC in 2013

In 2013, the SPC met to discuss its approach to the review of the CEO succession plan.

##### Committees' Progress

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

#### OTHER INFORMATION

##### Stakeholder Communications

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

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

## CORPORATE GOVERNANCE

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

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

Our communications strategy also involves the dissemination of PIDM-related materials to members of the public. These include our Corporate Plans and Annual Reports in the four main languages. Our information brochures are also available in the four main languages as well as Kadazandusun and Iban. More information about our communications initiatives is found in Section 7. PIDM endeavours to be transparent and provide quality reporting in its Annual Reports. Since the 2006 Annual Report, PIDM's Annual Reports have been recognised and received the National Annual Corporate Report Awards (NACRA) for excellence in reporting.

#### ACCOUNTABILITY AND AUDIT

##### Financial Reporting

We have adopted the Malaysian Accounting Standards Board Approved Accounting Standards in Malaysia for Entities Other than Private Entities. We administer six distinct and separate Funds in total. Two of these Funds are for DIS, one for conventional banks and the other for Islamic banks. The other four Funds are for TIPS, namely, the Family Solidarity Takaful Protection Fund, the Life Insurance Protection Fund, the General Takaful Protection Fund and the General Insurance Protection Fund. We account and report on these DIS and TIPS Funds separately.

The Directors' Report on the financial statements for the financial year ended 31 December 2013 and the accompanying Statement of Directors are found on page 112 onwards.

PIDM has incorporated five subsidiaries in 2012 as part of its efforts to ensure operational readiness to carry out any intervention or failure resolution activities. These companies are currently dormant. In line with section 35 of the PIDM Act, the financial results of the subsidiaries were not consolidated with the financial statements of PIDM. This was because the Corporation believes that consolidating the financial statements of PIDM together with those of its subsidiaries will not provide meaningful information and a true and fair view of the financial position and performance of PIDM, as the financial exposure and impact of any intervention or failure resolution of a member institution only affects the specific Fund(s) to which that member institution relates. Furthermore, in accordance with the requirements of the Malaysian Financial Reporting Standards 10 (MFRS 10) *Consolidated Financial Statements*, PIDM did not prepare consolidated financial statements as PIDM did not meet all the criteria required for having "control" over its subsidiaries, as defined in MFRS 10.

##### Risk Management and Internal Control

The Statement on Risk Management and Internal Control is found on page 59 of this Annual Report.

##### Audit

Pursuant to the PIDM Act, the accounts of PIDM are audited by the Auditor General in accordance with the Audit Act 1957. From an operational standpoint, we maintain a collaborative working relationship with our external auditors from the National Audit Department (NAD), whose representatives have an open invitation to attend all AC meetings. NAD representatives receive, as a matter of course, all AC reports and documentation prior to the AC meetings. They attended two of the five AC meetings held in 2013. Their annual fees can be found on page 159 of this Annual Report.

#### ISLAMIC DEPOSIT INSURANCE SYSTEM AND TAKAFUL BENEFITS PROTECTION SYSTEM

As mentioned earlier on page 37 of this Statement, the Corporation seeks the advice and endorsements from the Council of BNM on any Shariah issues relating to the operations of the Islamic DIS and TBPS. The arrangements and salient features of the Islamic DIS and TBPS have been endorsed by the Council. Premiums and levies collected from Islamic and takaful member institutions are managed separately and invested according to Shariah principles.

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

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

#### MANAGEMENT

Executive Management is responsible for the day-to-day management of PIDM. It is headed by the CEO, whose authority is derived from the PIDM Act and the Board-approved job description. The organisation chart is found on page 24. Executive Management is accountable for their respective functions, and the CEO, CFO, General Manager, Insurance, Risk Assessment and Monitoring, General Counsel, as well as the CIA and CRO are all required to provide formal representation letters. Management provides a comprehensive representation letter to the Board and the NAD as part of the year-end audit. The CEO and CFO also provide an enhanced statutory declaration on the financial statements and quality of internal controls. The statutory declaration can be found on page 116 of this Annual Report.

In early 2013, the then incumbent CRO resigned. Since then, the Deputy General Manager of ERM Division has been designated as Acting CRO and has been performing the functions of the CRO.





## CORPORATE GOVERNANCE

### STATEMENT ON GOVERNANCE

#### Accessibility of Records and Information

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

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

- (a) Executive Management Committee;
- (b) Senior Management Committee;
- (c) ERM Committee supported by the Strategic Planning and ERM (PERM) Working Committee;
- (d) Asset and Liability Management Committee;
- (e) Information Technology Steering Committee;
- (f) Safety and Health Committee;
- (g) Corporate Compliance Committee;
- (h) Corporate Social Responsibility Committee; and
- (i) Policies and Procedures Committee.

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



## CORPORATE GOVERNANCE

### STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

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

#### INTRODUCTION

This Statement has been prepared in accordance with The Statement on Risk Management and Internal Control – Guidelines for Directors of Listed Issuers (Guidelines) issued on 31 December 2012. These Guidelines provide guidance for companies complying with paragraph 15.26 (b) of the Listing Requirements of Bursa Malaysia and Principle 6 of the Malaysian Code on Corporate Governance that was issued in March 2012. There is no requirement for PIDM as a statutory body to follow such Guidelines. However, the Corporation believes it should follow best practices and has chosen to comply with the same.

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

#### GOVERNANCE, RISK MANAGEMENT AND CONTROL

The Statement on Governance on pages 35 - 58 explains how the Board has complied with the 15 standards outlined in the Board Governance Policy. The Board Governance Policy incorporates recognised best practices in corporate governance.

The Statement on Governance provides information on the following:

- the governance framework under which the Board operates and includes information about the Board and the Board's Committee structure, composition and remuneration, attendance records and the work performed;
- the Board's assessment of its compliance against the 15 standards in the Board Governance Policy;
- the Board's annual appraisal process for evaluating the effectiveness of the Board and the respective Board Committees;
- the process for determining the Board's satisfaction with Management's support in terms of the quality and timeliness of the information provided to the Board, and why the Board finds it satisfactory; and
- the Board Committees' reports, notably on the summary of activities of each Committee.

PIDM recognises that effective risk management and a sound system of internal control is an integral part of good corporate governance. The Board and Management ensure that the risk management framework, through PIDM's ERM framework and practices, is embedded into the culture, processes and structures of the Corporation. We recognise that risk management is critical to the achievement of PIDM's mandate and objectives.

In addition, the management of risk is supported by a sound control environment that includes clearly defined corporate values, codes of conduct and ethics, and comprehensive policies and procedures.

#### RESPONSIBILITIES FOR RISK MANAGEMENT AND INTERNAL CONTROL

PIDM benchmarks its ERM and Internal Control frameworks against best practices as follows:

- (a) PIDM's ERM framework is based on and benchmarked against the best practices of Australian/New Zealand Standard for Risk Management (AS/NZS 4360:2004); the Committee of Sponsoring Organisations of the Treadway Commission (COSO) ERM - Integrated Framework (2004); and the International Organisation for Standardisation's Risk Management – Principles and Guidelines (ISO 31000:2009). The ERM framework outlines the risk management governance and structure, processes, accountabilities as well as responsibilities throughout the Corporation. It also provides the Board and Management with a tool to anticipate and manage both existing and potential risks, taking into consideration changes in PIDM's external and internal operating environment.

## CORPORATE GOVERNANCE

### STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

(b) PIDM's Internal Control Framework (ICF) is founded on the framework set out by the COSO Internal Control – Integrated Framework. The ICF provides the Board and Management with a tool to ensure that an appropriate and sound internal control system is established and maintained. It also helps Management in performing an annual assessment of the extent to which PIDM complies with internal controls. The ICF encompasses five interrelated components, which are the control environment, risk assessment, control activities, information and communication, and a continuous monitoring process.

#### Board of Directors

The Board sets the overall strategic direction for PIDM. It provides an important oversight function and ensures that Management has an effective risk management system and a sound system of internal control to maintain good corporate governance within PIDM.

The Board is ultimately responsible for the oversight of PIDM's significant risks and regards risk management as an integral part of the operations and processes of the Corporation.

The standards in the Board Governance Policy set out the roles and responsibilities of the Board for internal control and risk as follows:

- (i) The Board must ensure that sound risk management is carried out in accordance with Standard No. 10 on "Significant Risks". The Board will, amongst others, obtain an understanding of the significant risks inherent in PIDM's business and affairs. It also ensures that an appropriate and effective risk management process to manage these risks has been implemented.
- (ii) Standard No. 11 on the "Control Environment and Internal Audit" states that the Board will ensure that PIDM has a control environment that supports the prudent management of its operations and of the risks to which it is exposed, and has effective policies and practices to ensure the integrity of internal controls and management of the information systems. Standard No. 12 refers to the Board's responsibility to obtain, on a regular basis, reasonable assurance that the Corporation is "in control".
- (iii) Standard No. 13 also deals with expectations from the Board on the "Strategic Management Process". In particular, the Board will approve the operating objectives, strategies and Corporate Plan annually and regularly evaluate the Corporation's performance against the approved Plan. The responsibilities of the Board under Standard No. 13 are fulfilled by taking into consideration the significant risks that could hinder the achievement of the Corporate Plan and PIDM's objectives.

The Board acknowledges that a sound system of internal control ensures that the achievement of PIDM's corporate objectives is not impaired, PIDM's business operations are effective and efficient, financial reporting is reliable, applicable laws and regulations are strictly being complied with, and PIDM's assets are properly safeguarded. The Board recognises that PIDM's system of internal control as designed by Management is intended to manage and mitigate risks, rather than to eliminate entirely the risks that may impact the achievement of PIDM's statutory mandate and objectives.

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

#### Audit Committee

The principal responsibilities of the AC, including those involving risks, are set out in its Charter on page 219. The Board's responsibilities in relation to risk management and internal control are supported by the ERM and ACS Divisions respectively.

The Board through the AC provides oversight of all ERM activities. The AC Charter states, amongst others, that the AC shall ensure that there are sound Board Risk Policies, and that ERM procedures and practices are implemented to manage PIDM's significant risks. The AC, on the recommendation of Management, reviews and advises the Board on PIDM's Board Risk Policies and reviews such policies regularly (at least biennially) to ensure that they remain appropriate and relevant.

The AC also advises the Board on accounting and internal control issues as well as financial reporting and management. Further details on the oversight roles of the AC over financial reporting and management are set out in the Statement on Governance on page 53.

The AC is responsible for the oversight of the work of the ERM and ACS Divisions as well as for the performance and oversight of the CRO and CIA respectively. The AC must ensure that both Divisions have adequate and qualified resources to fulfil their roles. The CEO will carry out the annual performance evaluation of the CRO and CIA and provide his evaluation to the AC. The AC will assess the CRO and CIA's performance in consultation with the CEO and make its final decision. The Chair of the AC must be consulted before the appointment of the CRO or CIA, as well as on the termination of his or her employment, and conduct entry and exit interviews with the same. The appointments of the CRO and the CIA must also be approved by the Board.

#### Management

The CEO derives his authority from the PIDM Act 2011 and the Board-approved job description and Authority Matrix. The CEO is accountable and answerable to the Board for the performance of his responsibilities, and is not a Member of the Board.

The organisation, headed by the CEO, is divided into 10 Divisions and is responsible for the day-to-day operations of PIDM. Appropriate checks and balances have been instituted within PIDM, through the establishment of appropriate reporting relationships. Operational divisions report directly to the CEO, and independent divisions such as the ACS and ERM Divisions report directly to the Board via the AC.

The CEO fulfils his responsibilities by providing leadership and direction. He ensures that PIDM's organisational structure is adequately segregated by functions, and that there is proper assignment of authority and responsibilities. This enables employees at the right levels of the Corporation to make decisions and be accountable for their performance against approved KPIs. PIDM's Authority Matrix is another key control document that formally sets out the delegation of authorities. It is a comprehensive document that summarises the Board's and Management's strategic and operational delegated authorities as set out in the PIDM Act and PIDM's corporate and operational policies and procedures.

Management Committees such as the Executive Management Committee, Senior Management Committee, Information Technology Steering Committee, Asset and Liability Management Committee, ERM Committee, Corporate Compliance Committee and Policies and Procedures Committee have been formed to provide input, insights and information on strategic or operational matters to divisions or departments responsible for specific business functions, as well as to assist Management in monitoring the development and implementation of various initiatives identified in the Corporate Plan. The Executive Management Committee also allows for the sharing of information and for the effective management of the overall corporate performance.

In early 2013, the then incumbent CRO resigned. Since then, the Deputy General Manager of ERM Division has been designated the Acting CRO and has been performing the functions of the CRO.

#### Enterprise Risk Management Division

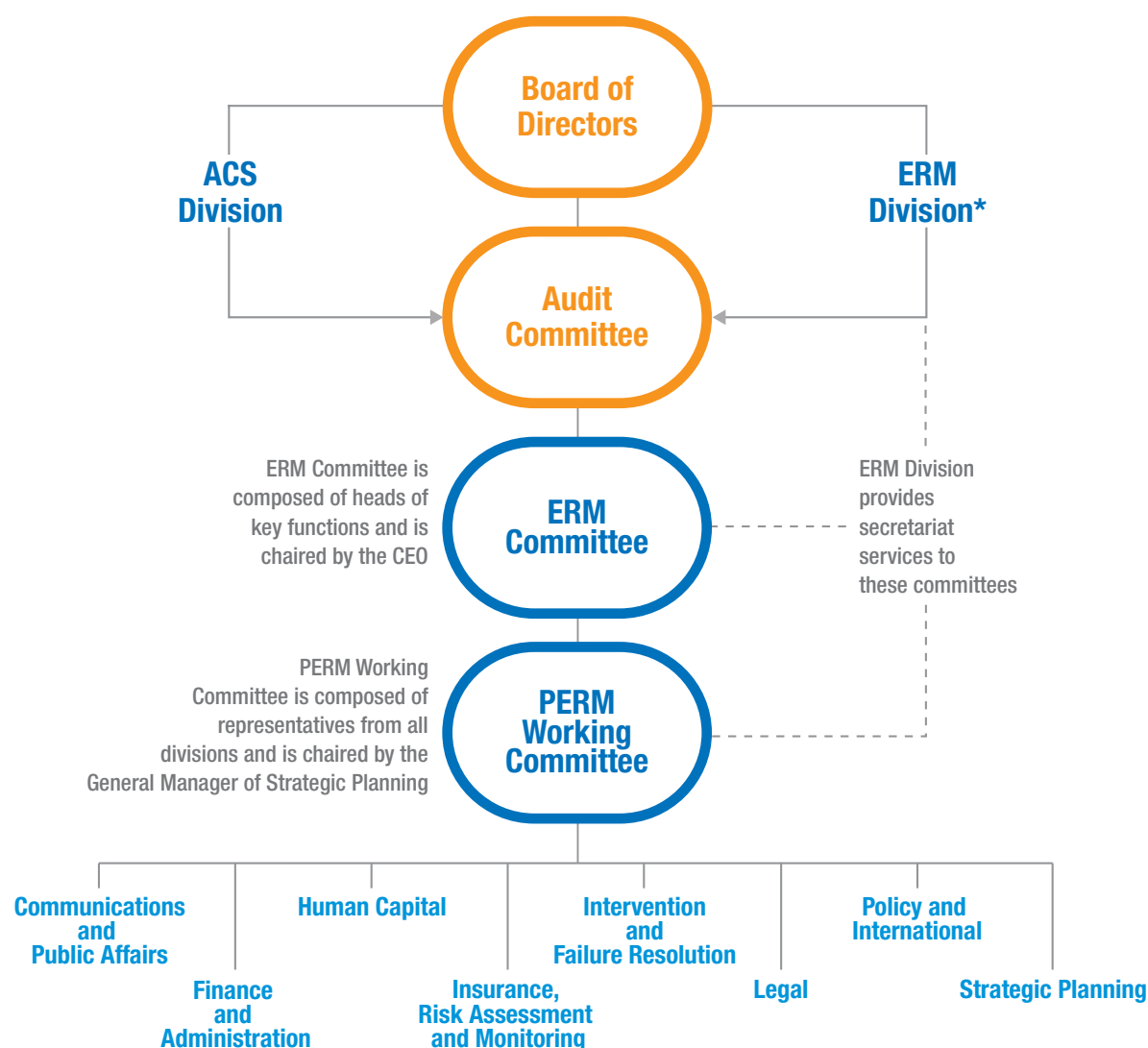
The Board-approved ERM Charter details the responsibilities, authority and accountability requirements of the Board, the AC, CRO, ERM Committee, PERM Working Committee and the Corporation's employees in respect of risk management. The Charter is subject to periodic review (at least biennially) to ensure it remains current and relevant.



## CORPORATE GOVERNANCE

### STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

The ERM oversight structure provides clear accountabilities and responsibilities for the risk management culture and process. This ensures that the risk management activities remain appropriate and prudent, and that significant risks are managed and monitored continuously within PIDM's risk appetite.



\* The CRO reports functionally to the Board via the AC and administratively to the CEO

The ERM Division provides independent advice, monitors and maintains the ERM framework, promotes effective management of all risk categories and fosters the establishment and maintenance of an effective risk culture throughout PIDM. The CRO, as the Head of the ERM Division, is responsible for the implementation and maintenance of the ERM framework. The ERM Division assists and provides information to the AC on all ERM activities and outcomes of the ERM process (i.e. to identify, assess, evaluate, treat, monitor and communicate the significant risks affecting PIDM).

The CRO provides regular reports to the Board via the AC on the significant risks affecting PIDM and how such risks are being managed. In order to fulfil its responsibilities effectively, the CRO requires independence. Therefore, he reports functionally to the Board through the AC and administratively to the CEO. This relationship requires that the CRO has unrestricted access to the AC and the Board.

The ERM Division also acts as secretariat for both the ERM Committee and the PERM Working Committee and the CRO is an ex officio member of both committees. As secretariat, the ERM Division is responsible for the development, implementation and maintenance of the ERM policies and procedures for PIDM. The ERM Division assists Management by providing advice on ERM activities, provides an assessment of PIDM's ERM capabilities and the appropriate recommendations for enhancements, where required.

The ERM Committee, a management committee, provides oversight and direction for the implementation and consistent application of the ERM Policy and ERM Procedures. The ERM Committee also champions, manages and monitors ERM activities at a Corporate-wide level. At each meeting, the ERM Committee considers whether there are any significant matters that require action and that should be brought to the attention of the AC and the Board.

The PERM Working Committee, chaired by the General Manager of the Strategic Planning Division, supports the ERM Committee in facilitating and coordinating ERM and related strategic planning activities at an operational level across PIDM. This includes updating the risk assessment and status of risk action plans of the respective divisions.

#### Audit and Consulting Services Division

The ACS Division assists the Board to comply with the standards in the Board Governance Policy by supporting the oversight role of the AC.

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

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

The ACS Division performs an independent assessment of the effectiveness of the ERM framework, methodology, system, policies and processes pursuant to the audit frequency cycle as approved by the Board. It thus provides assurance to the AC and the Board that the Corporation has an effective ERM programme.

Throughout 2013, the ACS Division also met internal demands for consulting and advisory services. This is consistent with the Division's mandate and responsibilities. A significant proportion of its audit-person days were planned and allocated to provide consulting and advisory services to various internal working committees, task forces and individual divisions in relation to PIDM's projects or Corporate Plan initiatives.

In 2013, the AC continued to review the overall performance and operations of the ACS Division on a semi-annual basis. This was to ensure that the ACS Division continued to function effectively, and that its performance was monitored and assessed against the Board-approved audit and consulting activities for the year.

#### Employees of PIDM

PIDM recognises that each employee has a responsibility to help maintain effective risk management and a sound system of internal control. Employees manage and report risks at the source and recognise that ERM is everyone's responsibility.

Management continues to promote a risk management and internal control culture by emphasising on training and awareness of PIDM's values, application and compliance with the Code of Business Conduct and Ethics, and the Conflict of Interest Code, and by requiring an annual declaration of personal assets and liabilities by all employees. An orientation programme for new employees was organised by the Human Capital (HC) Division to introduce employees to PIDM's structure, work practices, culture, and policies and procedures. An annual compliance test has been introduced to ensure that all employees are aware of key policies on the code of conduct and ethics as well as conflict of interest.

Management reinforces corporate values through employee-related activities organised by the HC Division such as the corporate values programme, in-house training on safety and health, family activities and the Annual Dinner.

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### STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

Management is also receptive to employee suggestions on ways to enhance productivity, quality or other similar improvements. The Employee Voice Survey is undertaken every two years to gauge employee satisfaction and engagement as well as provides employees with the opportunity to share their views confidentially on PIDM's strengths and areas for improvement.

In addition, a Corporate-wide survey was rolled out to all employees before the year-end to gauge the effectiveness of the services that each division provides to users in other divisions. The survey results would be provided to the Executive Management Committee in early 2014 for Management to address the recommendations provided in the survey.

Management recognises that access to timely information is important for effecting sound risk management practices and controls to improve business processes and operations. In this respect, Management ensures that there are proper and adequate communication channels for all employees. A comprehensive compliance programme has been put in place to ensure that employees strictly comply with PIDM's policies and procedures relating to information flow and access to information within PIDM and to external parties.

#### External Auditors

The NAD serves as PIDM's external auditors, as set out in the PIDM Act. The ACS Division and the NAD coordinate their audit work. In 2013, the ACS Division and the NAD continued their cooperation to ensure efficiency and effectiveness in the audit performance and deliverables. Representatives from the NAD are invited to all AC meetings and the NAD is provided with a copy of the AC agenda and reports, and the NAD has access to all audit reports prepared by the ACS Division.

In addition to the annual financial audit, the NAD performs a management audit on PIDM once every three years. The objective of the management audit is to assess the effectiveness of the Corporation's governance structure and processes, financial system and management as well as the implementation of key policies and operational procedures. The NAD's procurement management audit, forming part of the NAD's management audit on PIDM which commenced in August 2012, was completed in December 2013.

Issues raised by the external auditors are addressed promptly by Management. The progress made by Management to address the issues are tracked and reported to the AC semi-annually.

#### ELEMENTS FOR SOUND SYSTEMS OF RISK MANAGEMENT AND INTERNAL CONTROL

##### Risk Management

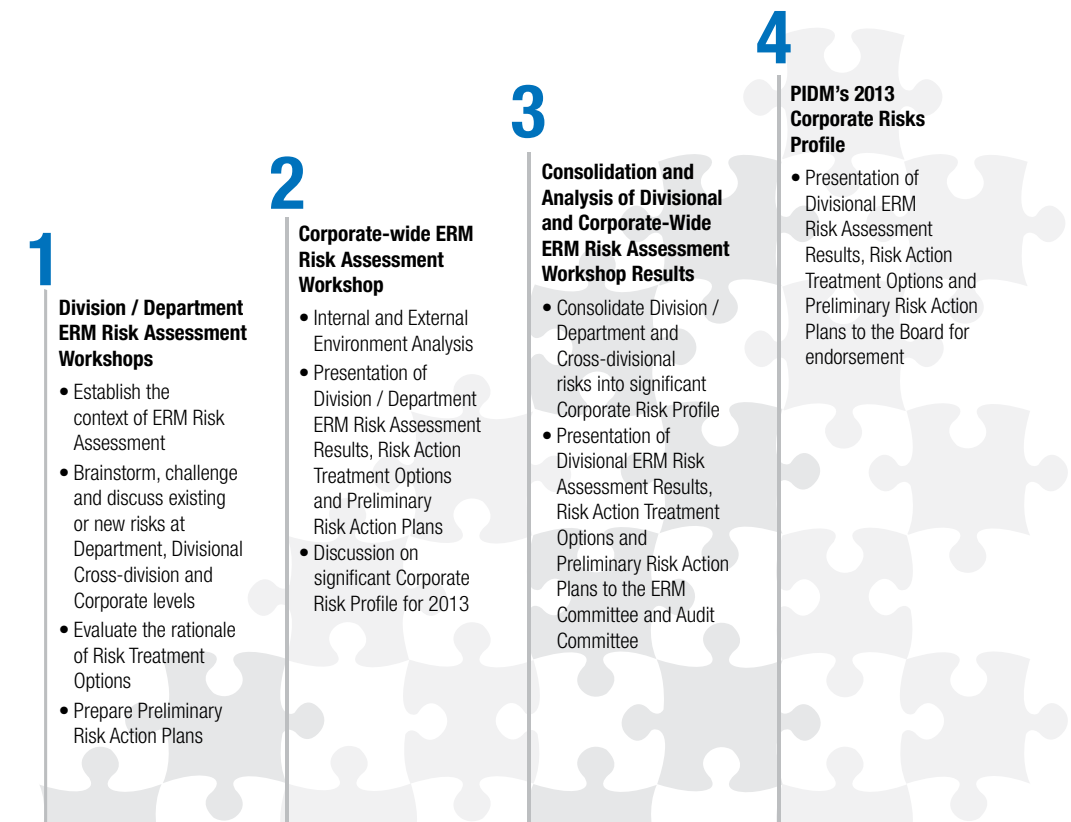
PIDM's ERM framework adopts a structured and integrated approach to the management of significant risks and involves the identification and assessment of risks that may affect the achievement of the Corporation's objectives, formulation of action plans, as well as monitoring and reporting of the risks on a regular basis.

The ERM Charter, ERM Policy, ERM Procedures and Board Risk Policies are updated regularly to ensure that they remain current and relevant, and are made available to all employees with the aim of providing a consistent approach to risk. The employees and Management's commitment towards the risk management process is constantly emphasised and reinforced through the ERM Committee, PERM Working Committee, risk assessment workshops and employee briefing sessions.

The ERM Committee and the PERM Working Committee each met four and three times respectively to discuss and decide on various risk-related matters, including the identification of new or emerging risks that may affect the achievement of the objectives and initiatives of the Corporation. Additionally, the CRO also regularly updates the Board through the AC and seeks their direction or approval on ERM matters throughout the year.

#### Annual ERM Process

In 2013, Management completed another full cycle of the ERM process, which is to identify, assess, evaluate, treat, monitor, report and communicate the risks facing PIDM. The key activities of the annual ERM process are summarised diagrammatically as follows:



An ERM awareness session was carried out on 5 March 2013 for PERM Working Committee members to ensure a risk-aware culture and promote an understanding of the importance of risk management among the employees.

The first stage of the annual ERM process is to establish the objectives and determine PIDM's risk appetite for the purpose of risk assessment. During the "establishment of the context" stage, PIDM's objectives and risk parameters were revisited by the ERM Division to ensure that they remained current and relevant.

A significant aspect of the annual ERM process is the results of the risk assessment workshops. In 2013, the risk assessment workshops consisted of separate divisional or departmental risk assessment workshops for 14 divisions or departments from March to May 2013 and a Corporate-wide Risk Assessment Workshop on 5 June 2013.

Subsequent to the divisional and Corporate-wide ERM risk assessment workshops, the ERM Corporate-wide Board Risk Report was developed, including the risk registers, which contained a detailed description and assessment of all PIDM's risks as well as the controls and action plans to mitigate them.

As risk assessment and evaluation is an integral part of the annual strategic planning cycle, the results of the ERM risk assessment were presented and discussed during the Strategic Planning Workshop for Senior Management on 21 August 2013 for prioritisation of initiatives. The key action plans and initiatives that have been developed to address the significant risks are embedded in the Corporate Plan 2014 - 2016.



# CORPORATE GOVERNANCE

## STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

### Board Risk Policies and Corporate-wide Board Risk Report

The Board Risk Policies outline the oversight function of the Board in relation to specific risks and the Board's expectations of Management's roles in supporting them. The reviewed and enhanced Board Risk Policies were approved in February 2013.

The Corporate-wide Board Risk Report outlines the current controls, processes and Management oversight in place in managing the respective risk categories. The CRO also provides an overall independent assessment and conclusion of each risk category, as described in the Board Risk Policies, in the Corporate-wide Board Risk Report.

In addition, the Corporate-wide Board Risk Report provides the AC and the Board with preliminary key risk action plans being taken to lower the residual risk for each risk category or sub-risk category.

### Effectiveness of ERM Policies and Practices

The ERM Division had previously developed and implemented the ERM Effectiveness Assessment Framework to enable Management to measure the effectiveness of the ERM programme and practices. The Framework was developed to enhance PIDM's ERM capabilities, which would help identify the attributes that would make ERM practices more effective, measurable and provide PIDM with the roadmap for continuous improvement. In 2013, the ERM Division reviewed and updated the ERM Effectiveness Assessment Framework and performed an internal assessment of the effectiveness of ERM practices by undertaking a survey with the ERM Committee and PERM Working Committee members.

### Business Continuity Plan

The Corporation's readiness in business continuity management is enhanced with the establishment of a Business Continuity Management Policy, which was approved by the Board in February 2013.

In 2013, Management successfully tested the Corporation's Business Continuity Plan (BCP) from its interim Disaster Recovery Site (DRS) through a BCP Simulation Exercise. Employees with the most time-critical business functions in the event of a disaster, actively participated in the BCP Simulation Exercise which was carried out on an unannounced or 'surprise' basis.

The 2013 BCP Simulation Exercise coincided with an actual disruption whereby a power outage at PIDM's office which had occurred on 25 November 2013, recurred on 26 November 2013. This resulted in the Corporation having to manage an actual disruption while carrying out the BCP Simulation Exercise at the same time.

PIDM believes that it is ready and resilient in situations that warrant a BCP activation so that the Corporation can operate from its interim DRS.

### PIDM's 2013 Corporate Risk Profile

Following the completion of the ERM risk assessment activities in 2013, Management has identified and managed the key risks that can prevent the Corporation from achieving its objectives. Based on the assessment of the five risk categories, Management has concluded that three risk categories are acceptable while two other risk categories are manageable.

The risk descriptions as well as key risk action plans and initiatives proposed to address the five risk categories are as follows:

- (a) **Financial Risk is acceptable and on a stable trend.** The Corporation's key exposures to Financial Risk are from Market Risk and Liquidity Risk, which are well managed. PIDM's investment portfolio, which is invested in accordance with the Board-approved Investment Policy, provides the source of funds for our operations and is also a source of funds in the event of an occurrence of an intervention and failure resolution (IFR) activity. PIDM, as a statutory body, has the authority to borrow from the Government with the Minister of Finance's approval, or issue public debt securities to raise funds. The Corporation is working with representatives of the Ministry of Finance to document the arrangement for liquidity loans should PIDM require such facility for IFR. Furthermore, the Corporation is researching on the raising of funds from the capital market and will be developing a process to do so in due course.

- (b) **Insurance Risk is manageable with a decreasing trend.** PIDM faces ongoing challenges to ensure its IFR operational readiness and to have sufficiently wide legislative powers to effectively and efficiently carry out its mandate as the resolution authority for member institutions. The Corporation conducts an ongoing review of the PIDM Act and its subsidiary legislation, and it assesses and monitors the financial conditions and risk profiles of member institutions and the industry as a whole. In addition, PIDM also continues to review and enhance its policies and procedures, resources, infrastructure and systems, as well as funding readiness in relation to IFR.

- (c) **Operational Risk is acceptable and on a decreasing trend.** PIDM's focus areas in relation to Operational Risks are on People Risk and Information Risk. People Risk is related to succession planning for key positions and talent retention. The Corporation's key focus is to continue to strengthen the technical expertise of its employees and to have the right talent in the right job, providing and instilling work-life balance while ensuring continuity through succession planning activities. On the other hand, Information Risk is related to information access. In addition to classifying information based on its sensitivity and importance in accordance with our Information Classification Policy, PIDM will develop an overarching Information Security Framework and Policy for managing all aspects of Information Risk.

- (d) **Reputation Risk is manageable and on a decreasing trend.** The Corporation continues its work on enhancing public awareness of PIDM and understanding of DIS and TIPS. A long-term and continuous approach is required to inform and educate the public. Building on the success of past years' initiatives and employing refined strategies and plans, based on research findings, PIDM will also undertake multi-year public awareness programmes and education initiatives. Briefing sessions for various stakeholders will continue as part of the Corporation's efforts to enhance stakeholder engagement and relationships.

- (e) **Strategic and Governance Risk is acceptable and on a decreasing trend.** PIDM continues to focus on good governance and best management practices with the appropriate policies and procedures as well as Board and Management delegated authority matrices in place. Risk management, internal control as well as compliance with the policies and procedures and delegated authority matrices are key elements of PIDM's governance practices.

### Internal Control

#### Annual Review of PIDM's Compliance with Internal Controls

Management has carried out an annual review of PIDM's compliance with internal controls towards the end of the financial year pursuant to the requirements of PIDM's ICF, which was endorsed by the AC for implementation in January 2008. The ICF is founded on the internationally recognised COSO Internal Controls – Integrated Framework (COSO Framework).

Prior to the annual review of PIDM's compliance with internal controls was undertaken, the ICF was reviewed in November 2013 to ascertain whether new developments or amendments have been made to the COSO Framework. It was noted that the COSO Framework has been updated to reinforce the foundation of the Framework that was built in 1992. The foundation for effective internal control remains the same but more guidance is being detailed out to facilitate organisations in evaluating their internal controls, which PIDM has been practising in line with the requirements that have been incorporated in the ICF.

The review was carried out using the evaluation tool that is recommended in the COSO Framework. The tool is intended to provide guidance and assistance in evaluating PIDM's internal control systems and compliance, focussing on the five components as stated in the ICF.

For the year under review, the results of the assessment of internal controls using the five components of the ICF and their corresponding sub-components confirmed that, overall, Management has ensured that sound internal control within the Corporation has been established with emphasis on the following:

- good practices in corporate governance with effective Board oversight responsibilities for Management's design, implementation and conduct of risk management and internal controls;
- effective and strong leadership with plans in place to prepare for succession and creation of new leaders;
- a commitment to ethics and shared corporate values and culture that are defined in PIDM's policies and procedures on business conducts and ethics and are understood at all levels of PIDM and by stakeholders, service providers and strategic partners;

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- a conducive corporate environment that enforces accountability through established performance measurement that is appropriate for responsibilities at all levels and reflects appropriate dimensions of performance and expected standards of conduct to achieve corporate goals and targets; and
- proper safeguarding of the flow of PIDM's confidential information via internal communication channels or through communications with external parties using communications methods that take into account the audience, nature of communication, timeliness, cost and legal or regulatory requirements.

#### Information Technology

PIDM is currently not classified as a Critical National Information Infrastructure entity and as such, the ISO/IEC<sup>3</sup> certification is not mandatory. Notwithstanding this, the certification would provide assurance to the Corporation's stakeholders regarding the security of information received and produced by PIDM.

A review of PIDM's corporate information security policy was carried out in phases in 2013 to develop the broad Information Security Framework and the implementation plan as well as to assist in preparing the preliminary road map towards preparedness for the ISO/IEC certification. This review was conducted following a comprehensive benchmarking exercise of PIDM's IT governance structure, policies and practices against internationally accepted and adopted standards and best practices that was carried out as part of the security assessment on PIDM's IT systems as well as PIDM's information systems assets in 2012.

PIDM continues to organise annual IT security awareness training for all employees to reinforce the importance of information security for critical business functions and processes.

#### Business Continuity and Disaster Recovery

PIDM strives to be operationally ready. In this regard, PIDM's interim DRS was fully operational in September 2011. The resilience of PIDM's BCP and Disaster Recovery Plan (DRP), policies, procedures and facilities have been tested in 2011 and 2012 to prepare employees in the event of a disaster. In November 2013, a business continuity and disaster recovery simulation testing exercise was carried out with limited scope, focussing on front office and call centre operations.

The construction of a permanent DRC for PIDM is planned to commence in May 2014. As this project involves high investment and may potentially expose the Corporation to risks, both Management and the CIA provide an update on the progress of the project together with an independent consulting services report, to the AC at every AC meeting until completion of the project.

#### Key Systems, Policies, Practices and Processes

In 2013, the following key systems, policies, practices and processes were established as part of PIDM's system of internal control:

- In 2013, PIDM's corporate and operational policies and procedures that were due for review in 2013 were updated in line with the changes to the operating, business and where applicable the legal and regulatory requirements. The Policies and Procedures Committee continues to track outstanding policies and procedures and oversees the streamlining, centralisation and integration of key and operational policies and procedures. The ERM and ACS Divisions are involved in the review of policies and procedures to ensure that essential elements and matters concerning risk management and internal controls are embedded in these policies and procedures. Key controls designed as fraud preventive measures are embedded in certain key corporate and operational policies and procedures.

- PIDM continues to enhance its core operations systems; a new Human Resource Information System (HRIS) and an Enhanced Financial Management System (EFS). The modules for the first and second phases of the HRIS were implemented in 2013. These modules consist of employee salaries, leave and benefit claims and other human capital functions such as recruitment, competency, learning and development and total performance management. The modules for Phase I of the EFS were also implemented in 2013 which comprise finance core modules and employee self-service for procurement, claims and payment-related services.

- The Procurement, Contracting and Outsourcing Policy was established to provide guidance on achieving high standards of professionalism, transparency and accountability while maximising efficiency, effectiveness and flexibility in the procurement process within a system of checks and balances. In 2013, an amendment to the Policy was approved by the Board incorporating the authority of the CEO to authorise in writing, an officer of the Corporation to sign procurement contracts in his absence. Notwithstanding this, the authority for approving contracts within the CEO's threshold limit shall remain with the CEO.

- The selection of PIDM's accounting policies and principles is in accordance with the requirements of applicable laws and standards, and these policies and principles are consistently applied. Consultation with industry experts on the application of new accounting policies continues to be carried out on an annual basis to ensure that PIDM's adoption of new accounting policies arising from new accounting standards or treatment of certain financial instruments is in line with the Malaysian Financial Reporting Standards and Shariah principles, and that these policies and principles are consistently applied.

- As part of PIDM's ongoing efforts to be operationally ready in carrying out IFR activities of troubled member institutions, a series of employee training sessions and simulation exercises were carried out during the year focussing on insurance companies and takaful operators. Further efforts to enhance PIDM's intervention readiness include completion of most of the key policies and procedures on IFR actions covering TIPS that have been identified in IFR Framework.

- The Standard File Format (SFF) trial run exercise for all member banks was completed in May 2013. In July 2013, the member banks made their annual submission of the SFF files for their deposit positions as at 31 December 2012 pursuant to the Corporation's Guidelines on Deposit Information Systems and Submission. These SFF submissions were uploaded onto the Corporation's Payout System.

#### THE BOARD'S REVIEW OF SYSTEM OF RISK MANAGEMENT AND INTERNAL CONTROL

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

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

<sup>3</sup> Information security standard published by the International Organization for Standardization (ISO) and by the International Electrotechnical Commission (IEC)



## CORPORATE GOVERNANCE

### STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

#### THE BOARD'S STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

##### Representations

The Board received an annual ERM Management Representation Letter from the CRO confirming that the Corporation's risks are being managed and that the Board Risk Policies and ERM process continue to be effective and relevant. In this regard, an annual ERM Management Representation Letter from each Division was provided to the CRO to confirm that each Division's risks are being managed and meet the Board's expectations with regard to the Division's responsibilities in mitigating the risks as well as to instil management accountability.

The Board received further assurance on the soundness of PIDM's risk management via the audit on the effectiveness of PIDM's Board Risk Reporting which was undertaken by the ACS Division in 2013.

The effectiveness of PIDM's compliance with internal controls as of 31 December 2013 has been assessed by Management and validated by the ACS Division based on the criteria set out in PIDM's ICF.

In addition to this assessment and validation processes, the views of the Chairman of the Board on the current strength of the Corporation's internal control environment were obtained in December 2013 to facilitate Management in drawing a conclusion on the extent of PIDM's internal control compliance.

Based on those assessments and the effectiveness of PIDM's frameworks, systems, policies, practices and processes that have been implemented since PIDM's establishment on 1 September 2005 as well as those established during the year under review, the Board is pleased to report that a sound system of risk management and internal control within PIDM has been established and maintained. The Board continues to be committed to ensuring that:

- (a) PIDM continues with the effective implementation of a very strong "tone at the top". This tone at the top has been established since the first year of PIDM's establishment and focuses on upholding ethics and integrity right from the Board's level to Management and ultimately flowing down to all employees;
- (b) PIDM as an organisation continues to successfully put in place strong corporate governance and internal control practices. Clear delineation of independence of Board from Management which separates the roles of the Chairman of the Board from those of the CEO, enables the Board to effectively discharge its role and duties in ensuring effective governance and internal controls. Additionally, adequate composition of Board Members from various backgrounds and the annual evaluation of the Board Members' appropriate mix of skills, experience and capabilities, to further support the Board to fulfil its roles and responsibilities;
- (c) PIDM's financial reporting process is reliable and that the Corporation has effective policies and procedures for ensuring compliance with applicable laws and regulations;
- (d) PIDM's annual reporting on its performance provides clear disclosure of its activities and achievements which demonstrates that PIDM has a strong accountability regime;
- (e) PIDM undertakes routine identification and assessment of risks at all levels and on an enterprise-wide basis. Management identifies and assesses risks formally in conjunction with the annual review and update of the Corporate Plan for the next corporate planning period, reports to the Board on the management of the Board-risk categories and sub-categories on an annual basis and performs ongoing risk identification and assessment throughout the year. The risk categorisation provides a basis for each identified risk to be segregated into any of the five risk categories to enable PIDM to focus its efforts towards the implementation of effective and adequate risk management strategies and plans to address the risks;

- (f) PIDM's strategic direction and Corporate Plan provide relevant guidance on the objectives that the Corporation needs to achieve and the specific initiatives that need to be developed and implemented to mitigate significant risks. New initiatives and activities are continuously researched and developed in anticipation of potential new events, risks or activities that may affect the achievement of the corporate objectives. The progress of the corporate initiatives and activities is being monitored against plan to ensure that they complement each other, where applicable;
- (g) Control activities and other mechanisms have been established through policies and procedures to ensure that Management's directives to manage and mitigate risks that may impair the achievement of PIDM's objectives are carried out. Control activities are performed at all levels and stages within the business and operational processes and includes the IT environment;
- (h) Information systems designed to provide Management with timely information for strategic and operational decision making purposes are embedded with the necessary controls to ensure the integrity and security of the Corporation's information is properly safeguarded. Employees are given access to appropriate communication channels within PIDM and with external parties. Internal and external communications are governed by PIDM's Information Classification Policy which aims to control information flow and access to information within the Corporation and the level of access allowed to external parties; and
- (i) Management monitors the entire system of internal control continuously, addresses issues on a timely basis and communicates to relevant parties responsible for corrective actions.

The Board is also pleased to report that for 2013 there were no reported incidents of weakness or deficiency in the adequacy and integrity of PIDM's risk management and internal controls embedded in PIDM's systems, policies, practices and processes, and there were no financial losses incurred during the financial year under review resulting from weaknesses or deficiencies in its system of risk management and internal controls.

This Statement is made in accordance with the Board's resolution dated 24 February 2014.



## Section 3 MANAGEMENT'S DISCUSSION AND ANALYSIS

### MANAGEMENT'S DISCUSSION AND ANALYSIS OUR OPERATING ENVIRONMENT

Despite working against significant external headwinds, the Malaysian economy demonstrated resilience, achieving a noteworthy growth of 4.7% in 2013 (5.6% in 2012). Domestic demand continued to be the key source of economic resilience with growth in domestic consumption holding up well. Private investment, meanwhile, advanced at a solid pace of 13.6%.

In 2014, the global economy is expected to be on a modestly improving path with economic activity in the advanced economies currently on an improving trajectory. With fiscal drags and key imbalances diminishing, the United States (US) economy is on track for a sustained recovery. The Euro area would also experience modest expansion, with abating headwinds, but remains vulnerable to setbacks. Prospects for Japan, unless offset by some additional easing, would be clouded by the potentially sizable drag from the impending consumption tax hike. Economic growth in China, despite slowing, would remain respectable. Notwithstanding the renewed optimism, global growth prospects remain vulnerable to potentially disruptive capital market adjustments to the US Federal Reserve taper, which could cause high volatility in capital flows, and to China growth worries.

Against this backdrop, and given the stable employment market, sustained income growth and supportive monetary conditions, the growth of the Malaysian economy will likely range between 5.0% to 5.5% in 2014.<sup>1</sup> Economic growth will continue to be underpinned by robust investment activities, with possibly some support from external demand, offsetting somewhat the impact of fiscal consolidation and a moderation in private consumption. Malaysia's current account position should continue to be sustained with fiscal consolidation combining with a modest rebound in exports. The high household debt, however, remains an area of policy concern while the rising inflation momentum requires close monitoring.

As for our financial services industry, this remains robust and a detailed report on our member institutions is found in the Overview of Membership on page 178.

Going forward, PIDM will continue to remain vigilant and monitor risks closely.

### REVIEW OF 2013 OPERATIONS AND ACHIEVEMENTS

#### OVERVIEW

This section provides a review of PIDM's operations for 2013 and our achievements against our Corporate Plan 2013 - 2015. The Plan sets out our strategic direction, focus and priorities that drive our activities over the three-year planning period, which are translated into Key Performance Indicators (KPIs) or initiatives. Our progress and performance against the set targets are then monitored via our Balanced Scorecard approach.

In 2013, the completion of PIDM's planned initiatives has strengthened its foundation and operational capacity even further and enhanced its effectiveness in administering the financial consumer protection systems. We also continued to subscribe to best practices in governance and management.

#### EXTERNAL RECOGNITION

Our commitment towards greater accountability and transparency in reporting has once again been recognised as we received the 2013 National Annual Corporate Report Awards (NACRA) for the "Best Annual Report of Non-Listed Organisations" for our 2012 Annual Report, making it our fifth consecutive win.

We also received the Order of Merit for the "Best Brand-Building Campaign Award". This award was given under the Malaysian Chapter of the Promotion Marketing Awards of Asia and was in recognition of our 2012 advertising campaign initiatives.

<sup>1</sup> Economic Report 2013/2014, Ministry of Finance



# MANAGEMENT'S DISCUSSION AND ANALYSIS

## REVIEW OF 2013 OPERATIONS AND ACHIEVEMENTS

### OUR WORK

Our strategic management framework shows how we align our KPIs to our corporate objectives to achieve our vision and mission and ultimately to carry out our mandate. Our corporate objectives are based on three Balanced Scorecard perspectives as follows:



### Stakeholders

#### Educated and informed stakeholders

Well-informed stakeholders are integral to the effectiveness of the Deposit Insurance System and the Takaful and Insurance Benefits Protection System. We will continue to engage with all stakeholders and the general public and educate them through our comprehensive public awareness campaigns and education programmes as well as to consult extensively with our stakeholders when developing our regulations and guidelines.

#### Effective partnerships

Given our business model, effective partnerships are critical to the fulfilment of our mandate. We will continue to collaborate closely with our strategic partner Bank Negara Malaysia, other regulators, international deposit insurers and insurance guarantee schemes as well as key suppliers. We will also continue to maintain good relationships with our member institutions.



### Governance and Internal Processes

#### Well-governed and well-managed organisation

We demonstrate that we are well governed and well managed through our sound business conduct and governance practices, as well as by adopting effective enterprise-wide risk management and internal control frameworks. To achieve this, we are continuously guided by leading edge governance practices and relevant best practices.

#### Robust risk assessment, monitoring, intervention and resolution capabilities

In ensuring fulfilment of our mandate and as readiness remains a key focus of the Corporation, we will continue to maintain robust risk assessment and monitoring capabilities, as well as to build capacity and capabilities to effectively manage intervention and failure resolution activities. We also provide incentives for sound risk management in the financial system through our Differential Premium Systems, Differential Levy System and related policies and regulations.

#### Sound business and financial practices

To effectively administer our Deposit Insurance System, and Takaful and Insurance Benefits Protection System, we continue to maintain sound policies, processes, procedures and infrastructure in order to remain current and relevant. The practices that govern our operations will be based on relevant domestic and international best practices. We will also continue to build on our capacity and capabilities to ensure operational excellence so that we can fulfil our roles and responsibilities effectively and efficiently.



### Learning and Growth

#### Competent and knowledgeable workforce

Our people are our most important asset. We offer competitive compensation packages to attract and retain talent with the right skills, experience and attitude. We are committed to provide employees with opportunities for continuous learning and development as well as enhance their skills and expertise, in order for them to achieve their full potential.

#### Conducive corporate environment

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

In line with our strategic direction, our initiatives for 2013 were concentrated on efforts to sustain PIDM's capacity and capabilities by enhancing employee competencies and developing the necessary infrastructure; strengthening operational readiness in relation to intervention and failure resolution; and enhancing financial consumers' level of education and public awareness in relation to PIDM's protection systems. We also continued to collaborate and work closely with our key stakeholders.

Overall, all the initiatives were completed within the approved financial plan, with the exception of four corporate initiatives that have been deferred due to circumstances beyond our control. We are focused on the ongoing development of Takaful and Insurance Benefits Protection System (TIPS)-related initiatives as well as continuing our efforts to build on our foundations and enhance our operational capacity further in order to carry out our mandate effectively and efficiently.

Our achievements are summarised in the 2013 Corporate Scorecard in the following pages.

### SNAPSHOT OF 2013 CORPORATE SCORECARD

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

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

Corporate Objectives		Key Performance Indicators (KPIs) / Corporate Initiatives	Target 2013	Results Dec 2013
Stakeholders	A	Educated and informed stakeholders	1. Public awareness index:	
			a. General awareness of PIDM	50% <b>A</b>
			b. General awareness of deposit insurance system (DIS)	40% <b>A</b>
			c. General awareness of takaful and insurance benefits protection system (TIPS)	25% <b>A</b>
		2. Successful completion of key initiative(s):	a. Integrated Communications Plan	Complete <b>A</b>
			b. Education programme	Implement and review <b>A</b>
	B	Effective partnerships	3. PIDM's relationship with:	
			a. Bank Negara Malaysia	Strong <b>A</b>
			b. Member institutions	Satisfactory <b>A</b>
			c. Key suppliers and strategic partners	Strong <b>A</b>
			d. Other deposit insurers	Strong <b>A</b>
			e. Other stakeholders	Satisfactory <b>A</b>
		4. International fora		Active participation <b>A</b>
			5. The Financial Institutions Directors' Education (FIDE) Programme and the Alumni (FIDE FORUM)	Active participation <b>A</b>
Governance and Internal Processes	C	Well-governed and well-managed organisation	6. Board assessment on:	
			a. Best practices of governance adopted and maintained	High satisfaction <b>A</b>
			b. Significant policies and practices complied with and kept current and relevant	High satisfaction <b>A</b>
			c. Quality of management support to the Board	High satisfaction <b>A</b>
			7. Successful completion of key initiative(s):	
			a. ERM Board Risk Policies and Reports	Review and enhance <b>A</b>
			b. Review PIDM Act and recommend amendments, where necessary	Complete <b>A</b>
	D	Robust risk assessment, monitoring, intervention and resolution capabilities	8. Successful completion of key initiative(s):	
			a. Review and enhance Total Insured Deposits and Differential Premium Systems (DPS) related regulations for DIS	Develop and consult <b>A</b>
			b. Differential Levy System (DLS) framework for TIPS:	
			i. DLS framework for conventional	Implement <b>A</b>
			ii. DLS framework for Takaful (Interim)	Research and develop <b>D</b>
			c. Review and enhance TIPS-related regulations	Review and enhance <b>A</b>

## SNAPSHOT OF 2013 CORPORATE SCORECARD

Corporate Objectives		Key Performance Indicators (KPIs) / Corporate Initiatives	Target 2013	Results Dec 2013
Governance and Internal Processes	D	Robust risk assessment, monitoring, intervention and resolution capabilities	d. Risk Assessment and Monitoring Methodology and Framework:	
			i. Enhance Risk Assessment System for DIS	Develop and implement
			ii. Develop Risk Assessment System for TIPS	Develop
			e. Early Warning System (EWS)	
			i. DIS	Develop and validate
			ii. TIPS	Research
			f. Intervention and Failure Resolution Framework including policies, processes and procedures:	
			i. Operationalisation of IFR policies and procedures for member banks	Develop
			ii. Amend IFR policies and procedures to include consideration for insurer members	Develop
			g. Evaluation Model and System - DIS and TIPS	Develop
			h. Recovery and resolution framework for complex financial institutions	Develop
			i. Policies and regulations:	
			i. TIPS Information Regulations	Develop and consult
			ii. Terms and Conditions of Membership Regulations - DIS and TIPS	Implement
			j. Simulation on Intervention and Failure Resolution	Complete
			k. Develop the remaining audit programme to ensure integrity of Payout Data, Systems and Processes for member banks	Complete
			l. Claims management infrastructure, policies and procedures for insurer members:	
			i. Phase 1a: Product Registry System	Implement
			ii. Phase 1b: Claims Management System	Develop
			iii. Phase 1c: Policy Holders Support Management System	Develop
			iv. Phase 2: Payment Management System	Develop
			m. Member institutions' compliance programme with the PIDM Act	Review and enhance
	E	Sound business and financial practices	9. Reporting through:	
			a. Annual Report	Complete
			b. Corporate Plan	Complete
			10. Actual vs. approved budgets	±10% variance
			11. Internal Control Compliance	Strong

Corporate Objectives		Key Performance Indicators (KPIs) / Corporate Initiatives	Target 2013	Results Dec 2013
Governance and Internal Processes	E	Sound business and financial practices	12. Internal Customer Satisfaction	75%
			13. Successful completion of key initiative(s):	
			a. Target Fund for TIPS	Research and develop
			b. Develop and implement the following strategic plans:	
			i. Annual Information Technology Strategic Plan	Complete
			ii. Annual Business Continuity Management Plan	Complete
			c. Disaster Recovery Site and infrastructure	Construct
			d. Corporate Information Management	Implement
Learning and Growth	F	Competent and knowledgeable workforce	14. Continuous learning and development programmes	Complete
			15. Successful completion of key initiative:	
			a. Knowledge Management Policies and Practices	Implement
	G	Conducive corporate environment	16. Employee Engagement Index (survey conducted once every two years to gauge level of employee satisfaction)	75%
			17. Successful completion of key initiative:	
			a. Employee-related programmes	Implement

<sup>1</sup> The research on the EWS for TIPS is progressing as scheduled.

<sup>2</sup> The development of the framework to operationalise the Intervention and Failure Resolution (IFR) policies and procedures for member banks is progressing as scheduled.

<sup>3</sup> The development of the Evaluation Model will be completed in 2015.

<sup>4</sup> The development of the recovery and resolution framework for complex financial institutions, a joint initiative with BNM, is progressing and will continue into 2014.

<sup>5</sup> The consultation process for the TIPS Information Regulations will continue into 2014.

<sup>6</sup> The regulations will be issued in 2014.

<sup>7</sup> The development of the detailed audit programme on Payout Payment Management System will continue in 2014.

<sup>8</sup> Further consultation process on the draft Guidelines on Submission of Product Information will be carried out in 2014.

<sup>9</sup> The user requirements specification is being finalised and the development of the claims management infrastructure for insurer members will continue in 2014.

<sup>10</sup> We achieved positive variances for both operating and capital expenditures.

<sup>11</sup> The development of the Target Fund framework is progressing as scheduled and will firstly be developed for the general and life businesses followed by the takaful business.

<sup>12</sup> We have completed most of the strategic and operational initiatives as set out in PIDM's Information Technology (IT) Strategic Plan except for the following initiatives which have been deferred:

- Enhancement to the Risk Assessment System (RAS) for DIS
- Development of the RAS for TIPS
- Development of the e-IFR system
- Development of the Corporate Information Security Infrastructure

<sup>13</sup> The draft Knowledge Management Policy is in the finalisation stage and will be implemented in 2014.



# MANAGEMENT’S DISCUSSION AND ANALYSIS

## REVIEW OF 2013 OPERATIONS AND ACHIEVEMENTS

### DIVISIONAL OPERATIONS REVIEW

All of the key initiatives in 2013 were completed by the 10 divisions in PIDM. The following table provides a brief description of the respective functions of our divisions and their key activities and accomplishments in 2013, including ongoing and new initiatives.

<div> <div>Audit and Consulting Services Division (ACS)</div> <div>ACS works in partnership with Management and provides independent and objective assurance as well as consulting services, designed to add value and improve PIDM’s operations.</div> </div>	
KEY ACHIEVEMENTS IN 2013	GOING FORWARD
<p><b>Audit:</b> Completed the 2013 audits in accordance with the Board-approved Audit Plan 2013 - 2015. These include audits on the Risk Assessment and Monitoring Function for both DIS and TIPS; Compliance with the Information Classification Policy and Records Management Programme; Effectiveness of PIDM’s Business Continuity and Disaster Recovery Simulation; Effectiveness of the Payout Payment Management System (PPMS) and Processes; Effectiveness of the ERM Board Risk Policies and Reporting; and Financial Reporting and Disclosures for the year ending 31 December 2013. Assessed PIDM’s state of internal control of which further details can be found in the Statement on Risk Management and Internal Control on page 59 of this Annual Report. In relation to Payout, the enhancement of the audit programme for Deposit Liability Information Management System (DLIMS) has been completed.</p> <p><b>Knowledge sharing:</b> Continued to build relationships with other deposit insurers and central banks by organising and hosting the Seminar on Payout and Claims Settlement, Strategy, Processes and Controls. Conducted a meeting with other deposit insurers on the establishment of an informal networking group for internal auditors. Continued to build relationships with accounting and advisory firms.</p> <p><b>Consulting and advisory services:</b> Continued to support the relevant divisions for PIDM’s key projects, including the IFR project, Payout, Business Continuity Management and also the development of key IT systems.</p>	<p><b>Audit:</b> Continue to implement the Board-approved Audit Plan using the risk-based auditing approach and conduct the annual review on PIDM’s state of internal control. In relation to Payout, ACS will develop the audit programme for PPMS to ensure the integrity of the payout data, systems and processes for member banks.</p> <p><b>Consulting and advisory services:</b> Continue to provide consulting and advisory services for PIDM’s key projects or Corporate Plan initiatives.</p>

<div> <div>Communications and Public Affairs Division (COMMS)</div> <div>The primary role of COMMS is to develop and effectively communicate messages to the public at large and the targeted market segments through ongoing public awareness and education initiatives to enhance public understanding of DIS, TIPS and the role of PIDM in contributing to the stability of the Malaysian financial system.</div> </div>	
KEY ACHIEVEMENTS IN 2013	GOING FORWARD
<p><b>Advertising and public relations:</b> Completed the planned initiatives of the Integrated Communications Plan (ICP) 2012 - 2016. In our efforts to enhance public awareness of DIS, TIPS and PIDM, we continued with the “Do You Know” campaign to reinforce the message about protection limits, member institutions (MIs), insured products and automatic coverage to the general public. We also launched the “PIDM MoneySmart 123” advocacy campaign to address the low level of financial literacy amongst the general public with the aim of cultivating a more financially literate society. In reaching out to more MIs and the larger community, we conducted several “Train-the-Trainer” sessions, whereby trainers from other organisations were trained and certified to deliver information on PIDM, DIS and TIPS. We also signed a collaborative agreement with the Federation of Chinese Associations Malaysia (or <i>Hua Zong</i>) to create awareness about financial consumer protection. In relation to public awareness, we achieved all the target levels set for awareness of DIS, TIPS and PIDM.</p> <p><b>Education programme:</b> Successfully implemented the enhanced PIDM Project MoneySmart, which comprises the MoneySmart Online Game, MoneySmart School Challenge, MoneySmart Ambassador Programme as well as the MoneySmart Campus Challenge and the Photography with Best Caption Competition. Completed briefings for students in 500 secondary schools, 830 principals and teachers representing 542 secondary schools and 30 road shows in institutions of higher learning. The MoneySmart Online Game 2013 attracted a total close to 2,500 participants.</p> <p><b>Stakeholder engagement:</b> Conducted a total of 89 briefing sessions for various stakeholders including MIs, Government agencies, institutions of higher learning and the general public. Held dialogue sessions with liaison officers as well as participated in exhibitions and road shows. Successfully conducted the Corporate Outreach programme in Melaka, with representatives from Bank Negara Malaysia (BNM) and other Government agencies also attending.</p>	<p><b>Advertising and public relations:</b> Continue to implement the ICP 2012 - 2016 initiatives with the objectives of communicating PIDM’s role as an integral part of Malaysia’s financial safety net that is operationally ready to deliver its mandate in the unlikely event of an MI failure; broadening awareness and building a better understanding of the features, benefits and limits of DIS and TIPS amongst the expanded target audience. We plan to use the most appropriate and cost effective communication tools and mediums. We also intend to achieve our objectives through various engagement initiatives as well as educational and advocacy-based communication approaches, which will help the public make informed financial decisions. Continue with the “Train-the-Trainer” programme, which will be extended to more organisations.</p> <p><b>Education programme:</b> Continue to review and enhance the strategy, approach and content of the programme for continued implementation in secondary schools and institutions of higher learning.</p> <p><b>Stakeholder engagement:</b> Continue to build and maintain relationships with various stakeholders through internal and external briefings as well as participation in exhibitions and road shows. Continue to collaborate with various organisations to create awareness of financial consumer protection among the target audience.</p>

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## REVIEW OF 2013 OPERATIONS AND ACHIEVEMENTS

### Enterprise Risk Management Division (ERM)

ERM implements, monitors and maintains best practice ERM processes and procedures within PIDM to ensure that PIDM can manage its diverse internal and external risk exposures effectively. ERM also supports and provides risk advisory services to all divisions and for all key projects. Another key role of the Division is Business Continuity Management.

#### KEY ACHIEVEMENTS IN 2013

**ERM policies and practices:** Reviewed and enhanced the ERM Policy and ERM Procedures as well as updated the Board Risk Policies and Reports.

**Business Continuity Management:** Successfully conducted the Business Continuity Plan (BCP) simulation exercise with a focus on most time-critical functions, i.e. call centre, reception and communication to the relevant stakeholders at the interim Disaster Recovery Site (DRS) to prepare employees and ensure that PIDM can continue with its critical business functions in the event of a disaster. Continued to provide support for the permanent Disaster Recovery Centre (DRC) project.

**Effectiveness assessment:** Completed the self-assessment questionnaire in relation to the ERM Effectiveness Assessment Framework that is used to measure the effectiveness of the ERM programmes and practices.

**Risk advisory services:** Continued to support the relevant divisions for PIDM's key projects including IFR.

More details on the ERM Oversight Structure and how PIDM manages its significant risks are described in the Statement on Risk Management and Internal Control, Section 2, page 59.

#### GOING FORWARD

**ERM process:** Continue to perform ongoing identification, assessment, evaluation, monitoring, reporting and communication of the risks to PIDM.

**Business Continuity Management:** Continue to test and enhance the BCP and provide support for the construction of the permanent DRC.

**Risk advisory services:** Continue to provide risk advisory services to the relevant divisions for PIDM's key projects or Corporate Plan initiatives.

### Finance and Administration Division (FINAD)

FINAD consists of Finance, Facilities and Materials Management, IT and Organisation and Methods Departments which focus on providing effective and efficient support services in the areas of financial management, general office administration, office facilities management, IT management and operational business processes, policies and controls to ensure the smooth operations of PIDM.

#### KEY ACHIEVEMENTS IN 2013

**Funding:** Completed the annual review of the Target Fund model for DIS to ensure that the Target Fund range remains current and relevant. Participated and provided input in the research and development of the Target Fund framework for the general insurance business.

**Disaster Recovery Centre and infrastructure:** Completed the appointment of the Project Management Consultant for the construction of the permanent DRC. To ensure prudent project risk management and asset management, the Project Management Consultant will provide end-to-end project management and technical advisory services for the construction project.

**IT strategy:** Completed the majority of the strategic and operational initiatives set out in PIDM's IT Strategic Plan except for two corporate and two divisional initiatives, which have been deferred. Further details can be found on page 77 of this Annual Report.

**Financial management:** Implemented Phase 1 of the Enhanced Financial Management System. The financial management and accounting related processes have been enhanced.

**Organisation and Methods:** Reviewed and enhanced the existing policies and procedures to ensure that they remain current and relevant. Updated the Authority Matrix, which summarises the authorities for the day-to-day administration of the business and affairs of PIDM. Completed the development of the policies and procedures repository system.

#### GOING FORWARD

**Funding:** Continue to conduct research and development on the Target Fund framework for the general, life and takaful businesses. To research and develop alternative funding arrangements for IFR purposes.

**Disaster Recovery Centre and infrastructure:** Continue with the construction of the permanent DRC.

**IT strategy:** Continue to implement the strategic and operational initiatives set out in the IT Strategic Plan to support PIDM's business needs and requirements including the enhancement of the Risk Assessment System for DIS, the development of the Risk Assessment System for TIPS, the implementation of Phase 2 and completion of Phase 3 of the Enhanced Financial Management System, the development and implementation of the Claims Management System and infrastructure for TIPS as well as the implementation of the information security infrastructure.

**Corporate Information Management:** Develop and implement the Corporate Information Security framework, policy and procedures. Continue to monitor the implementation of the Corporate-wide Records Management System.

**Organisation and Methods:** Continue to review, enhance and standardise the policies and procedures as well as enhance the policies and procedures repository system.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

## REVIEW OF 2013 OPERATIONS AND ACHIEVEMENTS

### Human Capital Division (HC)

HC is responsible for the full spectrum of PIDM's human capital management.

#### KEY ACHIEVEMENTS IN 2013

**Talent management:** Continued to implement a comprehensive competency-based Learning and Development programme to continuously develop our employees capabilities and competencies. This included various types of training such as leadership, soft skills and technical skills using a blended approach of study visits, external seminars and briefings, conferences, internal training sessions and on-the-job training. In-house training sessions were also organised for employees with common learning and development needs. We also continued to implement the Leadership Excellence at PIDM (LEAP), a customised leadership training programme for employees with a supervisory role. The average external and internal training days per employee in 2013 totalled eight days.

To ensure business continuity, we continued with our succession planning efforts whereby development plans have been put in place for potential successors as well as initiation of job rotational opportunities for selected employees. Our performance management process, which aligns individual goals with corporate objectives, commenced with the cascading of KPIs and corporate initiatives to all employees with a top-down approach.

As part of the talent retention efforts, we ensured that our compensation and benefits package remained fair, equitable and competitive and are aligned with the market by participating in the yearly market survey. In line with our strong belief for inclusion of diversity, our employees are made up of a diverse range of cultures and work philosophies. This is demonstrated by our recruitment of hearing impaired staff. As at 31 December 2013, our employee composition was 43% male and 57% female.

**Scholarship Programme:** As part of our Corporate Social Responsibility (CSR) efforts, we continued to implement the multi-year undergraduate Scholarship Programme and awarded scholarships to another 10 deserving individuals. This programme includes a mentoring and coaching programme for the scholars. We celebrated the graduation of five scholars – four from the first and one from the second batch of scholars. PIDM also offered up to 10 scholarships to the children of our employees.

**Employee relations:** We completed the 5<sup>th</sup> Employee Voice Survey which measured our level of employee engagement and compared our results with both Malaysian organisations and global high-performing companies. PIDM achieved an Employee Engagement Index of 90% and Sustainable Engagement Index of 94%.

We held a number of events to foster an optimal workplace culture such as Family Day and *Buka Puasa* for all employees and their family members, monthly birthday celebrations and the Annual Dinner to celebrate achievements.

The Safety and Health Committee continued to meet and identify related issues and put in place action plans for improvement, where necessary, as well as organised training sessions on Reality Environment Applied Combat Tactics (REACT) and Office Safety and Emergency Evacuation.

**Human Resource Information System:** Completed the development of the performance management and competency management module of the system.

#### GOING FORWARD

**Talent management:** Continue to emphasise on employees' learning and development needs using the competency-based framework to guide the identification of training needs and development gaps for current jobs. Continue the succession planning efforts to develop bench strength for key Management and critical positions through identification and development of potential successors.

**Scholarship Programme:** Continue to administer the programme for another intake of 10 undergraduates.

**Employee relations:** Continue to organise various activities for employee interaction and engagement to promote a conducive work environment and a positive workplace culture that is safe and free of discrimination and harassment with a key focus on wellness to ensure high productivity.

**Human Resource Information System:** Implement the performance management and competency management module of the system. Continue to develop and implement the second and third phases with a focus on automating the recruitment, scholarship administration, and succession management processes as well as learning and development to allow for more efficient access to information for effective decision-making.

### Intervention and Failure Resolution Division (IFR)

IFR is primarily responsible for intervention preparedness which involves the development of IFR-related policies and procedures including payout system and infrastructure. The Division is also responsible for managing and conducting IFR-related activities, when required, in the least cost manner to the financial system.

#### KEY ACHIEVEMENTS IN 2013

**IFR:** Continued with the development of the framework to operationalise IFR options for DIS and completed the documentation of four IFR areas for TIPS. Conducted training sessions for selected employees with a focus on TIPS and completed the second simulation exercise, based on a case study approach, in relation to the failure of an insurer member. Together with BNM and Securities Commission, jointly issued a public consultation paper on the requirements for the reporting of trading activity in over-the-counter derivatives markets to a trade repository.

**Payout:** Completed the validation of Standard File Format (SFF) for all member banks and issued the Guidelines on Validation Programme: Deposit Information Systems and Submission. Completed the enhancement to the SFF Submission Policy and Procedures. Identified the draft user requirements for the Claims Management System and infrastructure for insurer members.

**Evaluation Model and System:** Identified the user requirements for the Evaluation Model and System, which is to develop a single platform for all assessments pertaining to MIs, for DIS.

**Recovery and resolution framework:** Continued to work closely with BNM on research and development of the recovery and resolution framework for complex financial institutions.

#### GOING FORWARD

**IFR:** Continue to conduct employee training and simulation sessions to enhance PIDM's intervention readiness. Operationalise the identified IFR options for DIS and TIPS.

**Payout:** Continue with the development of payment methods to facilitate prompt and seamless payout for DIS and to complete the development of Premium Reimbursement and Claims Management System for TIPS. Monitor member banks' compliance to the requirements set out in the Guidelines on Deposit Information Systems and Submission.

**Evaluation Model and System:** To develop the financial model and system for the purpose of calculating the quantitative cost for the various IFR options including the development of user and data requirements.

**Recovery and resolution framework:** Continue to work in collaboration with BNM on the development of the recovery and resolution plans for systemically important financial institutions.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### REVIEW OF 2013 OPERATIONS AND ACHIEVEMENTS

#### Insurance, Risk Assessment and Monitoring Division (INRAM)

INRAM provides independent, accurate and timely risk assessment and monitoring of member institutions to enable early detection of high risk member institutions as well as efficient premium and levy administration. The Division is also tasked to develop and promote Islamic deposit insurance.

##### KEY ACHIEVEMENTS IN 2013

**Risk assessment and monitoring:** Continued to enhance the Risk Assessment and Monitoring Framework and improved the Differential Premium Systems (DPS) Regulations. Commenced the final stage of the development of the Rating Prediction Model for the Early Warning System (EWS) for DIS. In relation to TIPS, completed the enhancement to the Takaful and Insurance Risk Assessment Framework, issued the Guidelines on Differential Levy System (DLS) for conventional insurer members, as well as the Guidelines on Validation Programme: Differential Levy System and Premiums Calculation. Commenced research on the Rating Prediction Model for the EWS.

**Funding:** Completed the research and commenced development of the Target Fund framework for the general insurance business.

**Islamic deposit insurance:** Reappointed to chair the Islamic Deposit Insurance Group (IDIG) of the International Association of Deposit Insurers (IADI).

**Effective partnerships:** Continued to maintain strong and collaborative relationships with key stakeholders, including BNM, MIs as well as industry associations such as Persatuan Insurans Am Malaysia (PIAM) and Life Insurance Association of Malaysia (LIAM). Jointly organised the BNM-PIDM employee sports event with three Supervision Departments of BNM. Conducted knowledge-sharing sessions at the Tripartite Meeting and the International Forum of Insurance Guarantee Schemes (IFIGS). Also held knowledge-sharing sessions for delegates from the Deposit Protection Agency (DPA) Thailand and Indonesia Deposit Insurance Corporation (IDIC).

##### GOING FORWARD

**Risk assessment and monitoring:** Continue to review and enhance the Risk Assessment and Monitoring Framework. For DIS, to develop the Failure Prediction Model for the EWS. With regard to TIPS, develop the interim DLS framework for takaful operators and continue with research on the Rating Prediction Model for the EWS.

**Funding:** Continue with research and development of the Target Fund framework for the general, life and takaful businesses.

**Islamic deposit insurance:** Continue to support IDIG, organise seminars on Islamic deposit insurance and to focus our efforts on leading the development of guidance notes, research papers and core principles in relation to Islamic deposit insurance operations.

#### Legal Division (LEGAL)

LEGAL provides legal advisory support to protect PIDM's interests. The Division also provides secretariat services and governance advisory support to the Board and is responsible for all matters relating to the proceedings and administration of the Board and Board Committees.

##### KEY ACHIEVEMENTS IN 2013

**Legislation:** Completed the review of the Malaysia Deposit Insurance Corporation Act (PIDM Act) 2011 for amendments. Supported the drafting of subsidiary legislation to operationalise the PIDM Act.

**Legal advisory services:** Reviewed, advised on and drafted contracts for PIDM and provided legal advice as required. In relation to PIDM's Compliance Programme, organised the annual compliance training for key policies and procedures for employees and implemented the annual compliance test and quiz for all employees. Continued to certify deposit products offered by member banks through our Product Registry System. Continued to provide legal support in relation to PIDM's key projects.

**Compliance programme for member institutions:** Completed the MI Compliance Framework to assess compliance by MIs and consolidate the monitoring of MIs' compliance within PIDM, as well as developed the Guidelines on Assessment of Compliance by Deposit-Taking Members with the PIDM Act and Subsidiary Legislation.

**Corporate governance:** Continued to support the maintenance of a strong accountability and reporting regime as well as effective working relationship with the Board. Carried out its role as corporate secretariat, in particular, ensured the timely provision of quality information to the Board and supporting the Board to fulfil its oversight role.

Supported the Board in its corporate governance work through research and recommendations on best practices in corporate governance as well as in implementing Board education programmes and related matters. Refer to page 35 on the Board's corporate governance work in the Statement on Governance.

In relation to CSR, together with the CSR Committee, led PIDM in the development and organisation of its CSR initiatives and activities.

**Legal Knowledge Management System:** Commenced development of the Legal Knowledge Management System to capture all knowledge including the history, development, interpretation, issues and possible amendments to the PIDM Act.

##### GOING FORWARD

**Legislation:** Obtain the necessary approvals for the proposed amendments to the PIDM Act and to support the drafting of subsidiary legislation needed by PIDM.

**Legal advisory services:** Continue to provide support on legal matters including contracting for PIDM, certify deposit products offered by member banks and provide legal advice in relation to key projects.

**Compliance programme for member institutions:** Continue to implement the compliance programme for member banks and to develop the programme for insurer members.

**Corporate governance:** Continue to keep abreast with best practices in governance and ensure compliance in all areas as well as support the Board.

**Legal Knowledge Management System:** Complete the development and implementation of the Legal Knowledge Management System.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## REVIEW OF 2013 OPERATIONS AND ACHIEVEMENTS

### Policy and International Division (POLICY)

POLICY assesses and develops robust policies in relation to PIDM's mandate and operations. The Division also leads and coordinates international relations activities.

KEY ACHIEVEMENTS IN 2013	GOING FORWARD
<p><b>Policies and regulations:</b> Continued to review and enhance existing policies and regulations including the Provision of Information on Deposit Insurance Regulations 2011 and the Terms and Conditions of Membership Regulations 2008, and developed the TIPS Information Regulations. Issued the Guidelines on Premium Surcharge Framework. Continued with the development of the Guidelines on Submission of Product Information to facilitate information gathering of all products offered by insurer members, benefits insured under such products as well as benefits protected by PIDM.</p> <p><b>Effective partnerships:</b> Continued to maintain good relationships with BNM and key stakeholders including other deposit insurers through active participation in IADI. On the insurance guarantee schemes front, PIDM was one of the 15 founding members of IFIGS, which was officially established and launched in May 2013.</p> <p><b>Knowledge sharing:</b> Participated in various knowledge-sharing sessions and hosted study visits for other deposit insurers, insurance guarantee schemes and central banks. Under the Memorandum of Understanding (MOU) with the Central Deposit Insurance Corporation, Taiwan and another with IDIC and DPA Thailand, completed several knowledge-sharing sessions and study visits including hosting the Tripartite Meeting on latest developments and cross border cooperation. We also signed two additional MOUs with the Philippine Deposit Insurance Corporation and Korea Deposit Insurance Corporation to mutually enhance the effectiveness of the deposit insurance system and the integrated financial consumer protection system respectively.</p> <p><b>International fora:</b> Continued to actively contribute and participate in various IADI and IFIGS activities. Participated in 25 international fora, involving local and international participants, in various capacities including promoting knowledge sharing through meetings, attachments and training with our counterparts within the region, as well as providing resource persons to speak at conferences at both local and international events. Continued to support the South East Asian Central Banks (SEACEN) Research and Training Centre's programme by providing expert resource speakers.</p>	<p><b>Policies and regulations:</b> Issue the revised Terms and Conditions of Membership for DIS and TIPS as well as the revised DIS Information Regulations and TIPS Information Regulations. To issue the Guidelines on Submission of Product Information for TIPS.</p> <p><b>Effective partnerships:</b> Continue to build PIDM's credibility, reputation and capability through the development of sound and robust policies. Continue to build strategic partnerships and maintain good relationships with both local and international key stakeholders for capacity building and knowledge sharing. To host the Asia-Pacific Regional Committee Technical Seminar on "Bail-in and Resolution Regimes" as well as the IADI Annual Conference.</p> <p><b>International fora:</b> Continue to participate and contribute to IADI and IFIGS for sharing of knowledge and best practices in administering financial consumer protection systems.</p>

### Strategic Planning Division (SP)

SP is responsible for the implementation of PIDM's strategic planning process, including reviewing the budgets, monitoring financial performance against budgets as well as assisting the Board and Management in the setting of PIDM's strategic direction and development of a strategic plan.

KEY ACHIEVEMENTS IN 2013	GOING FORWARD
<p><b>Strategic planning:</b> Facilitated and assisted other divisions to develop their respective divisional scorecards and aligned the initiatives to the corporate objectives, mission and vision. Conducted the annual Strategic Planning Workshop for Senior Management where SP facilitated discussions on strategic direction, key planning assumptions, corporate and divisional KPIs and initiatives including cross-functional initiatives. Conducted the annual Board Strategic Planning session and reviewed the budgets in detail, aligning them to the initiatives to be undertaken for the planning period.</p> <p><b>Performance management:</b> Continued to track and monitor PIDM's performance against targets set out in the approved Corporate Plan using the Balanced Scorecard approach, including financial performance against budgets, on a quarterly basis. The reports are tabled to the Management and Audit Committee, and circulated to the Board.</p> <p><b>Corporate Performance Management System:</b> Enhanced the reporting process by developing divisional reports that can be generated from the system.</p> <p><b>Corporate-wide Internal Customer Satisfaction Survey:</b> Conducted a corporate-wide survey to gauge employees' level of satisfaction to the services provided by each division.</p> <p><b>Corporate publications:</b> Developed the Corporate Plan 2014 - 2016 which highlights PIDM's strategic direction, focus and initiatives as well as budgets for the year 2014. In collaboration with COMMS and FINAD, coordinated and managed the development and publication of PIDM's Corporate Plan and Annual Report.</p>	<p><b>Strategic planning:</b> Continue to adopt an integrated approach in the strategic planning process, taking into account the opportunities and risks that may affect PIDM, including the scenario planning approach, to ensure fulfilment of our mandate, vision and mission.</p> <p><b>Corporate Performance Management System:</b> To monitor and review usage of the system for areas of enhancement in order to increase efficiency of the system.</p>



# MANAGEMENT'S DISCUSSION AND ANALYSIS

## FINANCIAL OVERVIEW

### OPERATING RESULTS

	2013 Actual	2013 Budget	Variance Budget vs Actual		2012 Actual
	RM'000	RM'000	RM'000	%	RM'000
Premium revenues	245,100	227,300	17,800	8	214,262
Investment income	56,142	56,000	142	-	48,782
Realised losses from divestment of investment securities	(650)	-	(650)	-	(37)
<b>Total Revenues</b>	<b>300,592</b>	<b>283,300</b>	<b>17,292</b>	<b>6</b>	<b>263,007</b>
Employee benefits	44,185	51,900	7,715	15	39,390
Public relations and advertising	10,406	10,975	569	5	9,937
Depreciation	7,590	5,750	(1,840)	(32)	5,236
Operating leases	5,535	5,690	155	3	5,114
Other expenses	14,341	26,685	12,344	46	15,639
<b>Total Operating Expenditures</b>	<b>82,057</b>	<b>101,000</b>	<b>18,943</b>	<b>19</b>	<b>75,316</b>
<b>Net Surplus for the Year</b>	<b>218,535</b>	<b>182,300</b>	<b>36,235</b>	<b>20</b>	<b>187,691</b>
Net gains on available-for-sale investments	182	-	182	-	391
<b>Total Comprehensive Income for the Year</b>	<b>218,717</b>	<b>182,300</b>	<b>36,417</b>	<b>20</b>	<b>188,082</b>

### CAPITAL EXPENDITURES

	2013 Actual	2013 Budget	Variance Budget vs Actual		2012 Actual
	RM'000	RM'000	RM'000	%	RM'000
Land and building	2,104	16,500	14,396	87	5,712
Furniture, fittings and office refurbishments	330	540	210	39	486
Office equipment and computer systems	2,454	13,060	10,606	81	4,328
<b>Total Capital Expenditures</b>	<b>4,888</b>	<b>30,100</b>	<b>25,212</b>	<b>84</b>	<b>10,526</b>

### COMMENTARY ON 2013 FINANCIAL PERFORMANCE

For the financial year ended 31 December 2013, PIDM recorded total revenues of RM300.6 million, an increase of RM37.6 million or 14.3% compared to the previous financial year. The significant increase in revenues is primarily driven by the increase in premium revenues paid by the member banks, arising from the revision in annual premium rates for DIS as well as the growth in Total Insured Deposits (TID).

Our operating expenditures for 2013 amounted to RM82.1 million, which is RM6.8 million or 9% higher than the previous year's expenditures of RM75.3 million, mainly attributable to the increase in employee-related expenses as well as depreciation expenses. Nevertheless, the operating expenditures are RM18.9 million or 18.8% lower than budget. We will continue to practise prudent financial management and sound financial stewardship in achieving the objectives as stated in our Corporate Plan. Please refer to pages 90 - 98 for further details of the operating results.

Our net surplus totalled RM218.5 million in 2013, an increase of RM30.8 million from 2012, primarily due to higher revenues.

As at 31 December 2013, we contracted RM4.9 million for capital expenditures, which represents 16.3% of the capital expenditures budgeted for 2013 of RM30.1 million. The significant positive variance is primarily due to the deferment of the construction of our permanent DRC arising from delays in obtaining the relevant approvals. There were also deferments of several IT systems development due to unavoidable external factors. Please refer to page 97 for further details.

The balances of the Protection Funds by the respective systems as at the end of the financial years 2012 and 2013 are as follows:

	2013	2012	Variance Year-on-Year	
	RM'000	RM'000	RM'000	%
<b>Protection Funds by System</b>				
Deposit Insurance Funds	<b>768,355</b>	617,077	151,278	25
Takaful and Insurance Benefits Protection Funds	<b>1,148,157</b>	1,080,718	67,439	6
<b>Total</b>	<b>1,916,512</b>	1,697,795	218,717	13

The surplus held in the Deposit Insurance Funds (DIFs) and the Takaful and Insurance Benefits Protection Funds (TIPFs) are to be used to cover any losses that may arise from providing protection to depositors as well as takaful certificate and insurance policy owners.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### FINANCIAL OVERVIEW

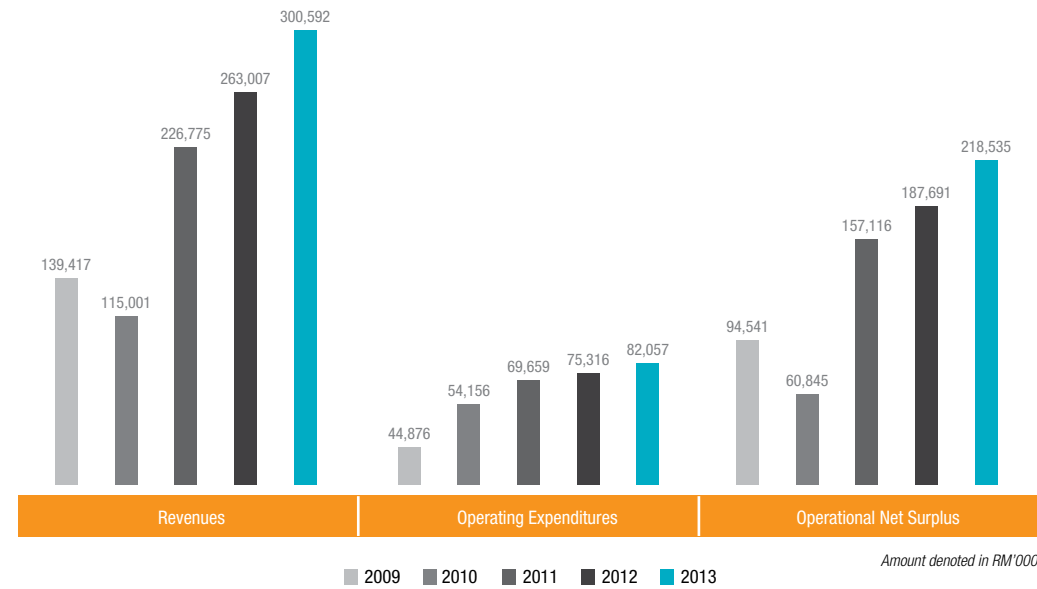


Chart 1: Key Financial Trends from 2009 to 2013

#### REVENUES

##### Premium Revenues – Deposit Insurance System

The annual premiums paid by member banks are calculated based on TID as at 31 December of the preceding assessment year and the applicable premium rates. The premium rates for member banks are determined by the premium categories as classified under the DPS. For the assessment year 2013, total premiums collected from member banks stood at RM180.3 million, an increase of RM53.9 million or 42.6% compared to the previous year. The collection of higher premiums was primarily due to the revision in the annual premium rates as well as the growth in TID. The premiums collected for the Conventional Deposit Insurance Fund amounted to RM151.5 million, an increase of 41.1% from RM107.4 million collected in the previous year. For the Islamic Deposit Insurance Fund, the premiums collected rose by 50.8% to RM28.8 million from RM19.1 million in the previous year mainly due to increase in TID.

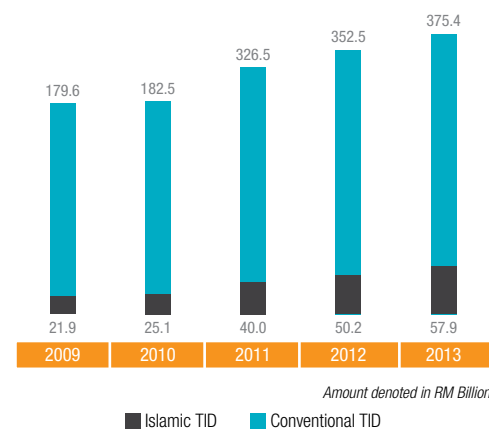


Chart 2: Trend of TID from Assessment Years 2009 to 2013

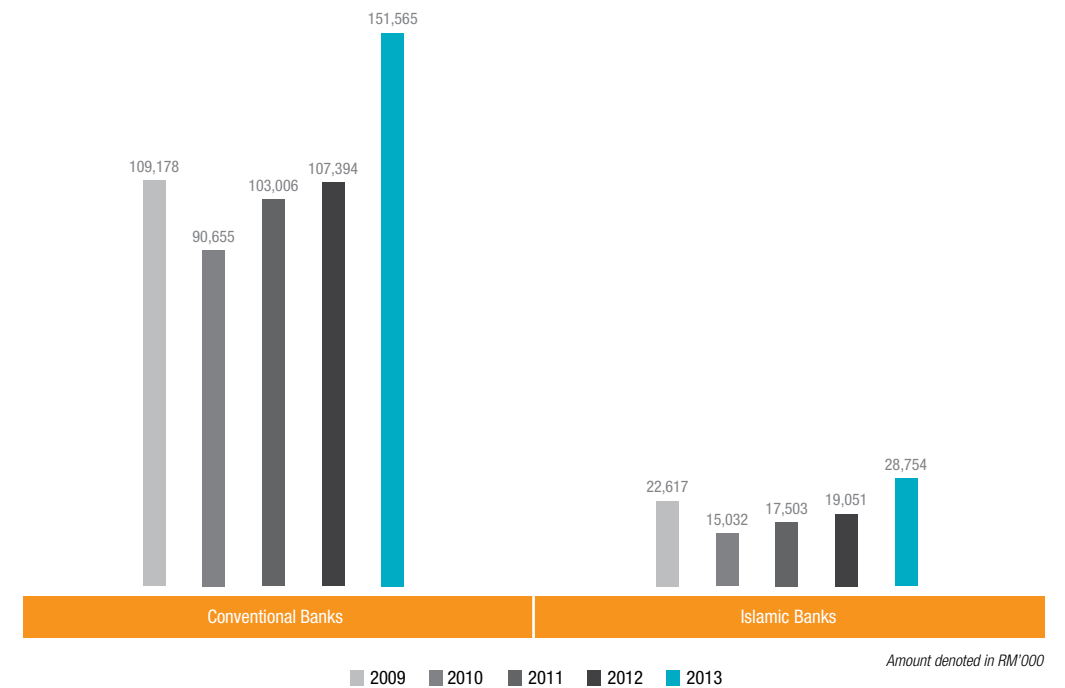


Chart 3: Trend of Premiums for DIS from Assessment Years 2009 to 2013

For the assessment year 2013, TID stood at RM433.3 billion compared to RM402.7 billion in the previous assessment year. The growth in TID of RM30.6 billion or 7.6% was due to favourable deposits growth trend of member banks in 2012. TID for conventional banking business increased by RM22.9 billion or 6.5% and stood at RM375.4 billion as at end of December 2012. For the Islamic banking business, TID as at the same date totalled RM57.9 billion compared to RM50.2 billion in the previous year, an increase of RM7.7 billion or 15.3%.

For the assessment year 2014, we are expecting premiums for DIS to increase to approximately RM239.5 million, which is RM59.2 million or 32.8% higher than premiums collected in 2013. This is primarily due to the effect of the revision in the annual premium rates for the assessment year 2014 (as noted in Table 1 below) as well as the expected growth in TID.

On 19 November 2012, the Malaysia Deposit Insurance Corporation (Annual Premium and First Premium in Respect of Deposit-Taking Members) (Amendment) Order 2012 was gazetted. The Premium Order details the revised annual premium rates applicable under the various premium categories. Beginning from the assessment year 2013, the annual premiums paid by member banks has been based on the revised annual premium rates. These rates will gradually increase from the assessment year 2013 until assessment year 2015, as depicted in Table 1 below:

PREMIUM CATEGORY	REVISED ANNUAL PREMIUM RATES			MINIMUM AMOUNT OF ANNUAL PREMIUMS (RM)
	2013	2014	2015 ONWARDS	
Category 1	0.04%	0.05%	0.06%	100,000
Category 2	0.08%	0.10%	0.12%	200,000
Category 3	0.16%	0.20%	0.24%	400,000
Category 4	0.32%	0.40%	0.48%	800,000

Table 1: DPS Premium Categories, Minimum Amount of Annual Premiums and Revised Annual Premium Rates from Assessment Year 2013 onwards

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### FINANCIAL OVERVIEW

Since 2008, the determination of member banks' premium rates has been based on the premium categories specified under the DPS, whereby member banks with lower risk profiles are placed in better premium categories compared to member banks with higher risk profiles. The DPS is aimed at providing fairness in the premium assessment process as well as to incentivise member banks to enhance their risk management practices and minimise excessive risk taking. The DPS is also in line with our mandate of promoting sound risk management and contributing to the soundness of the financial system. The DPS is continuously reviewed to ensure that the existing criteria and indicators used are still current and relevant given the changes and developments in the operating and regulatory environment.

#### Premium Revenues – Takaful and Insurance Benefits Protection System

Assessment year 2013 marks the first year implementation of the DLS framework for conventional insurer members. Similar to the DPS for member banks, the DLS aims to introduce fairness into the levy assessment process as well as provide greater incentives for insurer members to enhance their risk management practices and minimise excessive risk taking. The DLS differentiates insurer members according to their risk profiles and classifies them into four levy categories. Lower risk insurer members pay lower levies than those in higher risk categories. Table 2 lists the levy categories with the corresponding levy rates and the minimum annual levy payable.

LEVY CATEGORY	LEVY RATE FOR LIFE INSURANCE BUSINESS	LEVY RATE FOR GENERAL INSURANCE BUSINESS	MINIMUM AMOUNT OF ANNUAL LEVY (RM)
1	0.025%	0.05%	75,000
2	0.05%	0.10%	150,000
3	0.10%	0.20%	300,000
4	0.20%	0.40%	600,000

Table 2: Business Types, TIPS Levy Rates and Minimum Amount of Annual Levies

The DLS framework is currently not applicable to takaful operators. Hence, takaful operators will continue to apply our flat rate system in the calculation of the levy payable subject to the minimum annual levy prescribed in Table 3 below.

BUSINESS TYPES	FLAT RATE LEVY	MINIMUM AMOUNT OF ANNUAL LEVY (RM)
Family Solidarity Takaful	0.06%	150,000
General Takaful	0.25%	150,000

Table 3: Business Types, TIPS Levy Rates and Minimum Amount of Annual Levies

Meanwhile, the bases used in the levy calculation remain the same for all insurer members, i.e. life insurance and family solidarity takaful businesses are based on the actuarial valuation liabilities (AVL) whilst the general insurance and general takaful businesses are based on the net premiums or contributions.

The implementation of the DLS framework in 2013 went as planned with most of the insurer members attaining favourable DLS results and levy categories, which in turn reduced the total levies paid under the previous flat rate levy system. The insurer members also benefited from a one time 10% transitional adjustment, applicable only for the assessment year 2013. As expected, the DLS framework implemented for the general and life insurance businesses reduced the total levies collected for assessment year 2013 to RM64.8 million, representing a drop of 26.2% from RM87.8 million in the previous year.

With the expectation of continuing growth in the insurance and takaful businesses and improvements in the insurer members' DLS levy categories, we are budgeting total levies of RM61.5 million for the assessment year 2014. We will also be implementing the validation programme for the DLS quantitative information and premiums calculation to ensure the accuracy of the information submitted by the insurer members to PIDM. The Guidelines on Validation Programme: Differential Levy System and Premiums Calculation was issued to insurers members on 6 January 2014.

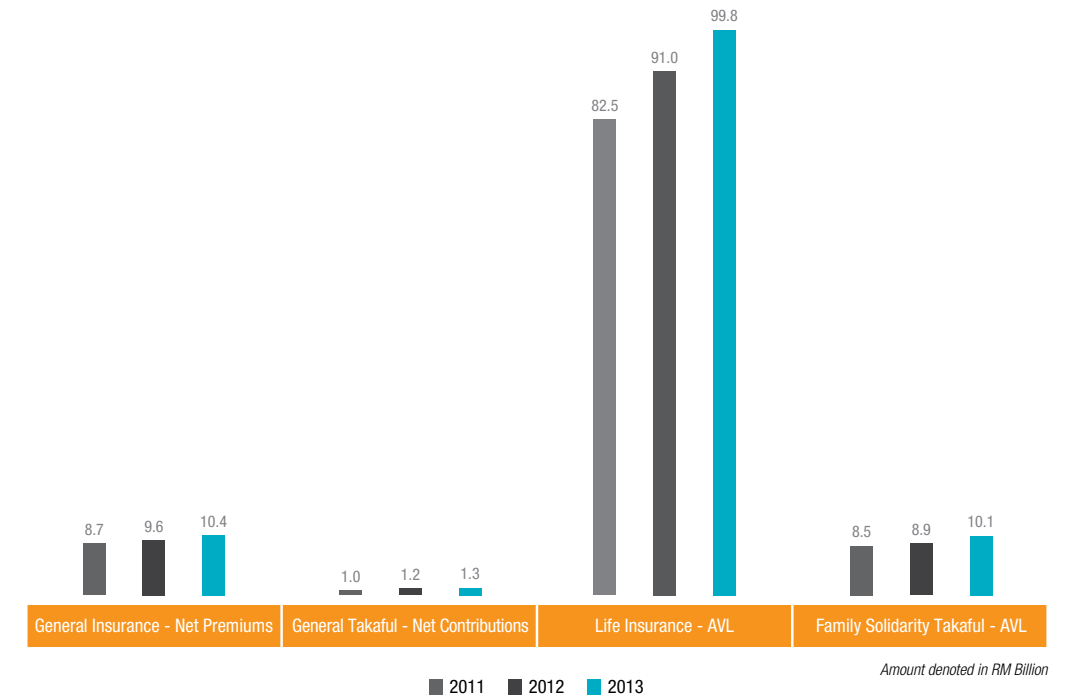


Chart 4: Trend of Net Premiums, Net Contributions and AVL for Assessment Years 2011 to 2013

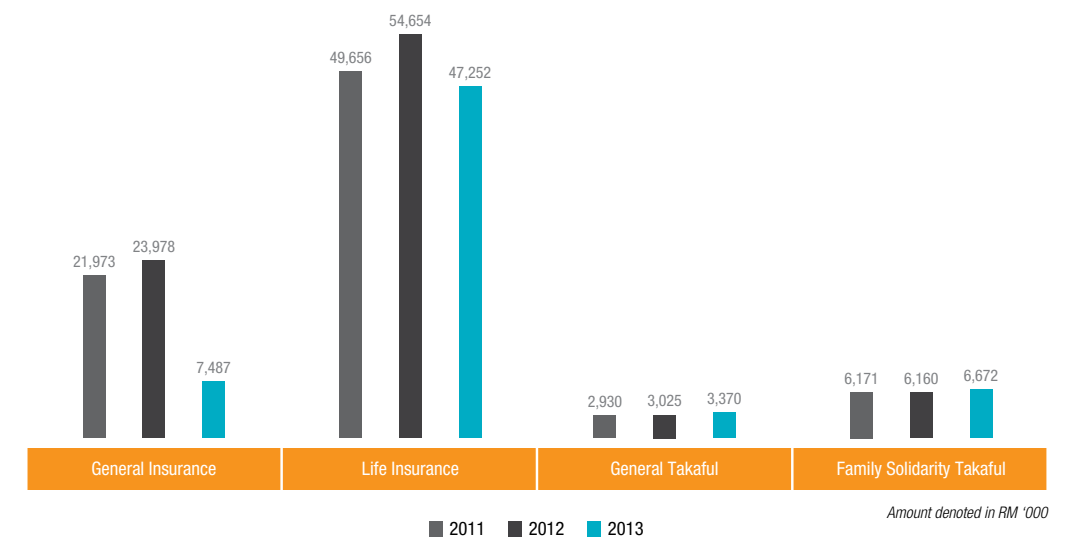


Chart 5: Trend of TIPS Levies for Assessment Years 2011 to 2013

#### Investment-Related Revenues

Our investment activities are carried out in line with the Investment Policy approved by the Board of Directors as well as the approved policies relating to the management of financial risks, i.e. liquidity, market and credit risks. We continue to invest in short-term and medium-term Ringgit Malaysia-denominated securities issued by the Government or BNM as well as placements of excess operational funds in Short-term Money Market Deposits. It is a policy that our investments are held-to-maturity.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

## FINANCIAL OVERVIEW

Our investment portfolio also consists of investment securities, which were part of the former Insurance Guarantee Scheme Funds (IGSF) portfolio previously managed by BNM that was transferred to PIDM on 30 September 2011. In 2011, specific approval from the Board of Directors was obtained to exempt certain investment securities, namely, Government Securities with long-term tenures and high grade Private Debt Securities (PDS) of Government-Linked Companies (GLCs), from complying with the approved Investment Policy. These investment securities are being held to their relevant maturities.

The remaining investment securities from the former IGSF were restructured, and classified as investments 'available-for-sale' (AFS) upon their transfer to PIDM. In 2013, all AFS investment securities were divested and reinvested in securities that are in line with our approved Investment Policy.

The overall results of the former IGSF portfolio that was restructured (classified as AFS investment securities) since their transfers are as follows:

	RM'000
Realised gains for the financial year ended 31 December 2011	3,715
Realised losses for the financial year ended 31 December 2012	(37)
Realised losses for the financial year ended 31 December 2013	(707)
<b>Net gains of overall portfolio up to 31 December 2013</b>	<b>2,971</b>

Our investment income for 2013 of RM56.1 million (DIFs: RM20.5 million, TIPFs: RM35.6 million) is on budget. The Weighted Average Effective Yield Rates (WAEYR) for investments were 2.85% (2012: 2.80%) and 3.05% (2012: 3.10%) for DIFs and TIPFs respectively. Details of the WAEYR by the type of portfolio as well as by the respective Funds are presented in Note 12(c) to the financial statements.

During the year, we also recognised, in the Statement of Profit or Loss and Other Comprehensive Income, net losses arising from the divestment of AFS investment securities, which amounted to RM707,437.

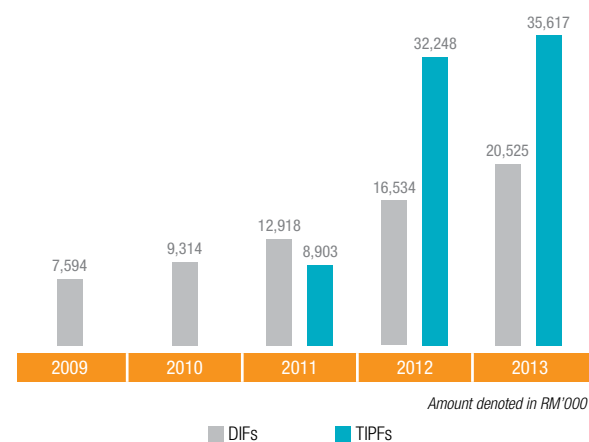


Chart 6: Trend of Investment Income from 2009 to 2013

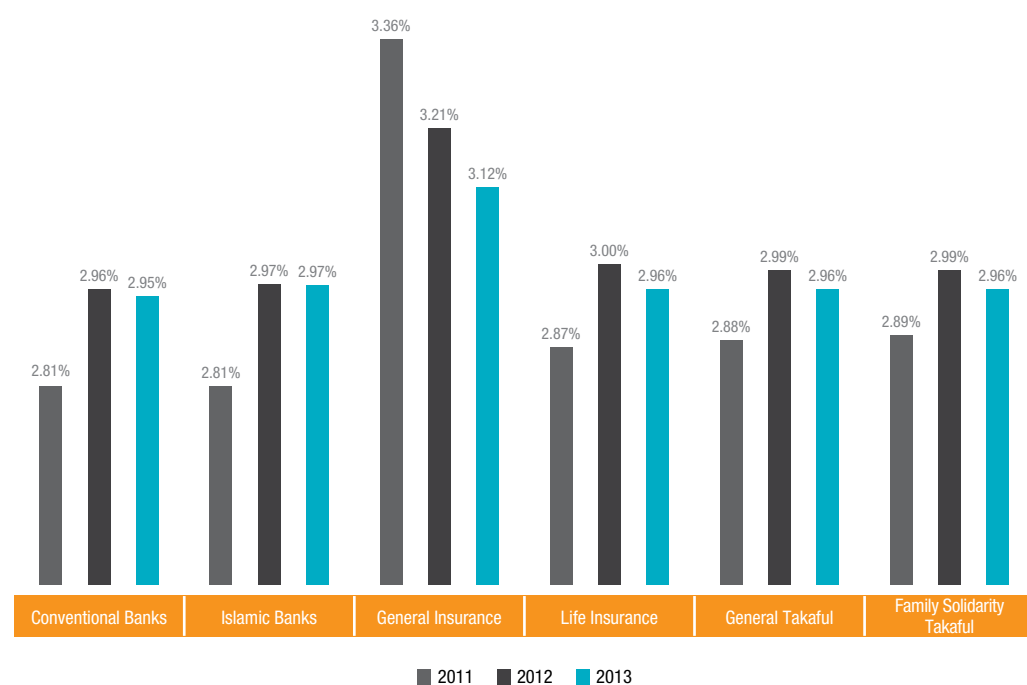


Chart 7: Trend of Weighted Average Effective Yield Rates for Cash Equivalents (Short-term Investments) and Investments from 2011 to 2013

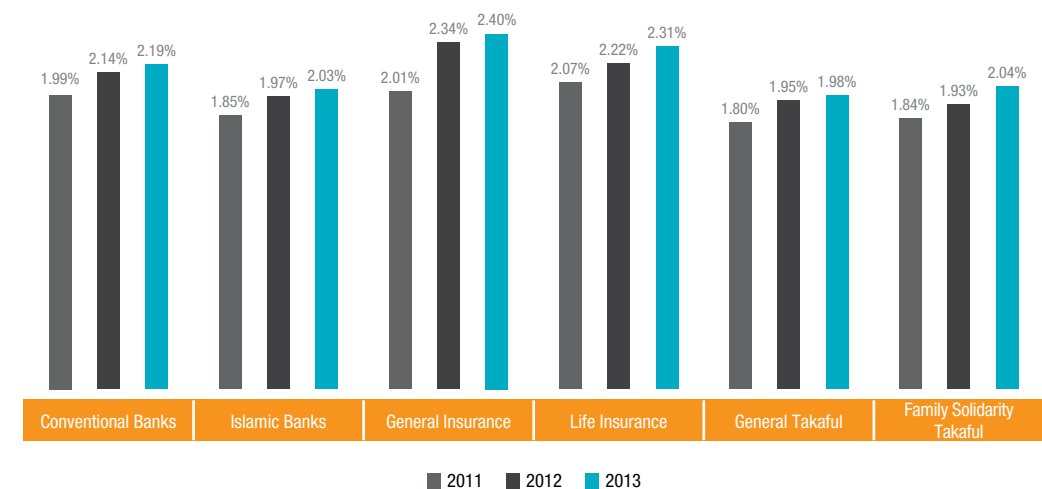


Chart 8: Trend of Weighted Average Effective Yield Rates for Placements in Short-term Money Market Deposits from 2011 to 2013

## OPERATING EXPENDITURES

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

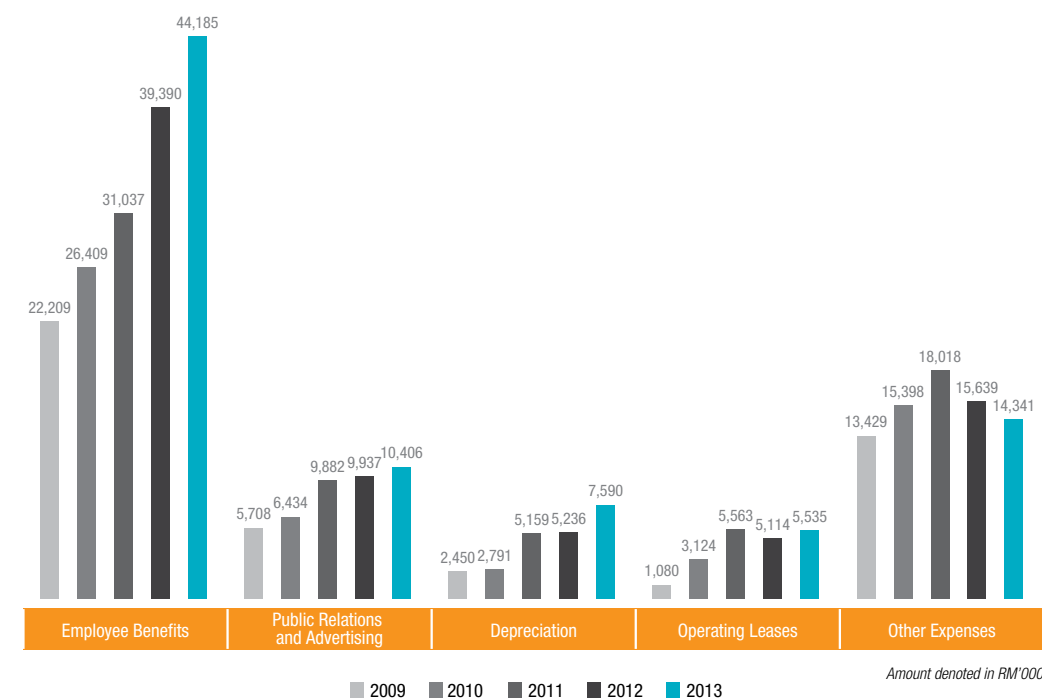


Chart 9: Trend of Operating Expenditures from 2009 to 2013

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## FINANCIAL OVERVIEW

Our operating expenditures for 2013 totalled RM82.1 million, an increase of RM6.8 million or 9% from RM75.3 million in 2012. The increase in expenditures year-on-year is directly related to our efforts to enhance our operations in both DIS and TIPS. The operating expenditures were RM18.9 million or 18.8% below budget. Our approach to budgeting for operating expenditures is to use it as a plan and it is not our objective, as an end game, to expend the approved operating budget fully. During the year, we necessarily make expenditure decisions based on updated information and other operational developments. The positive variance against budget is mainly due to the lower than expected employee benefits expenses arising from the timing of new employees hired during the year as well as lower expenditures on professional and consultancy, telecommunications and IT-related expenses, hosting of international events, the scholarship programme as well as travelling expenses. The trend of our operating expenditures is expected to increase moderately in 2014 and stabilise thereafter.

### Employee Benefits

Our employees are our most important asset. During the year, we continued to train and develop our employees to ensure they have the right skills, knowledge and experience, given our unique mandate. It is our strategy to provide competitive compensation that is benchmarked to the general market, to attract talent and retain our employees. The increasing number of employees over the years indicates our continued efforts to build capacity and capabilities to ensure operational effectiveness and readiness as well as effective succession management for the organisation's long term sustainability.

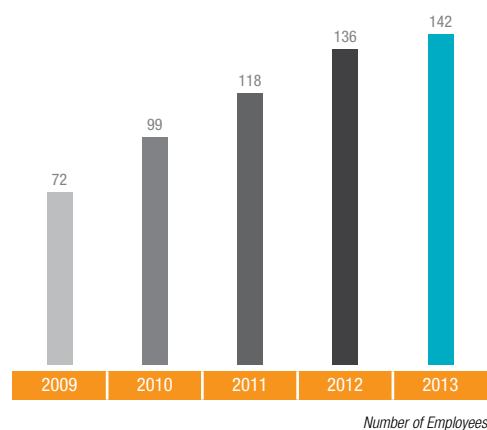


Chart 10: Trend of Employee Headcount from 2009 to 2013

The main increase in the number of employees for 2013 was attributed to the additional resources required for key areas to ensure operational effectiveness and succession

management. The employee benefits expenses for 2013 only partially reflect the costs of additional resources recruited in 2013, as there were a number of new hires who commenced employment between the second and third quarters of 2013. The full impact of the 2013 new hires will be reflected in the financial year 2014.

For 2013, employee benefits totalled RM44.2 million, 12.2% higher compared to the previous year, primarily due to the full cost impact of resources recruited in 2012. Nevertheless, it is RM7.7 million or 14.9% lower than budget.

### Public Relations and Advertising

Communications and public awareness continues to play a significant role in ensuring the effectiveness of our DIS and TIPS. The public relations and advertising budget for 2013 was based on our multi-year Integrated Communications Plan, which is aimed at increasing the level of awareness and understanding about PIDM as well as the awareness of its financial consumer protection systems. This included development of public information leaflets, publication of articles, conducting media briefings, road shows and interviews. As part of our ongoing initiatives to enhance the public's understanding of the Deposit Insurance System as well as Takaful and Insurance Benefits Protection System, we have also continued our education programme for schools and tertiary education institutions.

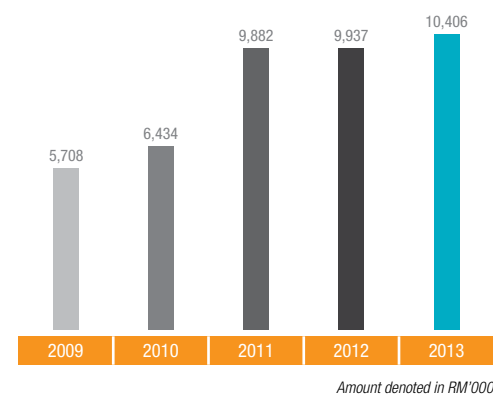


Chart 11: Trend of Public Relations and Advertising Expenses from 2009 to 2013

Public relations and advertising expenses for 2013 totalled RM10.4 million, which is 4.7% higher than the previous year, but 5.2% lower than budget. The majority of the costs incurred on public relations and advertising during the year related to our advertising campaign as well as the education programme. Both activities were mainly directed at the general public as well as bank representatives and insurance agents, and aimed

at increasing the level of awareness about PIDM and its mandate to protect depositors and owners of insurance policies and takaful certificates. During the year, the cost incurred for our advertising campaign amounted to RM7.4 million (2012: RM6.8 million). These efforts have led to the increase in the level of public awareness of DIS from 42% in 2012 to 46% in 2013. The level of awareness for TIPS as at the end of 2013 is 32%. In addition, public awareness about PIDM has increased to 53%. The results have surpassed our target of 50%. Under the PIDM Project MoneySmart education programme for 2013, we have also conducted briefings to 830 school representatives (2012:1,000), 500 secondary schools (2012: 529) and 30 road shows in institutions of higher learning (2012: 50) throughout Malaysia.

### Capital Expenditures and Depreciation

We continued to build strong and effective operational infrastructure, in particular IT systems. In 2013, we continued our focus on enhancing and developing our core IT systems as well as the development of our permanent DRC.

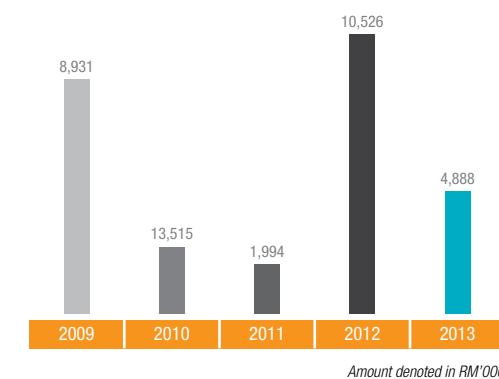


Chart 12: Trend of Capital Expenditures from 2009 to 2013

As at 31 December 2013, we contracted a number of projects worth RM4.9 million, which represents 16.3% of the total capital expenditures budgeted for 2013 of RM30.1 million. The significant variance is mainly due to the delay in securing the relevant approvals for us to proceed with the construction of our DRC. The construction of the DRC is now expected to commence in late 2014 and to be completed in 2016. The positive variance is also attributed to deferments of several IT system projects mainly due to external factors beyond our control.

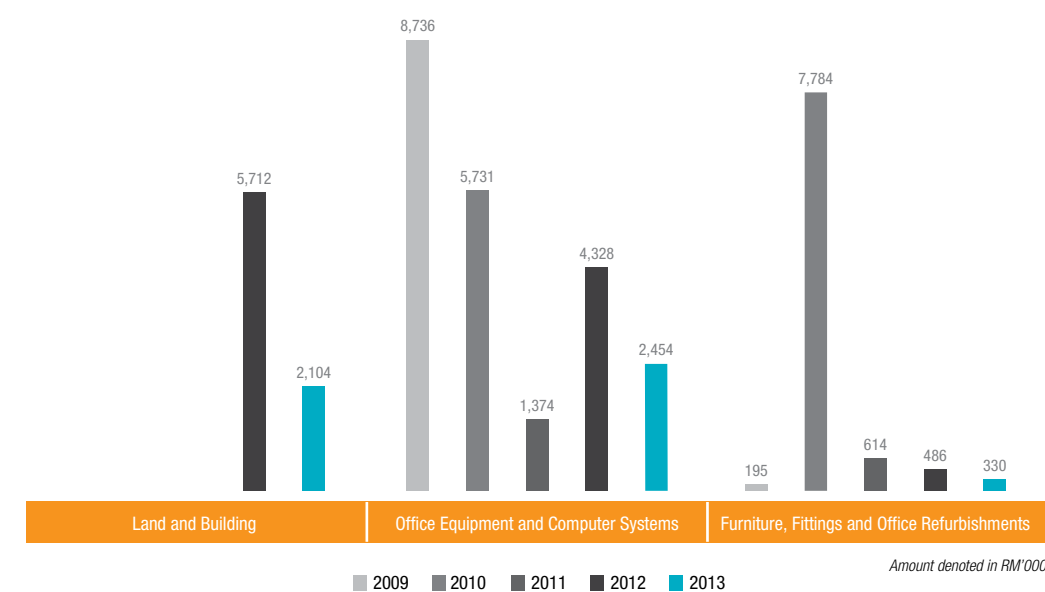


Chart 13: Trend of Major Capital Expenditure Items from 2009 to 2013

Depreciation expenses for the year amounted to RM7.6 million or 45% higher compared to the previous financial year, mainly attributable to depreciation of IT systems that have been developed and implemented.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## FINANCIAL OVERVIEW

### Operating Leases and Other Expenses

These categories of expenses relate to our general and administration expenses, such as rental of office premises, professional and consultancy fees, training and development expenses, travelling expenses, printing and stationery costs and telecommunications costs.

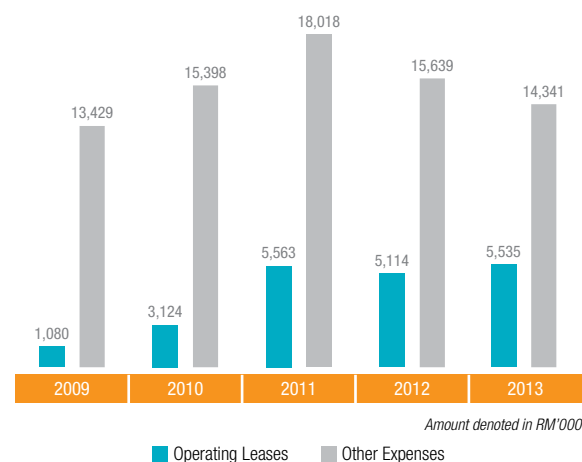


Chart 14: Trend of Operating Leases and Other Expenses from 2009 to 2013

The operating leases relate mainly to the rental of our office premises and rental of space for our current Disaster Recovery Site as well as leases for office equipment. The slight increase in operating leases is due to additional contracts entered into during the year for various leases of office equipment. Nevertheless, the operating lease expenses are below budget.

Other expenses decreased by 8.3% from RM15.6 million in 2012 to RM14.3 million in 2013, mainly due to lower expenses incurred on the engagement of consultants for the development of the IFR framework, IFR simulations and engagement of legal advisors. Our overall expenditures within this expense category were below budget by RM12.3 million or 46.3% primarily due to the timing of and savings on several key activities, particularly for the engagement of consultants for IFR-related work as well as legal advice, travelling, computer peripherals upgrade, scholarship programme, hosting of international events as well as licensing and maintenance for IT systems and infrastructure.

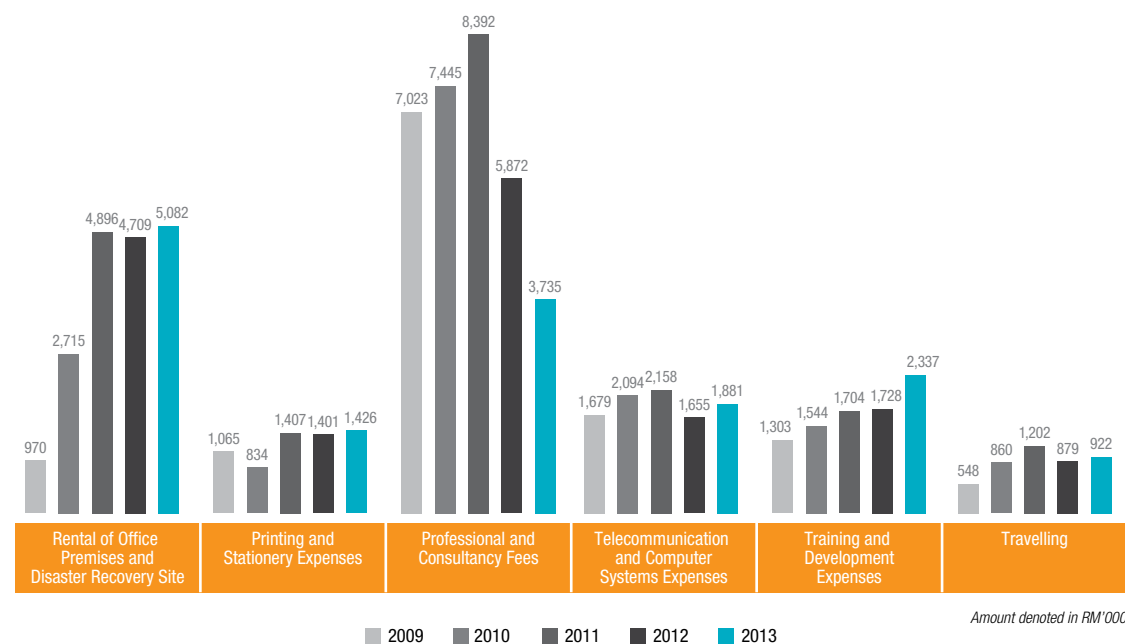


Chart 15: Trend of Major Items within Operating Leases and Other Expenses from 2009 to 2013

### Value Added Statement

Value added is a measure of funds created by PIDM from its operations. The Value Added Statement indicates the total monetary value of the funds created during the financial year and its allocation to key stakeholders: (i) our internal stakeholders, i.e. our employees; and (ii) the funds retained in the respective Protection Funds for the protection of our member institutions.

	2013 RM'000	2012 RM'000
<b>Value Added</b>		
Premium revenues*	245,100	214,262
Investment income*	56,142	48,782
Operating expenditures excluding employee benefits expenses and depreciation*	(30,282)	(30,690)
Realised losses from divestment of investment securities*	(650)	(37)
<b>Value added available to be allocated</b>	<b>270,310</b>	<b>232,317</b>
<b>Distribution of Value Added</b>		
<b>To employees:</b>		
Employee benefits expenses*	44,185	39,390
<b>Retain in PIDM:</b>		
Depreciation*	7,590	5,236
Protection Funds		
- Conventional Deposit Insurance Fund	127,126	83,819
- Islamic Deposit Insurance Funds	24,152	14,751
- General Insurance Fund	30,269	45,560
- Life Insurance Fund	29,894	37,548
- General Takaful Fund	2,391	2,000
- Family Solidarity Takaful Fund	4,703	4,013
Total allocated to Protection Funds	218,535	187,691
<b>Total allocated</b>	<b>270,310</b>	<b>232,317</b>

\* Please refer to Note 20 to the Financial Statements for the breakdown of the revenues and expenses allocated to the respective Protection Funds.

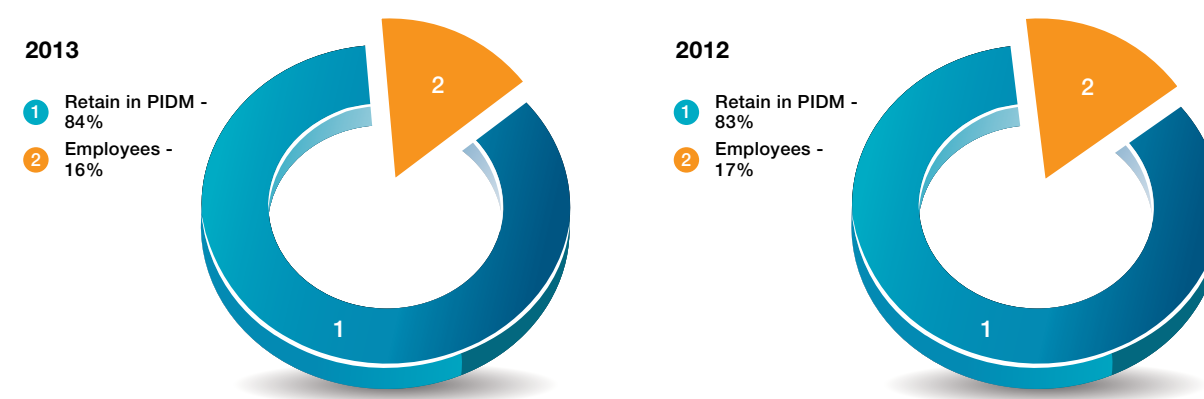


Chart 16: Allocation of Value Added for 2012 and 2013

The premium revenues and investment income are primarily attributed towards the accumulation of the Protection Funds, net of the operating expenditures of PIDM. As the funds for reinvestment for each of the respective Protection Funds increase year-on-year, the investment income attributable to the respective Protection Funds will also increase. This in turn will result in the funds allocation to the Protection Funds to increase whilst the allocation to employees to decrease, over time. In the future, it is expected that the investment income will be sufficient to cover the overall operating expenditures, and thus all of the premiums collected from member institutions will be solely attributed towards the accumulation of the Protection Funds.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

## FINANCIAL OVERVIEW

### Segment Information

In administering DIS and TIPS, we maintain six distinct and separate Funds for each of the business segments for which we provide financial consumer protection. There is no commingling of funds between the six separate Funds to ensure no cross subsidisation between the business segments as well as to ensure compliance with Shariah requirements for the Islamic Protection Funds.

The crediting and charging of our revenues and expenditures is made in accordance with the provisions in the PIDM Act. All revenues are attributed directly to the specific Fund or Funds to which it relates. On the other hand, expenditures are charged to the respective Funds in accordance with the requirements of the Malaysia Deposit Insurance Corporation (Allocation of Expenses, Costs or Losses) Order 2011 (Costs Allocation Order). The Costs Allocation Order requires direct expenditures to be charged directly to the respective Fund or Funds whilst indirect expenditures are charged either to DIFs or TIPFs or allocated across all the six Funds, based on premiums received in the previous year. Note 2.2(f) of the financial statements details out the basis and allocation percentages used to allocate indirect expenditures to the respective Funds in accordance with the Costs Allocation Order.

From the perspective of the six Funds, the share of total operating expenditures of the respective Funds for 2013 is described in Chart 18 below.

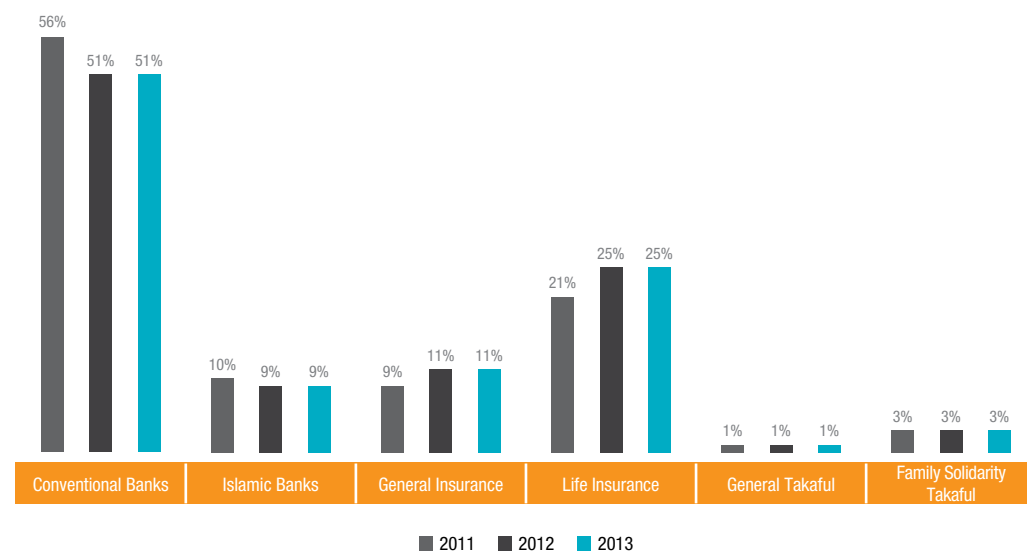


Chart 18: Trend of Operating Expenditures Charged to the Six Protection Funds from 2011 to 2013

For 2013, the allocation of operating expenditures for DIFs and TIPFs remained fairly similar to that of the previous year. We continue to direct our efforts to enhance our capacity and capabilities to ensure operational readiness for both DIS as well as TIPS. This includes enhancing our IT infrastructure as well as processes, policies and procedures, particularly for our intervention and failure resolution function.

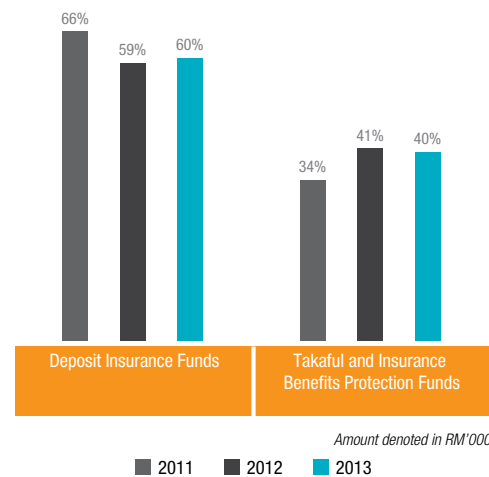


Chart 17: Trend of Operating Expenditures Charged to DIFs and TIPFs from 2011 to 2013

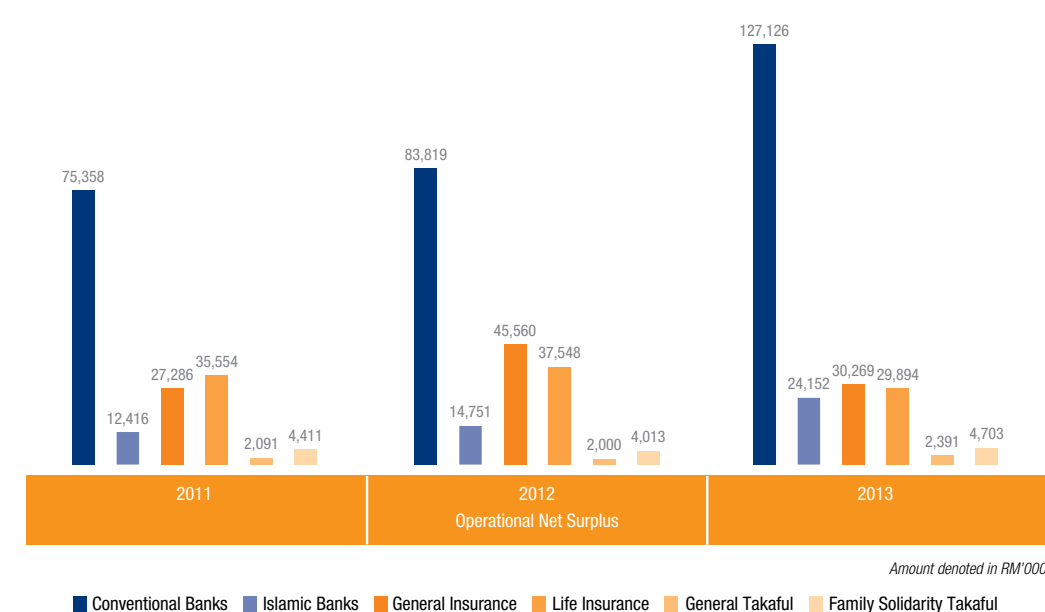
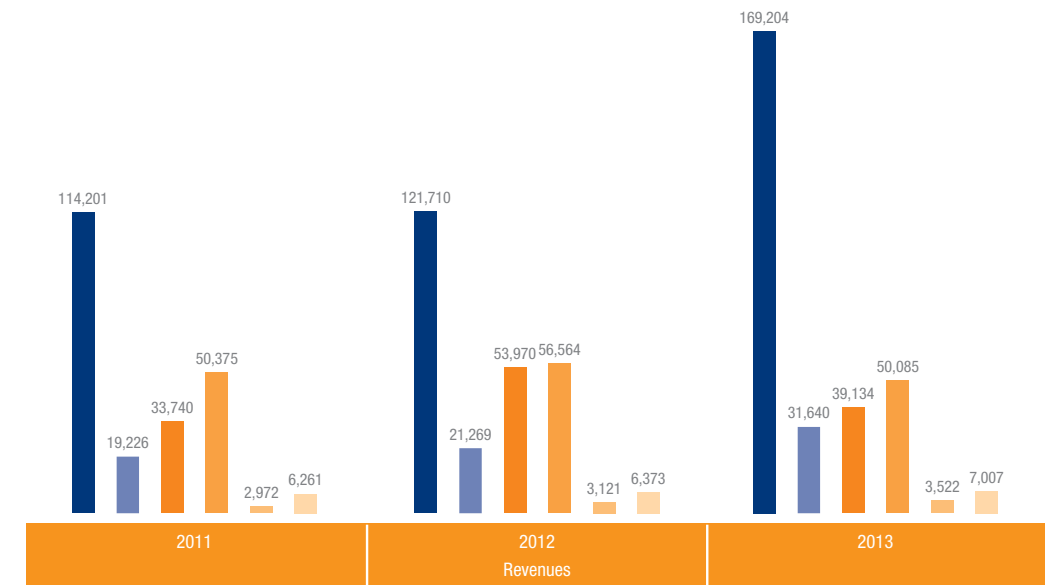


Chart 19: Key Financial Trends for the Six Protection Funds from 2011 to 2013

Chart 19 is a snapshot of the key financial trends pertaining to all the six Protection Funds from 2011 to 2013. Details of the financial position as well as the financial performance of the six Funds are available in Note 20 of the financial statements.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### FINANCIAL OVERVIEW

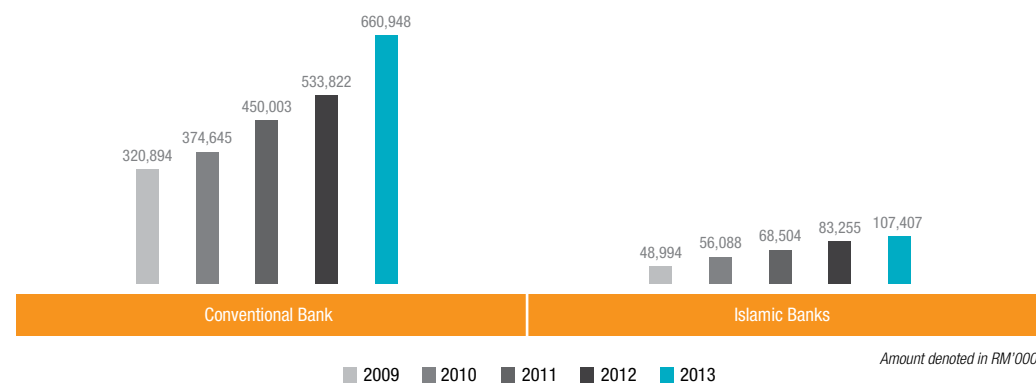


Chart 20: Trend of Conventional and Islamic DIFs from 2009 to 2013

Total DIFs as at 31 December 2013 amounted to RM768.3 million, an increase of 24.5% from the previous year. The Conventional DIF increased to RM660.9 million or by 23.8% whilst the Islamic DIF increased to RM107.4 million or by 29%.

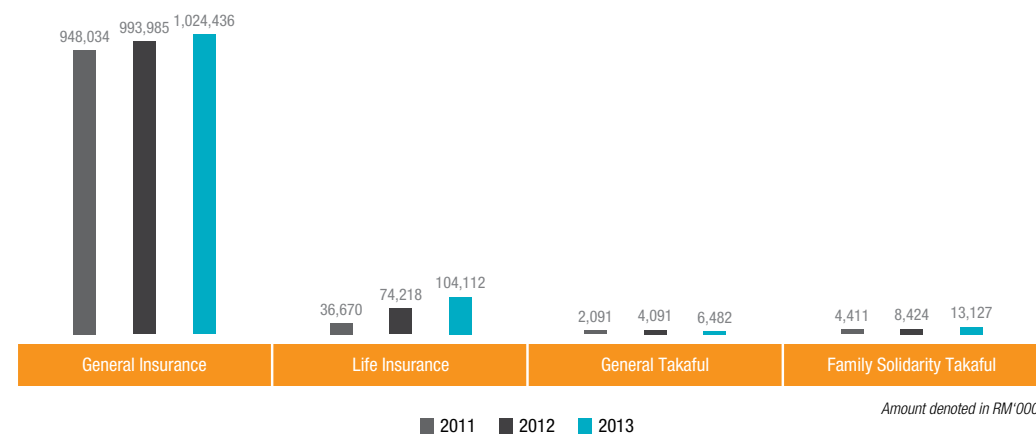


Chart 21: Trend of TIPFs from 2011 to 2013

Total TIPFs as at 31 December 2013 amounted to RM1.15 billion, an increase of 6.2% from the previous year. The General Insurance Protection Fund increased by 3.1% whilst the Life Insurance Protection Fund increased by 40.3%. The General Takaful Protection Fund and the Family Solidarity Takaful Protection Fund increased by 58.5% and 55.8% respectively. The significantly lower growth for the General Insurance Protection Fund compared to the other TIPFs is primarily due to a larger base of funds arising from the transfer of the former IGSCF to PIDM in 2011.

### HIGHLIGHTS OF THE STATEMENT OF FINANCIAL POSITION

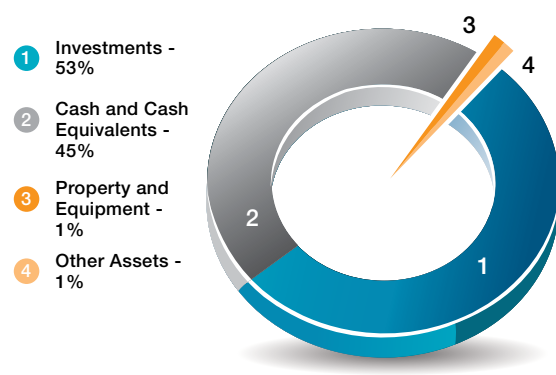


Chart 22: Asset Composition

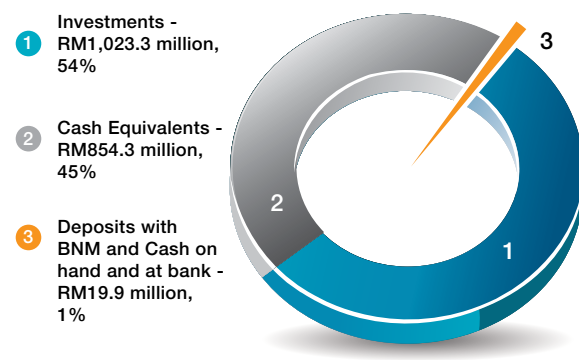


Chart 23: Classification of Cash, Cash Equivalents and Investments as at 31 December 2013

### Cash, Cash Equivalents and Investments as at 31 December 2013

Our assets remain liquid with cash, cash equivalents and investments which stood at RM1.9 billion, representing 98.7% of our total assets as at 31 December 2013.

As at 31 December 2013, our cash, which includes deposits as well as cash on hand and in the bank totalled RM19.9 million (DIFs: RM17.6 million and TIPFs: RM2.3 million).

Our cash equivalents and investments (which include short-term investments of less than 90 days) as at 31 December 2013 totalled RM1.9 billion, an increase of 13.4% compared to RM1.7 billion in 2012. All of these investments are classified as held-to-maturity investments and were stated in the financial statements at cost adjusted for accretion of discounts net of amortisation of premiums. All available-for-sale investments were divested during the year.

All cash equivalents and investments (except for investment securities from the former IGSCF portfolio) are invested in accordance with the Board-approved Investment Policy. These investments, as at 31 December 2013, comprised Bank Negara Malaysia Notes and Malaysian Government Investment Securities with short-term tenures ranging from 14 days to 360 days. The longest tenure for these investments is up to October 2014. As for the former IGSCF portfolio, specific approval was obtained to retain all of the Government investment securities (including tenures exceeding 36 months) as well as PDS issued by Government-Linked Companies. The longest tenure for the retained investment securities is until August 2021. Please refer to Note 21(b) to the financial statements for the breakdown of the investment portfolio (by Protection Funds) and its tenure to maturity.

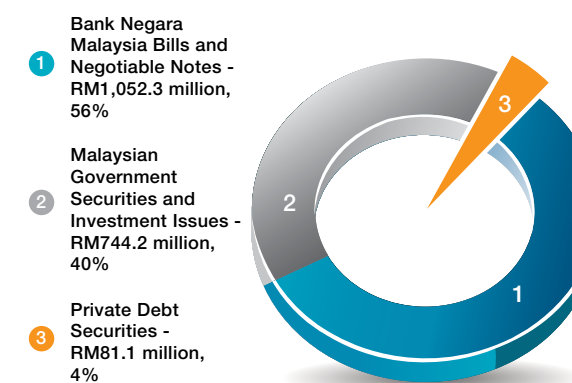


Chart 24: Composition of Investment Securities (including Cash Equivalents) as at 31 December 2013

The sources and uses of cash and cash equivalents are described in the Statements of Cash Flows in Section 4 of this Annual Report. We have also prepared a Statement of Cash Flows using an indirect method, which is presented in Note 4(b) to the financial statements.

### Property and Equipment and Other Assets as at 31 December 2013

As at 31 December 2013, our property and equipment amounted to RM17.2 million (2012: RM24.1 million). The key additions to property and equipment in 2013 were attributed to the development of IT systems, particularly the Enhanced Financial Management System as well as the Human Resource Information System.

Other assets comprised deposits and prepayments, investment income receivables, other assets and other receivables amounting to RM8.9 million. The balance as at the end of the year was 3.6% lower than the previous year primarily due to the reduction in the investment income receivable and other receivables as at year-end.

### Investments in Subsidiaries as at 31 December 2013

We have incorporated five subsidiaries in 2012 as part of our efforts to ensure operational readiness for any intervention or failure resolution. These subsidiaries were established in accordance with section 10 of the PIDM Act, for the purposes of carrying out our functions, powers and duties. The subsidiaries incorporated include one asset management company and four bridge institutions (namely one conventional bank, one Islamic bank, one insurance company and one takaful operator). The subsidiaries are incorporated as part of our readiness plan in advance of any failure of a member institution, and hence will remain dormant until activated to carry out any necessary IFR activities. The names of the subsidiaries are as follow:

1. The Federal Asset Management Agency of Malaysia Berhad
2. The Federal Commercial Bank of Malaysia Berhad
3. The Federal Islamic Bank of Malaysia Berhad
4. The National PIDM Insurance Corporation of Malaysia Berhad
5. The Federal Takaful Corporation of Malaysia Berhad

The basis of accounting and details of the subsidiaries are further described in Note 2.2(b), Note 3.1(a) and Note 7 to the financial statements.

### Liabilities as at 31 December 2013

Our liabilities include payables for utilities, communication services, IT systems, provision for unutilised leave as well as accruals for services rendered in respect of consultancy engagements and the supply of goods.

### SOURCES OF FUND AND FINANCIAL ABILITIES

#### Funding Framework

As a statutory body, our sources of funding and future ability to meet liabilities and commitments as they arise are established in the PIDM Act. It is imperative for PIDM to have adequate financial resources in order to effectively administer and operate a robust and sound DIS as well as TIPS. The availability of financial resources is critical to ensure we are able to meet our obligations with high degree of confidence as and when the need arises. As a

MANAGEMENT’S DISCUSSION AND ANALYSIS  
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financial consumer protection authority, we have an inherent exposure to losses resulting from protecting deposits held by member banks as well as takaful and insurance benefits provided by insurer members. During the year, there have been no events that would require PIDM to record a specific provision in our financial statements in accordance with MFRS 137 *Provisions, Contingent Liabilities and Contingent Assets*.

Our funding framework explicitly highlights the need for adequate financial resources to effectively carry out our mandate as well as to address the risks to which we are exposed. The main objectives of our funding framework are to (i) ensure the availability of sufficient financial resources to enable PIDM to fund its day-to-day operations and (ii) accumulate reserves to ensure that we are able to meet future obligations to depositors as well as takaful certificate and insurance policy owners. The funding framework, which takes into consideration our role as one of the financial safety-net authorities as well as our legislative powers relating to sources of funding, also provides clear objectives for our internal and external sources of funding.

Internal Funding

Our internal funds are built through the accumulation of net surpluses from our operations. Annual net surplus is credited into and accumulated in the respective Protection Funds as reserves to meet future obligations that may arise from providing the financial consumer protection systems. As noted earlier, operating expenditures are credited against the respective Protection Funds on the costs allocation basis as described in Note 2.2(f) to the financial statements and there is no commingling between the Funds.

Deposit Insurance Funds

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

Target Fund for the Deposit Insurance System

In 2011, we had established a framework to determine the reserve levels of DIFs that we aim to accumulate over the long-run to meet our objectives and fulfil our mandate. These levels (known as the Target Fund) represent the level of funds that would be sufficient to cover the net insurance losses from IFR activities. The Target Fund is usually described as a percentage of TID, and for PIDM, is specified as a range of target levels (lower and upper ranges).

Our Target Fund range is between 0.6% to 0.9% of TID for both the Conventional and Islamic DIFs. Based on the level of TID as at 31 December 2012, the range in RM absolute terms is between RM2.3 billion and RM3.4 billion for Conventional DIF and between RM347 million and RM521 million for Islamic DIF. The current levels of DIFs compared to the Target Fund range are described in the following table:

DEPOSIT INSURANCE FUNDS	2013 ACTUAL RM MILLION / %	2012 ACTUAL RM MILLION / %	TARGET FUND	
			LOWER RANGE RM MILLION / %	UPPER RANGE RM MILLION / %
Conventional Deposit Insurance Fund				
Balance	660.9	533.8	2,252	3,378
Percentage of Total Insured Deposits*	0.18%	0.15%	0.6%	0.9%
Islamic Deposit Insurance Fund				
Balance	107.4	83.3	347	521
Percentage of Total Insured Deposits*	0.19%	0.17%	0.6%	0.9%

\* Based on TID as at 31 December 2012

Table 4: Level of DIFs as at 31 December 2012 and 2013

The determination of the Target Fund is based on the macro-economic conditions in the market that may, directly or indirectly, affect the potential default rates of member banks. The Target Fund, which is set as a range and expressed as a percentage of TID, is dependent on, among other things, the risk profile of each member bank, the expected financial exposure to PIDM in providing deposit insurance protection as well as the expected recoveries from potential IFR activities. The Target Fund is not static and is reviewed and validated annually to ensure relevance and to reflect any changes in the assumptions or inputs.

In developing the Target Fund, we adopted both a scientific approach through the use of statistical modelling as well as a discretionary approach in determining the range of our Target Fund.

**Modelling approach** – We use a statistical modelling to assess the estimated net financial exposure to PIDM in providing deposit insurance protection. The model assumes two broad approaches that may be adopted in resolving a troubled member bank: (a) liquidation and (b) going-concern resolution. The statistical model determines our expected loss using the following key input variables:

- (i) **Probability of Default (PD)** – PD measures the likelihood of a member bank going into default within a specific time horizon. In determining PDs, data from international External Credit Assessment Institutions – such as Standard & Poors, Moody's as well as Fitch were obtained. In cases of multiple ratings, an average rating was used.
- (ii) **Exposure At Default (EAD)** – EAD represents the financial exposure to PIDM in the event of default. We adopted different EADs for liquidation and going-concern resolution approaches. We had used TID (at the limit of RM250,000 per depositor per member bank) as the EAD for the liquidation approach and re-capitalisation as proxy for the going-concern approach.
- (iii) **Loss Given Default (LGD)** – LGD is defined as the net loss to PIDM after taking into account recoveries in any given IFR action related to a non-viable member bank. The LGD adopted also takes into consideration the liquidation and going-concern resolution approaches.

In estimating the Target Fund using the statistical model, we had used the Monte Carlo simulation approach, which involves running 10 million random loss scenarios to build up a statistical loss distribution. For each trial scenario, the insurance loss is determined by the input variables described above. It is from this loss distribution that we then determine the level of funds that would be sufficient to cover losses given a specified confidence level. In identifying the appropriate levels of funds required, we used a confidence level of 98.75%.

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

Risks and Sensitivity of the Target Fund Modelling

The process of estimating the Target Fund levels is subject to uncertainty as the inputs to the model are based on sets of assumptions. Hence, the model is predicated upon and is sensitive to several key factors as follows:

- (i) **Operating environment** - The model is based on the assumption that the environment in which member banks operate does not deviate significantly in the foreseeable future. This includes economic conditions and the risk profile of individual member banks, the banking industry's landscape as well as the regulatory and supervisory regime. Significant or drastic changes to these characteristics or other similar characteristics may result in different Target Fund levels than previously required. We are of the view that the current economic condition and the risks affecting member banks are not expected to change significantly in the foreseeable future. Nevertheless, the operating environment will be reviewed and validated against the model annually.
- (ii) **Total Insured Deposits** - TID are indicative of the EAD used in the modelling of Target Fund levels. Accordingly, significant changes in TID will have a direct impact on the EAD, and thus the Target Fund levels.
- (iii) **Mandate and powers** - The mandate and powers are set out in the PIDM Act, which among others enable PIDM to intervene and resolve a troubled member institution promptly to minimise losses to the financial system. The Target Fund modelling and estimation were made based on the current mandate and powers set out in the PIDM Act. Any significant changes to our mandate and powers may affect the modelling assumptions and thus the estimation of the Target Fund levels. However, we do not expect significant changes to our mandate and powers to occur in the near future.

As noted earlier, we review our Target Fund model annually to ensure relevance and to reflect any changes in the assumptions or inputs used. Our annual review of the Target Fund for 2013 indicates that the existing Target Fund range remains current and relevant.



# MANAGEMENT’S DISCUSSION AND ANALYSIS

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### Time-to-Fund

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

After taking into consideration the operating environment and impact to the banking industry, we had determined the reasonable Time-to-Fund to achieve the lower range of the Target Fund level of 0.6% of TID to be between 10 and 12 years (beginning from 2012).

In 2012, we had obtained the approval from the Minister of Finance to gradually increase the premium rates assessed on member banks beginning assessment year 2013. The revised premium rates will enable PIDM to meet the Target Fund levels within the specific Time-to-Fund.

The Time-to-Fund is predicated upon and is sensitive to the following factors:

- (i) **TID growth** – When the rate of growth in TID is higher than expected, the estimated Time-to-Fund would correspondingly lengthen. The reverse would also be true should TID growth rate be lower than expected;
- (ii) **Investment income** – Premiums received from member banks are invested in stable, low risk fixed income investments. Accordingly, returns on investments that are different from that expected will have an inverse effect on the Time-to-Fund i.e. higher interest rates than expected would result in a shorter Time-to-Fund; and
- (iii) **Operating expenditures** – Moving forward, our operating expenditures are expected to increase marginally and will begin to stabilise after all the required resources have been obtained or acquired and all key infrastructure, systems and processes have been developed and implemented.

The following tables show how the Time-to-Fund would have been impacted by possible movements in key model input variables against the base assumptions:

SCENARIOS	VARIATION TO INPUT ASSUMPTIONS AGAINST BASE CASE
Most favourable scenario	- 2% decrease in TID; - 0.5% increase in yield on investments; and - 10% decrease in operating expenditures.
Least favourable scenario	- 2% increase in TID; - 0.5% decrease in yield on investments; and - 10% increase in operating expenditures.

Table 5: Possible Movements in Key Model Input Variables against the Base Assumptions

SCENARIOS	TIME-TO-FUND
Base case	9 – 11 years
Favourable scenario	8 – 9 years
Less favourable scenario	12 – 13 years

Table 6: Sensitivity Analysis of Time-to-Fund

We will continue to monitor and report on the progress of achieving our Target Fund levels annually. Based on the current level of accumulated surpluses and approved premium rates, we expect the lower range of the Target Fund to be achieved within the next 9 to 11 years.

### Takaful and Insurance Benefits Protection Funds

TIPFs began to accumulate with insurer members paying levies from assessment year 2011. TIPFs are accumulated from annual net surpluses, which is the premium revenue and investment income net of operating expenditures for a particular year. Similar to DIFs, we maintain separate TIPFs for all the Protection Funds within TIPS. The balances of TIPFs as at 31 December 2013 are as follows:

	GENERAL INSURANCE RM MILLION	LIFE INSURANCE RM MILLION	GENERAL TAKAFUL RM MILLION	FAMILY SOLIDARITY TAKAFUL RM MILLION
Takaful and Insurance Benefits Protection Funds	1,024.5	104.1	6.5	13.1

Table 7: Balances of TIPFs as at 31 December 2013

We will be developing a Target Fund framework for the general insurance industry in 2014 and thereafter, for the remaining Funds within TIPFs, similar to that of DIFs, over the next several years.

### External Funding

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

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



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### SUMMARY OF OUR CORPORATE PLAN 2014 - 2016

PIDM's continued success is attributed to the strong teamwork and dedication of its workforce. From planning the roadmap to execution of the chosen strategy, it has always been the combined efforts of a highly diversified team, all working towards one goal – the achievement of our Corporate Plan. The Plan sets out our strategic direction, focus and priorities that drive the activities for the upcoming three-year period and advances us towards our vision and mission. We believe that our team will be able to successfully complete our planned key initiatives and the challenging targets set for the next three years.

In developing this Corporate Plan, we continued to adopt an integrated approach, incorporating risk management processes, which identifies and assesses the challenges and significant risks facing PIDM. Additionally, we have also conducted scenario planning, so that we can respond effectively in the unlikely event of an intervention or resolution of a troubled MI. The following is a summary of our Plan. This should be read in conjunction with our Corporate Plan 2014 - 2016, which is available on our website at [www.pidm.gov.my](http://www.pidm.gov.my).

#### OUR STRATEGY

For the planning period of 2014 - 2016, the following strategic direction will guide PIDM's activities:

“In working towards meeting the Corporation's statutory mandate, we shall continue to promote and contribute to public confidence in the stability of the financial system. Specifically, the Corporation's operational effectiveness and readiness will be strengthened by increasing and sustaining its employee competencies and talent management; enhancing relationships with key stakeholders; as well as improving the level of public awareness and education of financial consumers.”

#### OUR AREAS OF FOCUS

The key areas of focus for the 2014 - 2016 planning period will be as follows.

**Strengthening Operational Effectiveness and Readiness:** Over the planning period, PIDM will continue to strengthen its operational readiness, with a focus on assessing and monitoring the risks affecting the MIs as well as expanding our IFR expertise and capacity. Effective and efficient processes are essential to PIDM's ability to fulfil its mandate and PIDM continuously looks for opportunities to increase its operational effectiveness and efficiency. The necessary infrastructure and processes will need to be enhanced to support PIDM's capabilities and capacity to promptly deal with the intervention and failure resolution of MIs.

It is also important to maintain and enhance partnerships with other financial safety-net players as well as working relationships with key stakeholders. In our efforts to actively engage with these stakeholders, awareness and engagement programmes such as dialogues, consultations and meetings will be implemented or enhanced.

**Risk Assessment and Monitoring:** Our ongoing risk assessment and monitoring of MIs are critical to the achievement of our mandate. We will continue to enhance the risk assessment infrastructure and capabilities while continuing to review and keep ahead of developments and changes to regulations and policies affecting MIs, to ensure that our existing framework and systems remain effective.

As such, we will be embarking on the following:

- completion of the Takaful and Insurance Risk Assessment System, which is similar to RAS that currently supports the risk assessment work of member banks;
- development of the DLS framework for takaful operators, the Validation Programme for DLS and the Target Fund framework;
- enhancement of the existing DPS framework and the current RAS for DIS;
- completion of the EWS for DIS; and
- development of guidance notes, research papers and core principles for Islamic deposit insurance operations.

**Intervention and Failure Resolution:** PIDM continues to undertake initiatives to ensure operational readiness to intervene early and resolve troubled MIs promptly.

Phase 1 of the IFR operational readiness roadmap has been completed where PIDM is now guided by a set of IFR policies and procedures. Phase 2 of the roadmap focuses on enhancing the state of readiness to execute an IFR action with greater effectiveness, which will involve the following:

- the conduct of due diligence exercises by leveraging on the information provided by MIs on an ongoing basis, supported by service providers' expertise to update valuations and review detailed operations of MIs;
- the performance of an integrated least-cost assessment using a comprehensive evaluation system;
- executing going concern IFR options more effectively through better planning, infrastructure and management of service providers; and
- executing payout in a seamless manner with minimum disruption to the depositors and policy owners.

PIDM will also continue to collaborate with BNM to develop intervention and resolution plans for complex financial institutions, as well as to have in place well-defined recovery and resolution plans for systemically important financial institutions.

**Infrastructure and Operations:** The IT Strategic Plan sets out the direction and objectives for technology implementation and management within PIDM to enhance operational efficiency and organisational flexibility. In order to support operational readiness, IT infrastructure-related initiatives planned for the next three years include information collaboration enabling facilities for the purpose of communication, document management as well as information and knowledge sharing and management. PIDM will also enhance its information security practices, apply and enforce additional industry accepted standards and implement additional tools to mitigate cyber threats and potential information leakage.

PIDM's BCP and IT Disaster Recovery Plan (DRP) are tested annually at the interim DRS through a simulation exercise to ensure that the business continuity management programme continues to be effective and remains current and relevant. With regard to the permanent DRC, construction work is targeted to commence in 2014, subject to obtaining the necessary approvals.

**Increasing and Sustaining Employee Competencies and Talent Management:** PIDM is moving towards a mature phase of operations and as such, the focus is on the continuous development and retention of skills and expertise for the purpose of succession planning and to support PIDM's strategic and operational capacity. This will be achieved by:

- expanding employee competencies through the provision of relevant learning and development initiatives, and knowledge transfer through collaboration with local and international subject matter experts; and
- identification of potential successors to assume critical roles when the need arises and initiation of job rotational opportunities for employees in specific roles, as well as those who possess the appropriate skills and potential.

We are also committed to providing a conducive work environment and promoting a positive corporate culture that will ultimately enhance employee engagement and drive performance. We have in place the biennial Employee Voice Survey to assess employees' perception on various organisational aspects, an effective Total Performance Management process in rewarding employee performance and a competitive remuneration package.

**Improving the Level of Public Awareness and Education of Financial Consumers:** As part of our mandate to contribute to the stability of, and confidence in, the Malaysian financial system, PIDM continues with the delivery of various initiatives to communicate our role as an integral part of Malaysia's financial safety net. We aim to broaden awareness and build better understanding of the benefits and limits provided by DIS and TIPS amongst the expanded target audience through the most appropriate and effective communications tools and channels.

The expanded target audience comprises the general public and specific target groups including bankers, insurance agents, Government employees, industry players as well as a target group of financial consumers. We educate them on DIS, TIPS and the role of PIDM through various activities such as briefings, trainings and seminars. The PIDM Project MoneySmart education programme is being enhanced with new and creative activities, including expanding the use of social media, to engage with students at the secondary and tertiary levels. We will also extend the “Train-the-Trainer” programme to more organisations, in particular those from the banking and insurance sectors. The communications strategies will be reviewed annually, and the necessary adjustments or enhancements will be made based on the year-end nationwide consumer awareness survey results.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### SUMMARY OF OUR CORPORATE PLAN 2014 - 2016

Details of the key initiatives in support of our corporate objectives are described in our Corporate Scorecard 2014 - 2016 as depicted in the Appendix.

#### SUPPORTING FINANCIAL PLAN

The Financial Plan 2014 has been developed to support the achievement of the 2014 initiatives as well as the management of our day-to-day operations.

Premium revenues are budgeted at RM301 million, of which RM239.5 million (79.6%) is expected from member banks and RM61.5 million (20.4%) from insurer members. The premiums from member banks will be based on the DPS rate structure whilst the premiums from the conventional insurer members will be based on the DLS rates. The premiums for takaful operators will continue to be based on the flat rate structure. Combined with a budgeted investment income of RM61 million, PIDM's total revenues are expected to stand at RM362 million for 2014.

Total operating expenditures are budgeted at RM101 million, whilst capital expenditures are budgeted at RM26.8 million. At the end of 2014, we expect a net surplus from operations of RM261 million, which will increase the total Protection Funds administered by PIDM to RM2.2 billion, comprising RM1 billion for DIFs and RM1.2 billion for TIPFs.

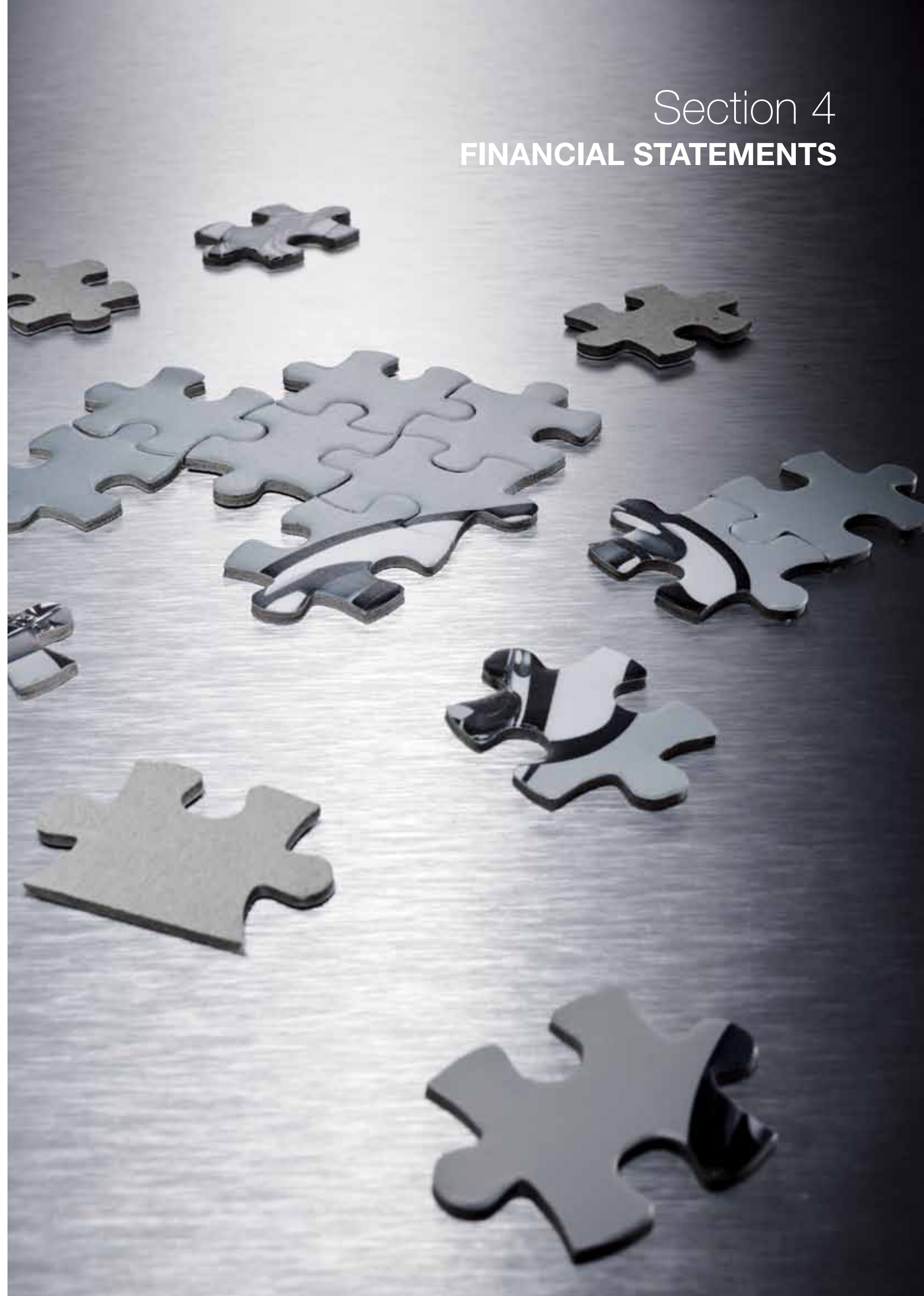
#### GOING FORWARD

The successful completion of our Plan is another milestone towards crystallising our vision to be a best practice financial consumer protection authority. As we continue our challenging journey ahead, we will strive to achieve the strategies and targets set over the planning period to strengthen our state of operational readiness and effectiveness.



## Section 4

### FINANCIAL STATEMENTS





# FINANCIAL STATEMENTS

## DIRECTORS' REPORT

The Directors hereby submit their report and the audited financial statements of Perbadanan Insurans Deposit Malaysia (PIDM) for the financial year ended 31 December 2013.

### PRINCIPAL ACTIVITIES

PIDM is a statutory body established to administer a Deposit Insurance System (DIS) and a Takaful and Insurance Benefits Protection System (TIPS). PIDM is governed by the provisions of the Malaysia Deposit Insurance Corporation Act 2011 (PIDM Act).

The DIS provides protection against the loss of part or all deposits for which a member bank is liable whereas the TIPS provides protection against the loss of part or all takaful or insurance benefits for which an insurer member is liable. In addition, PIDM provides incentives for sound risk management in the financial system as well as promotes and contributes to the stability of the financial system. PIDM is the resolution authority for all member institutions and thus has wide intervention and failure resolution powers. PIDM also undertakes risk assessment and monitoring of all member institutions and works closely with the supervisory authority to ensure that concerns about the business and affairs of member institutions are addressed promptly.

The PIDM Act provides for separate coverage for Islamic and conventional deposits as well as for protected benefits in relation to general insurance, life insurance, general takaful and family solidarity takaful. To ensure proper governance and compliance with Shariah requirements, PIDM maintains and administers two separate Funds for Islamic and conventional deposits known as Deposit Insurance Funds (DIFs) as well as four separate Funds for each business segment within TIPS known as Takaful and Insurance Benefits Protection Funds (TIPFs). There is no commingling of funds between the separate Funds.

### FINANCIAL RESULTS

	2013 RM'000	2012 RM'000
<b>Net surplus for the financial year:</b>		
Deposit Insurance Funds	151,278	98,570
Takaful and Insurance Benefits Protection Funds (excluding Other Comprehensive Income)	67,257	89,121
<b>Total net surplus</b>	<b>218,535</b>	187,691

There were no material transfers to or from reserves or provisions during the financial year other than as disclosed in the Statement of Changes in Funds and Reserves.

In the opinion of the Directors, the results of the operations of PIDM during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature.

The balances of the Protection Funds as at the end of the financial year were:

	2013 RM'000	2012 RM'000
<b>Deposit Insurance Funds:</b>		
Conventional Deposit Insurance Fund	660,948	533,822
Islamic Deposit Insurance Fund	107,407	83,255
<b>Total Deposit Insurance Funds</b>	<b>768,355</b>	617,077

### Takaful and Insurance Benefits Protection Funds:

General Insurance Protection Fund	1,024,436	993,985
Life Insurance Protection Fund	104,112	74,218
General Takaful Protection Fund	6,482	4,091
Family Solidarity Takaful Protection Fund	13,127	8,424
<b>Total Takaful and Insurance Benefits Protection Funds</b>	<b>1,148,157</b>	1,080,718

### DIRECTORS

The names of the Directors of PIDM in office during the financial year ended 31 December 2013 were:

- Tan Sri Datuk Dr. Abdul Samad Haji Alias (Chairman)
- Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz
- Tan Sri Dato' Sri Dr. Mohd Irwan Serigar Abdullah
- Dato' Halipah Esa
- Datuk Dr. Rahamat Bivi Yusoff
- Encik Mohamad Abdul Halim Ahmad
- Mr. George Anthony David Dass
- Mr. Lim Tian Huat
- Mr. Alex Foong Soo Hah

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

### DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during the year, was there any arrangement to which PIDM was a party, whereby the Directors might acquire benefits by means of the acquisition of shares in or debentures of any other body corporate.

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the Directors as shown in Note 15 to the financial statements) by reason of a contract made by PIDM or a related corporation with any Director or with a firm of which a Director is a member, or with a company in which a Director has a substantial financial interest.

### BAD AND DOUBTFUL DEBTS AND VALUATION METHODS

Before the Statements of Profit or Loss and Other Comprehensive Income as well as the Statements of Financial Position of PIDM were completed, the Directors have satisfied themselves that Management had taken proper action to ensure that there are no known bad debts to be written off or doubtful debts to be provided for nor were they aware of any circumstances that would require such action. At the date of this report, the Directors are not aware of any circumstances which would render the need to write-off bad debts or to provide for doubtful debts in the financial statements of PIDM.

The Directors have also satisfied themselves that Management had taken reasonable steps to ascertain the values attributed to the assets and liabilities in the financial statements of PIDM. As at the date of this report, the Directors are not aware of any circumstances that have arisen that would render adherence to the existing methods of valuation of assets or liabilities in PIDM's accounts misleading or inappropriate.

### CHANGE OF CIRCUMSTANCES

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

### ITEMS OF AN UNUSUAL NATURE

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

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

### CONTINGENT LIABILITIES

#### Exposure to losses

Under the PIDM Act, PIDM has an inherent exposure to losses resulting from insuring deposits under DIS as well as protecting insurance policies and takaful certificates under TIPS held by policyholders. However, this inherent exposure cannot be accurately ascertained or estimated with any acceptable degree of reliability. During the year, there have been no events that would require PIDM to record a specific provision in its financial statements in accordance with MFRS 137 *Provisions, Contingent Liabilities and Contingent Assets*.

As part of its mandate, PIDM undertakes risk assessment and monitoring of all member institutions and works closely with the supervisory authority to ensure that concerns about the business and affairs of member institutions are addressed promptly. However, PIDM necessarily relies on the supervisory authority to take prompt corrective action to mitigate the possibility of a member institution failure. For member banks, PIDM reinforces financial discipline through its Differential Premium Systems (DPS) which provides strong incentives for member banks to adopt sound and robust risk management practices including the maintenance of strong capital positions. During the year, PIDM implemented a similar Differential Levy System

## FINANCIAL STATEMENTS

### DIRECTORS' REPORT

(DLS) for conventional insurer members. PIDM plans to implement a DLS for takaful operators in 2014.

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

Accumulated surpluses are held in each Fund to cover losses when respective obligations arise. Accumulated surpluses in one Fund cannot be used to cover obligations of another Fund. As discussed in Note 10 to the financial statements, PIDM has established the Target Fund framework for DIFs. PIDM will also be developing a Target Fund framework for the general insurance industry in 2014 and thereafter, for the remaining Funds within the TIPFs, similar to that of DIFs, over the next several years.

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

#### Other contingent liabilities

Based on the representation made by Management, the Directors are of the opinion that other than the exposure to losses discussed above, there does not exist:

- (i) any contingent liability which has arisen since the end of the financial year; and
- (ii) any contingent or other liability that has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of PIDM to meet its obligations when they fall due.

#### INVESTMENTS IN SUBSIDIARIES

PIDM has incorporated five subsidiaries as part of its efforts to ensure operational readiness to carry out any intervention or failure resolution (IFR) activities. In accordance with section 10 of the PIDM Act 2011, PIDM may establish subsidiaries as it considers necessary for the purposes of carrying out its functions, powers and duties. The subsidiaries are incorporated in advance as part of PIDM's operational readiness in case of a failure of a member institution, and thus will remain dormant until

activated to carry out any necessary IFR activities. The basis of accounting as well as details of the subsidiaries are further described in Note 2.2(b), Note 3.1(a) and Note 7 to the financial statements.

#### RESPONSIBILITY FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

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

- (i) the financial statements of PIDM have been prepared in accordance with the PIDM Act and applicable Malaysian Financial Reporting Standards (MFRS), so as to give a true and fair view of the financial position of PIDM as at 31 December 2013, the results of its operations and its cash flows for the year ended on that date; and
- (ii) the Islamic Deposit Insurance Fund as well as the Takaful Protection Funds are maintained and administered in accordance with Shariah requirements and is in compliance with the PIDM Act.

#### AUDITORS

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

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

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

Kuala Lumpur  
24 February 2014

**Mr. Lim Tian Huat**  
Chairman of the Audit Committee

## FINANCIAL STATEMENTS

### STATEMENT BY DIRECTORS

We, Tan Sri Datuk Dr. Abdul Samad bin Haji Alias and Mr. Lim Tian Huat, being two of the Directors of Perbadanan Insurans Deposit Malaysia (PIDM), do hereby state that, in the opinion of the Directors, the financial statements have been prepared and presented in accordance with the Malaysia Deposit Insurance Corporation Act 2011 (PIDM Act) and applicable Malaysian Financial Reporting Standards, so as to give a true and fair view of the state of affairs of PIDM as at 31 December 2013, the results of its operations and its cash flows for the year ended on that date. The Directors are also of the opinion that the Islamic Deposit Insurance Fund as well as the Takaful Protection Funds are maintained and administered in accordance with Shariah requirements, as set out in the PIDM Act.

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

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

Kuala Lumpur  
24 February 2014

**Mr. Lim Tian Huat**  
Chairman of the Audit Committee



## FINANCIAL STATEMENTS

### STATUTORY DECLARATION BY MANAGEMENT IN RELATION TO THEIR RESPONSIBILITY FOR FINANCIAL REPORTING

The preparation of the financial statements of Perbadanan Insurans Deposit Malaysia (PIDM) and the information relating to the financial statements are the responsibility of Management. The financial statements have been prepared in accordance with the Malaysia Deposit Insurance Corporation Act 2011 (PIDM Act) and applicable Malaysian Financial Reporting Standards, so as to give a true and fair view of the financial position of PIDM as at 31 December 2013, the results of its operations and its cash flows for the year ended on that date. The Islamic Deposit Insurance Fund as well as the Takaful Protection Funds are maintained and administered in accordance with Shariah requirements, and is in compliance with the PIDM Act.

In discharging its responsibility for the integrity and fairness of the financial statements, Management maintains financial and management control systems and practices. Compliance with control systems and practices are validated by an independent 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 PIDM Act as well as the Statutory Bodies (Accounts and Annual Reports) Act 1980.

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

The financial statements have been considered and approved by the Board of Directors and a resolution was approved on 24 February 2014.

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

Subscribed and solemnly declared by the abovenamed at Kuala Lumpur on 24 February 2014



**Jean Pierre Sabourin**  
Chief Executive Officer



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

Before me,

Commissioner of Oaths



#### REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF MALAYSIA DEPOSIT INSURANCE CORPORATION FOR THE YEAR ENDED 31 DECEMBER 2013

##### Report on the Financial Statements

I have audited the accompanying financial statements of the Malaysia Deposit Insurance Corporation, which comprise the Statement of Financial Position as at 31 December 2013 and Statement Of Profit Or Loss And Other Comprehensive Income, Statement Of Changes In Funds And Reserves and Statement Of Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

##### Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with the approved financial reporting standards in Malaysia and the Malaysia Deposit Insurance Corporation Act 2011 (Act 720). The Directors are also responsible for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

##### Auditor's Responsibility

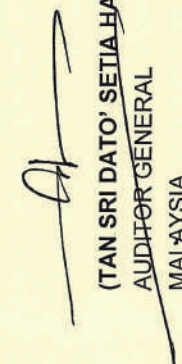
My responsibility is to express an opinion on these financial statements based on the audit. The audit has been carried out in accordance with the Audit Act 1957 and in conformity with approved standards on auditing in Malaysia. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence that I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

##### Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Malaysia Deposit Insurance Corporation as at 31 December 2013 and of their financial performance and cash flows for the year then ended in accordance with approved financial reporting standards in Malaysia



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

PUTRAJAYA  
19 MARCH 2014





## FINANCIAL STATEMENTS

### STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER

	Note	2013 RM'000	2012 RM'000
<b>ASSETS</b>			
Cash and cash equivalents	4a	874,242	745,211
Investments			
<i>Available-for-sale investments</i>	5a	-	4,859
<i>Held-to-maturity investments</i>	5b	1,023,280	923,396
Other assets	6	8,863	9,194
Investments in subsidiaries	7	-*	-*
Property and equipment	8	17,156	24,123
<b>Total Assets</b>		<b>1,923,541</b>	1,706,783
<b>LIABILITIES</b>			
Payables	9	7,029	8,988
<b>Total Liabilities</b>		<b>7,029</b>	8,988
<b>FUNDS AND RESERVES</b>			
Deposit Insurance Funds			
<i>Accumulated surpluses</i>	10a	768,355	617,077
<i>Other reserves</i>		-	-
		<b>768,355</b>	617,077
Takaful and Insurance Benefits Protection Funds			
<i>Accumulated surpluses</i>	10b	1,148,157	1,080,900
<i>Other reserves</i>	10b	-	(182)
		<b>1,148,157</b>	1,080,718
<b>Total Funds and Reserves</b>		<b>1,916,512</b>	1,697,795
<b>Total Liabilities, Funds and Reserves</b>		<b>1,923,541</b>	1,706,783

\* The amount is significantly below the rounding threshold. Refer to Note 7 for the details.

The accompanying notes form an integral part of the financial statements

## FINANCIAL STATEMENTS

### STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER

	Note	2013 RM'000	2012 RM'000
Premium revenues	11	245,100	214,262
Investment income from cash and investment securities	12	56,142	48,782
Realised gains / (losses) from divestment of investment securities	13	(650)	(37)
<b>Total revenues</b>		<b>300,592</b>	263,007
Employee benefits	14	44,185	39,390
Public relations and advertising		10,406	9,937
Depreciation	8	7,590	5,236
Operating leases		5,535	5,114
Other expenses	15	14,341	15,639
<b>Total expenses</b>		<b>82,057</b>	75,316
<b>Net surplus for the year</b>		<b>218,535</b>	187,691
<b>Other comprehensive income</b>			
<b>Items that can be subsequently reclassified to profit or loss:</b>			
Net gains / (losses) on available-for-sale investments	10b	182	391
<b>Total comprehensive income for the year</b>		<b>218,717</b>	188,082

The accompanying notes form an integral part of the financial statements

# FINANCIAL STATEMENTS

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

### Deposit Insurance Funds

		Conventional		Islamic		
		Deposit Insurance Fund	Other	Deposit Insurance Fund	Other	Total Funds
	Note	Accumulated	reserves	Accumulated	reserves	and
		surpluses	RM'000	surpluses	RM'000	Reserves
		RM'000		RM'000		RM'000
As at 1 January 2012	10a	450,003	-	68,504	-	518,507
Total comprehensive income for the year		83,819	-	14,751	-	98,570
As at 31 December 2012	10a	533,822	-	83,255	-	617,077
<b>As at 1 January 2013</b>	10a	<b>533,822</b>	<b>-</b>	<b>83,255</b>	<b>-</b>	<b>617,077</b>
<b>Total comprehensive income for the year</b>		<b>127,126</b>	<b>-</b>	<b>24,152</b>	<b>-</b>	<b>151,278</b>
<b>As at 31 December 2013</b>	10a	<b>660,948</b>	<b>-</b>	<b>107,407</b>	<b>-</b>	<b>768,355</b>

The accompanying notes form an integral part of the financial statements

# FINANCIAL STATEMENTS

## STATEMENT OF CHANGES IN FUNDS AND RESERVES (continued)

### FOR THE YEAR ENDED 31 DECEMBER

#### Takaful and Insurance Benefits Protection Funds

		General Insurance		Life Insurance		General Takaful		Family Solidarity Takaful		
		Protection Fund	Other	Protection Fund	Other	Protection Fund	Other	Protection Fund	Other	Total Funds
		Accumulated	reserves	Accumulated	reserves	Accumulated	reserves	Accumulated	reserves	and Reserves
	Note	surpluses	RM'000	surpluses	RM'000	surpluses	RM'000	surpluses	RM'000	RM'000
As at 1 January 2012	10b	948,607	(573)	36,670	-	2,091	-	4,411	-	991,206
Total comprehensive income for the year		45,560	391	37,548	-	2,000	-	4,013	-	89,512
As at 31 December 2012	10b	994,167	(182)	74,218	-	4,091	-	8,424	-	1,080,718
<b>As at 1 January 2013</b>	10b	<b>994,167</b>	<b>(182)</b>	<b>74,218</b>	<b>-</b>	<b>4,091</b>	<b>-</b>	<b>8,424</b>	<b>-</b>	<b>1,080,718</b>
<b>Total comprehensive income for the year</b>		<b>30,269</b>	<b>182</b>	<b>29,894</b>	<b>-</b>	<b>2,391</b>	<b>-</b>	<b>4,703</b>	<b>-</b>	<b>67,439</b>
<b>As at 31 December 2013</b>	10b	<b>1,024,436</b>	<b>-</b>	<b>104,112</b>	<b>-</b>	<b>6,482</b>	<b>-</b>	<b>13,127</b>	<b>-</b>	<b>1,148,157</b>

The accompanying notes form an integral part of the financial statements

# FINANCIAL STATEMENTS

## STATEMENT OF CASH FLOWS

### FOR THE YEAR ENDED 31 DECEMBER

	Note	2013 RM'000	2012 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Premiums received from member institutions		245,100	214,262
Payments in the course of operations to suppliers and employees		(76,414)	(74,083)
Receipts of investment income		58,111	49,359
<b>Net cash flows from operating activities</b>		<b>226,797</b>	189,538
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of investment securities		2,836,027	1,779,133
Purchase of investment securities		(2,932,446)	(1,561,669)
Purchase of property and equipment		(1,347)	(1,154)
<b>Net cash flows (used in) / generated from investing activities</b>		<b>(97,766)</b>	216,310
<b>Net increase in cash and cash equivalents</b>		<b>129,031</b>	405,848
Cash and cash equivalents at beginning of year		745,211	339,363
<b>Cash and cash equivalents at end of year</b>	4a	<b>874,242</b>	745,211

A Statement of Cash Flows prepared using the indirect method is presented in Note 4(b) to the financial statements.

The accompanying notes form an integral part of the financial statements

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013

### 1. PRINCIPAL ACTIVITIES

Perbadanan Insurans Deposit Malaysia (PIDM) is a statutory body established to administer a Deposit Insurance System (DIS) and a Takaful and Insurance Benefits Protection System (TIPS). PIDM is governed by the provisions of the Malaysia Deposit Insurance Corporation Act 2011 (PIDM Act).

The DIS provides protection against the loss of part or all of deposits for which a member bank is liable whereas the TIPS provides protection against the loss of part or all takaful or insurance benefits for which an insurer member is liable. In addition, PIDM provides incentives for sound risk management as well as promotes and contributes to the stability of the financial system. PIDM is the resolution authority for all member institutions and thus has wide intervention and failure resolution powers. PIDM also undertakes risk assessment and monitoring of all member institutions and works closely with the supervisory authority to ensure that concerns about the business and affairs of member institutions are addressed promptly.

The PIDM Act provides separate coverage for Islamic and conventional deposits as well as for protected benefits in relation to general insurance, life insurance, general takaful and family solidarity takaful. To ensure proper governance and compliance with Shariah requirements, PIDM maintains and administers 2 separate Funds for Islamic and conventional deposits known as the Deposit Insurance Funds (DIFs) as well as 4 separate Funds for each business segment within TIPS known as the Takaful and Insurance Benefits Protection Funds (TIPFs). There is no commingling of funds between the separate Funds.

There have been no significant changes in the nature of the principal activities of PIDM during the financial year.

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

The financial statements have been approved by the Board of Directors through a resolution made on 24 February 2014.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### 2.1 Basis of accounting

The financial statements of PIDM have been prepared in accordance with the PIDM Act and applicable Malaysian Financial Reporting Standards (MFRS).

The financial statements comply with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

The financial statements have been prepared on the historical cost basis except for available-for-sale investments, which have all been measured at fair value.

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

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

#### 2.2 Summary of significant accounting policies

##### (a) Financial instruments

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

When financial instruments are recognised initially, they are measured at fair value, plus, in the case of available-for-sale and held-to-maturity investments, directly attributable transaction costs.

PIDM determines the classification of its financial assets at initial recognition, and the categories include held-to-maturity investments and available-for-sale investments as well as other assets and receivables.



# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.2 Summary of significant accounting policies (continued)

##### (a) Financial instruments (continued)

A financial instrument is derecognised when the contractual right to receive cash flows from the instrument has expired. On derecognition of a financial instrument in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in Other Comprehensive Income is recognised in the Statement of Profit or Loss.

Regular purchases or sales, are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or market convention. All regular purchases and sales of financial instruments are recognised or derecognised on the trade date i.e. the date that PIDM commits to purchase or sell the instrument.

##### (i) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held on demand with banks and short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to insignificant risk of changes in value. This includes short-term investments with maturities of less than 90 days. The Statement of Cash Flows is prepared using the direct method. A Statement of Cash Flows prepared using the indirect method is also presented in Note 4(b) to the financial statements.

##### (ii) Available-for-sale investments

Available-for-sale investments consist of Private Debt Securities (PDS) that are intended to be sold or divested in response to the requirement of internal policies. These securities are measured at fair value after initial measurement.

Any unrealised gains and losses after applying the amortised cost method are recognised directly in Other Reserves except for impairment losses. When the securities are sold, any cumulative unrealised gains or losses previously recognised in Other Reserves are recognised as gains or losses from sales of investments in the Statement of Profit or Loss. Interest or returns earned whilst holding these investments, including any amortisation of premiums and accretion of discounts, which are calculated using the effective interest or yield method are recognised as investment income in the Statement of Profit or Loss. Any losses as result of impairment of these investments are recognised in the Statement of Profit or Loss and removed from the Other Reserves.

##### (iii) Held-to-maturity investments

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

##### (iv) Receivables and other assets

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

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.2 Summary of significant accounting policies (continued)

##### (a) Financial instruments (continued)

##### (v) Payables

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

##### (vi) Fair value of financial instruments

PIDM measures available-for-sale investments at fair value at each Statement of Financial Position date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by PIDM.

The fair value of an asset or a liability is measured using the assumption that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

PIDM uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, PIDM determines whether transfers have occurred between the Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, PIDM has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the Levels of the fair value hierarchy as explained above.

##### (b) Investments in subsidiaries

Investments in subsidiaries are measured in PIDM's Statement of Financial Position at cost less any impairment losses, unless the investment is held for sale.

In line with section 35 of the PIDM Act, the financial results of PIDM's subsidiaries are not consolidated with the financial statements of PIDM. Consolidating the financial statements of PIDM together with those of its subsidiaries will not provide meaningful information and a true and fair view of the financial position and performance of PIDM, as the financial exposure and impact of any intervention or failure resolution of a member institution only affects the specific Protection Fund(s) to which that member institution relates.

Furthermore, in accordance with the requirements of MFRS 10 *Consolidated Financial Statements*, PIDM does not prepare consolidated financial statements as PIDM does not meet all the criteria required for having 'control' over its subsidiaries, as defined in MFRS 10. This is because PIDM, as an entity, has limited financial exposure or rights to variable returns from its investments in the subsidiaries, as the financial exposure

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.2 Summary of significant accounting policies (continued)

##### (b) Investments in subsidiaries (continued)

and rights to any variable returns are attributed directly to the relevant Protection Funds. This is discussed in further detail in Note 3.1(a).

##### (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 the future economic benefits associated with the item will flow to PIDM and the cost of the item can be measured reliably. The carrying amount of parts or components of an asset that are replaced is derecognised. All other repairs and maintenance are charged to the Statement of Profit or Loss during the financial period in which they are incurred.

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

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

Furniture and fittings	20%
Motor vehicles	20%
Office refurbishments	20%
Office equipment and computer systems	33.3%

The residual values, useful life and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property and equipment. An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal.

The difference between the net disposal proceeds, if any, and the net carrying amount is recognised in the Statement of Profit or Loss. The unutilised portion of the revaluation surplus on that item is recognised directly to the Funds and Reserves.

##### (d) Impairment of financial assets

PIDM assesses, at each reporting date, whether there is any objective evidence that a financial asset is impaired.

##### (i) Held-to-maturity investments as well as other receivables and other financial assets carried at amortised cost

To determine whether there is objective evidence that an impairment loss on a financial asset has been incurred, PIDM considers factors such as the probability of insolvency or significant financial difficulties of the debtor, issuer and obligor as well as any default or significant delay in payments.

If any such evidence exists, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The impairment loss is recognised in the Statement of Profit or Loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in the Statement of Profit or Loss.

##### (ii) Available-for-sale investments

Significant or prolonged decline in fair value below cost, significant financial difficulties of the issuer or obligor in

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.2 Summary of significant accounting policies (continued)

##### (d) Impairment of financial assets (continued)

##### (ii) Available-for-sale investments (continued)

fulfilling its financial obligations, and the disappearance of an active trading market are considerations to determine whether there is objective evidence that investment securities classified as available-for-sale financial assets are impaired.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised as profit or loss, is transferred from equity to the Statement of Profit or Loss.

For available-for-sale debt investments, impairment losses are subsequently reversed as profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss in the Statement of Profit or Loss.

##### (e) Impairment of non-financial assets

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

An impairment loss is recognised in the Statement of Profit or Loss 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. This is as the revaluation decreases to the extent that the impairment loss does not exceed the amount held in the asset revaluation reserve for the same asset.

An impairment loss for assets is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of an asset other than goodwill is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset other than goodwill is recognised in the Statement of Profit or Loss unless the asset is carried at revalued amount, in which case such reversal is treated as a revaluation increase.

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.2 Summary of significant accounting policies (continued)

##### (f) Recognition of income and expenditures

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

- (i) *Expenditures that can be attributed to either DIS or TIPS but are common or indirect expenditures for the respective protection systems.* The allocation of this category of expenditures are based on the proportion of premiums collected for the respective protection systems in the preceding year. For the 2013 financial year, the expenditures were allocated to the respective systems based on the proportion of premiums collected for the respective systems during the financial year ended 31 December 2012. The allocation rates used during the year are as follows:

YEAR	DIS		TIPS			
	CONVENTIONAL	ISLAMIC	GENERAL INSURANCE	LIFE INSURANCE	GENERAL TAKAFUL	FAMILY SOLIDARITY TAKAFUL
2013	84.9%	15.1%	27.3%	62.3%	3.4%	7.0%
	100%		100%			
2012	85.4%	14.6%	27.2%	61.5%	3.6%	7.7%
	100%		100%			

- (ii) *Expenditures which are common or indirect costs of administering both DIS and TIPS.* Expenditures that cannot be specifically attributed to either DIS or TIPS, are allocated based on the proportion of premiums collected for the respective Funds in DIS and TIPS in the preceding year. For the 2013 financial year, these expenditures were allocated to the respective Funds based on the proportion of premiums collected for each of the Funds during the financial year ended 31 December 2012. The apportionment basis used is as follows:

YEAR	TOTAL	DIS		TIPS			
		CONVENTIONAL	ISLAMIC	GENERAL INSURANCE	LIFE INSURANCE	GENERAL TAKAFUL	FAMILY SOLIDARITY TAKAFUL
2013	100%	50.1%	8.9%	11.2%	25.5%	1.4%	2.9%
2012	100%	51.1%	8.7%	10.9%	24.7%	1.5%	3.1%

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

Investment income including income from placements in Short-term Money Market Deposits is recognised on a time proportion basis that reflects the effective yield on the asset.

##### (g) Employee benefits

###### (i) Short-term benefits

Wages, salaries, bonuses, social security contributions and other costs 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.

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.2 Summary of significant accounting policies (continued)

##### (g) Employee benefits (continued)

###### (ii) Defined contribution plan

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

##### (h) Foreign currencies

###### (i) Functional and presentation currency

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

###### (ii) Foreign currency transactions

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

Exchange differences arising from the settlement of monetary items, and on the translation of monetary items, are included

in the Statement of Profit or Loss for the period. Exchange differences arising from the translation of non-monetary items carried at fair value are included in the Statement of Profit or Loss for the period except for the differences arising from the translation of non-monetary items in respect of which gains and losses are recognised directly in the Funds and Reserves. Exchange differences arising from such non-monetary items are also recognised directly in the Funds and Reserves.

#### 2.3 Changes in accounting policies

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

PIDM has early adopted the applicable MFRSs for financial periods beginning 1 January 2013 in its 2012 financial statements. The applicable MFRSs are as follows:

- MFRS 10 *Consolidated Financial Statements*
- MFRS 12 *Disclosure of Interests in Other Entities*
- MFRS 13 *Fair Value Measurement*
- MFRS 119 *Employee Benefits (2011)*
- MFRS 127 *Separate Financial Statements (2011)*
- Amendments to MFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*
- Amendments to MFRS 1 *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2009 - 2011 Cycle)*
- Amendments to MFRS 101 *Presentation of Financial Statements (Annual Improvements 2009 - 2011 Cycle)*
- Amendments to MFRS 116 *Property, Plant and Equipment (Annual Improvements 2009 - 2011 Cycle)*
- Amendments to MFRS 132 *Financial Instruments: Presentations (Annual Improvements 2009 - 2011 Cycle)*

The following are accounting standards and amendments of the MFRS that have been issued by the Malaysian Accounting Standards Board (MASB) but are not yet effective, which have been early adopted by PIDM:



# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.3 Changes in accounting policies (continued)

##### **MFRS and amendments effective for annual periods beginning on or after 1 January 2014:**

- Amendments to MFRS 132  
*Financial Instruments – Offsetting Financial Assets and Financial Liabilities*
- Amendments to MFRS 136  
*Impairment of Assets – Recoverable Amount Disclosures For Non-Financial Assets*
- Amendments to MFRS 10, MFRS 12 and MFRS 127  
*– Investment Entities*

The adoption of the above amendments and improvements to MFRS did not have any material effect on the financial performance or position of PIDM. These changes also do not result in significant changes in the accounting policies of PIDM.

The following are accounting standards, amendments and interpretations of the MFRS that have been issued by the MASB but are not yet effective, which have not been adopted by PIDM:

##### **MFRS, Interpretations and amendments effective for annual periods beginning on or after 1 January 2015:**

- MFRS 9 *Financial Instruments (2009)*
- MFRS 9 *Financial Instruments (2010)*
- Amendments to MFRS 7  
*Financial Instruments: Disclosures – Mandatory effective date of MFRS 9 and Transition Disclosures*
- Amendments to MFRS 9  
*Financial Instruments (IFRS 9 Financial Instruments issued by IASB in 2009) and MFRS 9 Financial Instruments (IFRS 9 Financial Instruments issued by IASB in October 2010) – Mandatory effective date of MFRS 9 and Transition Disclosures*

PIDM is in the process of assessing the financial effects of the above amendments and improvements to MFRS. However, based on preliminary assessment, the adoption of the above amendments and improvements to MFRS

is not expected to have any material effect on the financial performance or position of PIDM and will not result in significant changes in the accounting policies of PIDM.

The following accounting standards, amendments and interpretations to the MFRS Framework that are currently not applicable to PIDM's operations:

- MFRS 2 *Share-based Payment*
- MFRS 3 *Business Combinations*
- MFRS 4 *Insurance Contracts*
- MFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*
- MFRS 6 *Exploration for Evaluation of Mineral Resources*
- MFRS 11 *Joint Arrangements*
- MFRS 128 *Investment in Associates and Joint Ventures*
- Amendments to MFRS 139  
*Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*
- IC Interpretation 20  
*Stripping Costs in the Production Phase of a Surface Mine*
- IC Interpretation 21  
*Levies*

### 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the PIDM's financial statements does not generally require Management to make judgements, estimates and assumptions that affect the reported amounts except for the areas discussed below and the disclosure of contingent liabilities at the reporting date. Where judgements are required, uncertainty about the assumptions and estimates used could result in outcomes that would require a material adjustment to the carrying amount of the affected asset or liability in the future.

#### 3.1 Judgements made in applying accounting policies

In the process of applying PIDM's accounting policies, Management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

### 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

#### 3.1 Judgements made in applying accounting policies (continued)

##### (a) Non-consolidation of investments in subsidiaries

In accordance with MFRS 10, consolidation of subsidiaries by a parent is required when the parent has 'control' over its subsidiaries. For control to be established, the investor must have the following:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of investor's return.

PIDM is the resolution authority for all member institutions with a wide intervention and failure resolution (IFR) powers. The subsidiaries were incorporated to act as vehicles for PIDM to carry out any IFR activities rather than for investment purposes. Any returns from the subsidiaries are meant for the benefit of the respective Protection Funds, which are to be used for future IFR activities. PIDM, as an entity, has limited financial exposure or rights to variable returns from its investments in the subsidiaries, as the financial exposure and rights to any variable returns are attributed directly to the relevant Protection Funds. Although PIDM has rights to use monies in the Protection Funds to cover any expenses incurred in order to run its operations, these expenses are limited and strictly governed by the PIDM Act.

Given the above considerations, the criteria for having 'control' as defined in MFRS 10 are not met, and hence consolidated financial statements have not been prepared. Nevertheless, a summary of the financial information of each of the subsidiaries is included in Note 7 to the financial statements.

##### (b) Impairment of available-for-sale investments

PIDM reviews its debt securities classified as available-for-sale investments at the reporting date to assess whether they are impaired. PIDM records impairment charges when there has been a significant or prolonged decline in the fair value below their cost as well as the deterioration of financial ability and any default in payments of contractual obligations by the issuer or obligor.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, PIDM evaluates, among other factors, historical quoted price movements, the duration and extent to which the fair value of an investment is less than its cost.

#### 3.2 Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

##### (a) Fair value of financial investments

Where the fair values of financial assets recorded on the Statement of Financial Position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish fair values. The judgement includes considerations of liquidity and model inputs such as discount rates, prepayment rates and default rate assumptions. The valuation of financial instruments is described in more detail in Note 21(f).

##### (b) Impairment of held-to-maturity investments as well as receivables and other assets

PIDM assesses at each reporting date whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, PIDM considers factors such as the probability of insolvency or significant financial difficulties of the debtor, issuer or obligor as well as any default or significant delay in payments.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics.

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013

### 4. CASH AND CASH EQUIVALENTS

#### a. Balances as at the end of the financial year

	2013		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Deposits with Bank Negara Malaysia	909	191	718
Cash on hand and at bank	19,050	17,442	1,608
	<b>19,959</b>	<b>17,633</b>	<b>2,326</b>
Short-term investments:			
Malaysian Government Securities and Investments Issues	226,385	98,641	127,744
Bank Negara Malaysia Bills and Negotiable Notes	619,166	273,360	345,806
	<b>845,551</b>	<b>372,001</b>	<b>473,550</b>
Add: Accretion of discounts net of amortisation of premium	8,732	3,860	4,872
	<b>854,283</b>	<b>375,861</b>	<b>478,422</b>
<b>Total cash and cash equivalents</b>	<b>874,242</b>	<b>393,494</b>	<b>480,748</b>
Market values of short-term investments held as at 31 December 2013 are as follows:			
Malaysian Government Securities and Investments Issues	230,971	100,749	130,222
Bank Negara Malaysia Bills and Negotiable Notes	623,379	275,140	348,239
Total market values of short-term investments	<b>854,350</b>	<b>375,889</b>	<b>478,461</b>

### 4. CASH AND CASH EQUIVALENTS (continued)

#### a. Balances as at the end of the financial year (continued)

	2012		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Deposits with Bank Negara Malaysia	587	1	586
Cash on hand and at bank	18,674	14,680	3,994
	<b>19,261</b>	<b>14,681</b>	<b>4,580</b>
Short-term investments:			
Malaysian Government Securities and Investments Issues	133,520	49,937	83,583
Bank Negara Malaysia Bills and Negotiable Notes	583,853	271,291	312,562
	<b>717,373</b>	<b>321,228</b>	<b>396,145</b>
Add: Accretion of discounts net of amortisation of premium	8,577	3,996	4,581
	<b>725,950</b>	<b>325,224</b>	<b>400,726</b>
Total cash and cash equivalents	<b>745,211</b>	<b>339,905</b>	<b>405,306</b>
Market values of short-term investments held as at 31 December 2012 are as follows:			
Malaysian Government Securities and Investments Issues	135,358	51,099	84,259
Bank Negara Malaysia Bills and Negotiable Notes	590,645	274,141	316,504
Total market values of short-term investments	<b>726,003</b>	<b>325,240</b>	<b>400,763</b>

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

The market values of these short-term investments were based on indicative market prices.

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013

### 4. CASH AND CASH EQUIVALENTS (continued)

#### b. Statement of Cash Flows (indirect method)

	2013		
	Total RM'000	DIFs RM'000	TIPFs RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net surplus for the year	218,535	151,278	67,257
<i>Adjustments for:</i>			
Depreciation	7,590	7,272	318
Investment income from cash and investment securities	(56,142)	(20,525)	(35,617)
Loss on divestment of investment securities	650	-	650
<b>Operating profit before changes in working capital</b>	<b>170,633</b>	<b>138,025</b>	<b>32,608</b>
Change in payables	(1,959)	(1,456)	(503)
Change in other assets	(712)	(162)	(550)
<b>Cash generated from operations</b>	<b>167,962</b>	<b>136,407</b>	<b>31,555</b>
Net accretion / amortisation for investment securities	1,650	520	1,130
Change in investment income receivables	1,043	(1)	1,044
Investment income from cash and investment securities	56,142	20,525	35,617
<b>Net cash flows generated from operating activities</b>	<b>226,797</b>	<b>157,451</b>	<b>69,346</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of investment securities	2,836,027	1,403,162	1,432,865
Purchase of investment securities	(2,932,446)	(1,506,224)	(1,426,222)
Purchase of property and equipment	(1,347)	(800)	(547)
<b>Net cash flows (used in) / generated from investing activities</b>	<b>(97,766)</b>	<b>(103,862)</b>	<b>6,096</b>
<b>Net increase in cash and cash equivalents</b>	<b>129,031</b>	<b>53,589</b>	<b>75,442</b>
Cash and cash equivalents at beginning of year	745,211	339,905	405,306
<b>Cash and cash equivalents at end of year</b>	<b>874,242</b>	<b>393,494</b>	<b>480,748</b>

### 4. CASH AND CASH EQUIVALENTS (continued)

#### b. Statement of Cash Flows (indirect method) (continued)

	2012		
	Total RM'000	DIFs RM'000	TIPFs RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net surplus for the year	187,691	98,570	89,121
<i>Adjustments for:</i>			
Depreciation	5,236	5,089	147
Investment income from cash and investment securities	(48,782)	(16,534)	(32,248)
Loss on divestment of investment	37	-	37
Operating profit before changes in working capital	144,182	87,125	57,057
Change in payables	552	(21)	573
Change in other assets	(26)	203	(229)
Cash generated from operations	144,708	87,307	57,401
Net accretion / amortisation for investment securities	(6,760)	(2,545)	(4,215)
Change in investment income receivables	2,808	11	2,797
Investment income from cash and investment securities	48,782	16,534	32,248
<b>Net cash flows generated from operating activities</b>	<b>189,538</b>	<b>101,307</b>	<b>88,231</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of investment securities	1,779,133	920,238	858,895
Purchase of investment securities	(1,561,669)	(946,483)	(615,186)
Purchase of property and equipment	(1,154)	(690)	(464)
Net cash flows generated from / (used in) investing activities	216,310	(26,935)	243,245
<b>Net increase in cash and cash equivalents</b>	<b>405,848</b>	<b>74,372</b>	<b>331,476</b>
Cash and cash equivalents at beginning of year	339,363	265,533	73,830
<b>Cash and cash equivalents at end of year</b>	<b>745,211</b>	<b>339,905</b>	<b>405,306</b>



# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013

### 5. INVESTMENTS

#### a. Available-for-sale investments

	2013		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Private Debt Securities	-	-	-
<b>Total available-for-sale investments</b>	<b>-</b>	<b>-</b>	<b>-</b>

	2012		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Private Debt Securities	4,859	-	4,859
<b>Total available-for-sale investments</b>	<b>4,859</b>	<b>-</b>	<b>4,859</b>

Available-for-sale investments are measured and recognised in the Statement of Financial Position at fair value. The fair values are determined by reference to indicative market prices as at the end of the financial year obtained from a bond pricing agency.

### 5. INVESTMENTS (continued)

#### b. Held-to-maturity to investments

	2013		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Malaysian Government Securities and Investments Issues	512,674	151,161	361,513
Bank Negara Malaysia Bills and Negotiable Notes	426,782	208,086	218,696
Private Debt Securities	81,597	-	81,597
	<b>1,021,053</b>	<b>359,247</b>	<b>661,806</b>
Add: Accretion of discounts net of amortisation of premium	2,227	2,195	32
<b>Total held-to-maturity investments</b>	<b>1,023,280</b>	<b>361,442</b>	<b>661,838</b>

Market values of investments held as at 31 December 2013 are as follows:			
Malaysian Government Securities and Investments Issues	513,455	152,414	361,041
Bank Negara Malaysia Bills and Negotiable Notes	428,885	208,962	219,923
Private Debt Securities	80,928	-	80,928
<b>Total market values of investments</b>	<b>1,023,268</b>	<b>361,376</b>	<b>661,892</b>

	2012		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Malaysian Government Securities and Investments Issues	776,160	241,625	534,535
Bank Negara Malaysia Bills and Negotiable Notes	55,792	14,695	41,097
Private Debt Securities	90,474	-	90,474
	<b>922,426</b>	<b>256,320</b>	<b>666,106</b>
Add: Accretion of discounts net of amortisation of premium	970	1,839	(869)
<b>Total held-to-maturity investments</b>	<b>923,396</b>	<b>258,159</b>	<b>665,237</b>

Market values of investments held as at 31 December 2012 are as follows:			
Malaysian Government Securities and Investments Issues	780,035	243,412	536,623
Bank Negara Malaysia Bills and Negotiable Notes	56,032	14,723	41,309
Private Debt Securities	90,668	-	90,668
<b>Total market values of investments</b>	<b>926,735</b>	<b>258,135</b>	<b>668,600</b>

Investments are denominated in Ringgit Malaysia.

The market values of investments in both DIFs as well as TIPFs as disclosed above are indicative of their fair values as at the end of the financial year and are determined by reference to indicative market prices obtained from a bond pricing agency.

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013

### 6. OTHER ASSETS

	2013		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Deposits and prepayments	3,593	2,967	626
Investment income receivables	4,209	2	4,207
Other receivables	860	341	519
Other assets	130	90	40
Amounts due from subsidiaries (Note 7)	71	37	34
<b>Total other assets</b>	<b>8,863</b>	<b>3,437</b>	<b>5,426</b>

	2012		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Deposits and prepayments	3,557	2,951	606
Investment income receivables	5,252	1	5,251
Other receivables	225	217	8
Other assets	130	90	40
Amounts due from subsidiaries	30	16	14
<b>Total other assets</b>	<b>9,194</b>	<b>3,275</b>	<b>5,919</b>

Amounts due from subsidiaries are unsecured, interest free and have no fixed repayment terms.

### 7. INVESTMENTS IN SUBSIDIARIES

	2013		
	Total RM'000	DIFs RM'000	TIPFs RM'000
At cost			
Unquoted shares	~*	-	-
<b>Total investment in subsidiaries</b>	<b>-</b>	<b>-</b>	<b>-</b>

	2012		
	Total RM'000	DIFs RM'000	TIPFs RM'000
At cost			
Unquoted shares	~*	-	-
<b>Total investment in subsidiaries</b>	<b>-</b>	<b>-</b>	<b>-</b>

\* Total paid-up capital of RM10 (RM2 for each of the five subsidiary) is significantly below the rounding threshold.

Details of the subsidiaries are as follows:

Name of subsidiary	Country of incorporation	Principal activities	Incorporation date	Effective ownership interest	Status
The Federal Asset Management Agency of Malaysia Berhad**	Malaysia	Asset management company	8 June 2012	100%	Dormant
The Federal Commercial Bank of Malaysia Berhad**	Malaysia	Bridge institution	22 June 2012	100%	Dormant
The Federal Islamic Bank of Malaysia Berhad**	Malaysia	Bridge institution	22 June 2012	100%	Dormant
The National PIDM Insurance Corporation of Malaysia Berhad **	Malaysia	Bridge institution	20 June 2012	100%	Dormant
The Federal Takaful Corporation of Malaysia Berhad**	Malaysia	Bridge institution	22 June 2012	100%	Dormant

\*\* Audited by an external audit firm: Messrs Khairuddin Hasyudeen & Razi.

The names of all Directors for all the subsidiaries in office during the financial year ended 31 December 2013 were:

- Puan Lim Yam Poh, General Counsel and Corporate Secretary of PIDM
- Encik Rafiz Azuan Abdullah, General Manager, Insurance Risk Assessment and Monitoring division of PIDM (appointed on 6 June 2013)
- Encik Md Khairuddin Hj Arshad, Chief Operating Officer of PIDM (resigned on 7 June 2013)

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013

### 7. INVESTMENTS IN SUBSIDIARIES (continued)

The subsidiaries were incorporated as part of PIDM's efforts to ensure operational readiness to carry out any intervention or failure resolution (IFR) activities. In accordance with section 10 of the PIDM Act, PIDM may establish subsidiaries as it considers necessary for the purposes of carrying out its functions, powers and duties. The five subsidiaries, being one asset management company (AMC) and four bridge institutions (BIs), have been incorporated under the Companies Act 1965 as public companies limited by shares. The subsidiaries are incorporated in advance in case of any failure of a member institution, and hence will remain dormant until activated to carry out any necessary IFR activities.

The specific objective and purpose of these subsidiaries are as follows:

NAME OF SUBSIDIARY	OBJECTS / PURPOSE
The Federal Asset Management Agency of Malaysia Berhad	The AMC was established to carry on the business of an asset management company and has the authority to acquire, assume control, manage, dispose of, sell, deal with, transact and operate as a going concern or otherwise, the assets, liabilities, business, undertakings and affairs of a member institution as defined in the PIDM Act, whether by way of an arrangement, agreement, instrument or otherwise in accordance with the PIDM Act and any other applicable laws.
<u>Bridge institutions (BIs)</u> A BI is a resolution tool under the PIDM Act. This would enable PIDM to transfer the business, assets and liabilities of a troubled or failed member institution to a BI where there is no immediate purchaser or where the resolution action involves a complex member institution. The BI is intended to be a temporary special purpose vehicle that would preserve the business franchise value of the troubled or failed member institution. The BI is to be operated on a conservative basis, and subsequently sold to a private sector purchaser. On activation and designation of a BI under the PIDM Act with the approval of the Minister of Finance, the BI will operate as a fully licensed financial institution.	
The Federal Commercial Bank of Malaysia Berhad	This subsidiary, upon activation, will operate as a licensed bank to carry on and transact all commercial banking business as defined in the Financial Services Act 2013.
The Federal Islamic Bank of Malaysia Berhad	This subsidiary, upon activation, will operate as a licensed Islamic bank to carry on and transact all Islamic banking business as defined in the Islamic Financial Services Act 2013.
The National PIDM Insurance Corporation of Malaysia Berhad	This subsidiary, upon activation, will operate as a licensed composite, life or general insurance company to carry on or transact all insurance, assurance, guarantee and indemnity businesses as defined in the Financial Services Act 2013.
The Federal Takaful Corporation of Malaysia Berhad	This subsidiary, upon activation, will operate as a registered takaful operator to carry on or transact every kind of takaful and re-takaful businesses under the Islamic Financial Services Act 2013.

### 7. INVESTMENTS IN SUBSIDIARIES (continued)

In line with section 35 of the PIDM Act, the financial results of the subsidiaries are not consolidated with the financial statements of PIDM. Consolidating the financial statements of PIDM together with those of its subsidiaries will not provide meaningful information and a true and fair view of the financial position and performance of PIDM as the financial exposure and impact of any intervention or failure resolution of a member institution only affects the specific Protection Fund(s) to which that member institution relates.

In addition, PIDM, as an entity, has limited financial exposure or rights to variable returns from its investments in the subsidiaries. Although PIDM has rights to use the Protections Funds to cover any expenses incurred in order to run its operations, these expenses are limited and strictly governed by the PIDM Act. Given these considerations, the criteria for having 'control' as defined in MFRS 10 are not met, hence consolidated financial statements have not been prepared. Nevertheless, a summary of the financial information of each of the subsidiaries is set out below.

The summary of the financial information for each of the subsidiaries (in absolute RM) are as follows:

	2013				
	The Federal Asset Management Agency of Malaysia Berhad	The Federal Commercial Bank of Malaysia Berhad	The Federal Islamic Bank of Malaysia Berhad	The National PIDM Insurance Corporation of Malaysia Berhad	The Federal Takaful Corporation of Malaysia Berhad
	RM	RM	RM	RM	RM
Revenue	-	-	-	-	-
Operating expenses	8,203	8,203	8,203	8,203	8,203
Total assets	-	-	-	-	-
Total liabilities	14,450	14,152	14,152	14,181	14,152
Capital	2	2	2	2	2

	2012 (June - December)				
	The Federal Asset Management Agency of Malaysia Berhad	The Federal Commercial Bank of Malaysia Berhad	The Federal Islamic Bank of Malaysia Berhad	The National PIDM Insurance Corporation of Malaysia Berhad	The Federal Takaful Corporation of Malaysia Berhad
	RM	RM	RM	RM	RM
Revenue	-	-	-	-	-
Pre-operating expenses*	6,249	5,951	5,951	5,980	5,951
Total assets	-	-	-	-	-
Total liabilities	6,247	5,949	5,949	5,978	5,949
Capital	2	2	2	2	2
Incorporation expenses**	15,310	15,310	15,310	15,310	15,310

\* The pre-operating expenses primarily relate to audit and tax fees, which are paid by PIDM on behalf of the subsidiaries.

\*\* The expenses incurred on incorporation of the subsidiaries were fully absorbed by PIDM.



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## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013

### 8. PROPERTY AND EQUIPMENT

	2013						
	Land and building RM'000	Office equipment and computer systems RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Office refurbishments RM'000	Assets under construction* RM'000	Total RM'000
<b>Cost</b>							
Balance as at 1 January 2013	2,300	22,551	2,996	418	8,050	2,417	38,732
Additions	-	161	19	-	24	1,652	1,856
Reclassifications / Adjustments**	-	1,922	-	-	287	(3,442)	(1,233)
Retirements	-	-	-	-	-	-	-
<b>Balance as at 31 December 2013</b>	<b>2,300</b>	<b>24,634</b>	<b>3,015</b>	<b>418</b>	<b>8,361</b>	<b>627</b>	<b>39,355</b>
<b>Accumulated depreciation</b>							
Balance as at 1 January 2013	-	8,906	2,246	414	3,043	-	14,609
Charge for the year	-	5,793	265	1	1,610	-	7,669
Reclassifications / Adjustments**	-	(79)	-	-	-	-	(79)
Retirements	-	-	-	-	-	-	-
<b>Balance as at 31 December 2013</b>	<b>-</b>	<b>14,620</b>	<b>2,511</b>	<b>415</b>	<b>4,653</b>	<b>-</b>	<b>22,199</b>
<b>Net carrying amount as at 31 December 2013</b>	<b>2,300</b>	<b>10,014</b>	<b>504</b>	<b>3</b>	<b>3,708</b>	<b>627</b>	<b>17,156</b>

\* Assets under construction amounting to RM626,723 (2012: RM2,417,288) consist of Human Resource Information System (Phase 2) of RM268,091, the Enhancement to Corporate Performance Management System (CPMS) of RM34,965 and the development of Disaster Recovery Centre of RM323,667.

\*\* Reclassifications / adjustments include adjustments of RM1.2 million that relate to reversal of specific contracted items for the Depositors Liability Information Management System (DLIMS) and the Payout Payment Management System (PPMS) which have yet to be completed.

### 8. PROPERTY AND EQUIPMENT (continued)

	2012						
	Land and building RM'000	Office equipment and computer systems RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Office refurbishments RM'000	Assets under construction* RM'000	Total RM'000
<b>Cost</b>							
Balance as at 1 January 2012	-	12,569	3,034	418	10,323	10,200	36,544
Additions	2,300**	222	8	-	957	2,255	5,742
Reclassifications / Adjustments	-	10,038	-	-	-	(10,038)	-
Retirements***	-	(278)	(46)	-	(3,230)	-	(3,554)
<b>Balance as at 31 December 2012</b>	<b>2,300</b>	<b>22,551</b>	<b>2,996</b>	<b>418</b>	<b>8,050</b>	<b>2,417</b>	<b>38,732</b>
<b>Accumulated depreciation</b>							
Balance as at 1 January 2012	-	6,359	1,866	365	4,204	-	12,794
Charge for the year	-	2,824	416	49	1,947	-	5,236
Reclassifications / Adjustments	-	-	-	-	-	-	-
Retirements	-	(277)	(36)	-	(3,108)	-	(3,421)
<b>Balance as at 31 December 2012</b>	<b>-</b>	<b>8,906</b>	<b>2,246</b>	<b>414</b>	<b>3,043</b>	<b>-</b>	<b>14,609</b>
<b>Net carrying amount as at 31 December 2012</b>	<b>2,300</b>	<b>13,645</b>	<b>750</b>	<b>4</b>	<b>5,007</b>	<b>2,417</b>	<b>24,123</b>

\* Assets under construction amounting to RM2,417,288 (2011: RM10,201,828) consist of enhancements to Risk Assessment System of RM198,623, the Enhanced Financial Management System of RM1,448,454, the Human Resource Information System of RM634,497, the IT infrastructure upgrades of RM113,077 and the development of Disaster Recovery Centre of RM22,637.

\*\* Relate to partial payment for the purchase of land for the Disaster Recovery Centre (DRC) amounting to RM2,286,900 as well as professional and consultancy costs for the development of the DRC amounting to RM12,745. The purchase price of the land is RM4,573,800. The remaining balance of the payment for the land, which is currently recognised as part of the capital commitment (land and building) in Note 18, is payable upon the transfer of the land title to PIDM.

\*\*\* Relate to retirement of assets at the previous corporate office at 1 Sentral Office, Kuala Lumpur Sentral. The net retirement expenses of RM131,615 are included within miscellaneous expenses in Note 15.

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013

### 8. PROPERTY AND EQUIPMENT (continued)

#### a. Deposit Insurance Funds

	2013						
	Land and building RM'000	Office equipment and computer systems RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Office refurbishments RM'000	Assets under construction RM'000	Total RM'000
<b>Cost</b>							
Balance as at 1 January 2013	1,376	22,119	2,993	416	7,426	1,443	35,773
Additions	-	89	11	-	15	971	1,086
Reclassifications / Adjustments	-	851	-	-	169	(2,047)	(1,027)
Retirements	-	-	-	-	-	-	-
<b>Balance as at 31 December 2013</b>	<b>1,376</b>	<b>23,059</b>	<b>3,004</b>	<b>416</b>	<b>7,610</b>	<b>367</b>	<b>35,832</b>
<b>Accumulated depreciation</b>							
Balance as at 1 January 2013	-	8,847	2,246	414	2,953	-	14,460
Charge for the year	-	5,593	265	1	1,484	-	7,343
Reclassifications / Adjustments	-	(72)	-	-	-	-	(72)
Retirements	-	-	-	-	-	-	-
<b>Balance as at 31 December 2013</b>	<b>-</b>	<b>14,368</b>	<b>2,511</b>	<b>415</b>	<b>4,437</b>	<b>-</b>	<b>21,731</b>
<b>Net carrying amount as at 31 December 2013</b>	<b>1,376</b>	<b>8,691</b>	<b>493</b>	<b>1</b>	<b>3,173</b>	<b>367</b>	<b>14,101</b>

### 8. PROPERTY AND EQUIPMENT (continued)

#### a. Deposit Insurance Funds (continued)

	2012						
	Land and building RM'000	Office equipment and computer systems RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Office refurbishments RM'000	Assets under construction RM'000	Total RM'000
<b>Cost</b>							
Balance as at 1 January 2012	-	12,438	3,034	416	10,084	9,916	35,888
Additions	1,376	133	5	-	572	1,353	3,439
Reclassifications / Adjustments	-	9,826	-	-	-	(9,826)	-
Retirements	-	(278)	(46)	-	(3,230)	-	(3,554)
<b>Balance as at 31 December 2012</b>	<b>1,376</b>	<b>22,119</b>	<b>2,993</b>	<b>416</b>	<b>7,426</b>	<b>1,443</b>	<b>35,773</b>
<b>Accumulated depreciation</b>							
Balance as at 1 January 2012	-	6,359	1,866	365	4,202	-	12,792
Charge for the year	-	2,765	416	49	1,859	-	5,089
Reclassifications / Adjustments	-	-	-	-	-	-	-
Retirements	-	(277)	(36)	-	(3,108)	-	(3,421)
<b>Balance as at 31 December 2012</b>	<b>-</b>	<b>8,847</b>	<b>2,246</b>	<b>414</b>	<b>2,953</b>	<b>-</b>	<b>14,460</b>
<b>Net carrying amount as at 31 December 2012</b>	<b>1,376</b>	<b>13,272</b>	<b>747</b>	<b>2</b>	<b>4,473</b>	<b>1,443</b>	<b>21,313</b>

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013

### 8. PROPERTY AND EQUIPMENT (continued)

#### b. Takaful and Insurance Benefits Protection Funds

	2013						
	Land and building RM'000	Office equipment and computer systems RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Office refurbishments RM'000	Assets under construction RM'000	Total RM'000
<b>Cost</b>							
Balance as at 1 January 2013	924	432	3	2	624	974	2,959
Additions	-	72	8	-	9	681	770
Reclassifications / Adjustments	-	1,071	-	-	118	(1,395)	(206)
Retirements	-	-	-	-	-	-	-
<b>Balance as at 31 December 2013</b>	<b>924</b>	<b>1,575</b>	<b>11</b>	<b>2</b>	<b>751</b>	<b>260</b>	<b>3,523</b>
<b>Accumulated depreciation</b>							
Balance as at 1 January 2013	-	59	-	-	90	-	149
Charge for the year	-	200	-	-	126	-	326
Reclassifications / Adjustments	-	(7)	-	-	-	-	(7)
Retirements	-	-	-	-	-	-	-
<b>Balance as at 31 December 2013</b>	<b>-</b>	<b>252</b>	<b>-</b>	<b>-</b>	<b>216</b>	<b>-</b>	<b>468</b>
<b>Net carrying amount as at 31 December 2013</b>	<b>924</b>	<b>1,323</b>	<b>11</b>	<b>2</b>	<b>535</b>	<b>260</b>	<b>3,055</b>

### 8. PROPERTY AND EQUIPMENT (continued)

#### b. Takaful and Insurance Benefits Protection Funds (continued)

	2012						
	Land and building RM'000	Office equipment and computer systems RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Office refurbishments RM'000	Assets under construction RM'000	Total RM'000
<b>Cost</b>							
Balance as at 1 January 2012	-	131	-	2	239	284	656
Additions	924	89	3	-	385	902	2,303
Reclassifications / Adjustments	-	212	-	-	-	(212)	-
Retirements	-	-	-	-	-	-	-
<b>Balance as at 31 December 2012</b>	<b>924</b>	<b>432</b>	<b>3</b>	<b>2</b>	<b>624</b>	<b>974</b>	<b>2,959</b>
<b>Accumulated depreciation</b>							
Balance as at 1 January 2012	-	-	-	-	2	-	2
Charge for the year	-	59	-	-	88	-	147
Reclassifications / Adjustments	-	-	-	-	-	-	-
Retirements	-	-	-	-	-	-	-
<b>Balance as at 31 December 2012</b>	<b>-</b>	<b>59</b>	<b>-</b>	<b>-</b>	<b>90</b>	<b>-</b>	<b>149</b>
<b>Net carrying amount as at 31 December 2012</b>	<b>924</b>	<b>373</b>	<b>3</b>	<b>2</b>	<b>534</b>	<b>974</b>	<b>2,810</b>



# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013

### 9. PAYABLES

	2013		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Amount due to Bank Negara Malaysia	-	-	-
Other payables	5,879	3,422	2,457
Sundry creditors	44	26	18
Provision for unutilised leave	1,106	671	435
<b>Total payables</b>	<b>7,029</b>	<b>4,119</b>	<b>2,910</b>

	2012		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Amount due to Bank Negara Malaysia	153	-	153
Other payables	7,781	4,922	2,859
Sundry creditors	40	25	15
Provision for unutilised leave	1,014	628	386
<b>Total payables</b>	<b>8,988</b>	<b>5,575</b>	<b>3,413</b>

### 10. FUNDS AND RESERVES

#### a. Deposit Insurance Funds

##### Accumulated surpluses

	2013		
	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000
Balance as at 1 January	617,077	533,822	83,255
Net surplus	151,278	127,126	24,152
<b>Balance as at 31 December</b>	<b>768,355</b>	<b>660,948</b>	<b>107,407</b>

	2012		
	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000
Balance as at 1 January	518,507	450,003	68,504
Net surplus	98,570	83,819	14,751
<b>Balance as at 31 December</b>	<b>617,077</b>	<b>533,822</b>	<b>83,255</b>

The DIFs are the accumulated reserves (ex-ante funds) to cover the net insurance losses arising from providing deposit insurance protection to depositors. In accordance with the PIDM Act, PIDM maintains separate DIFs for both conventional and Islamic DIS. DIFs are accumulated from annual net surpluses, which are the premium revenue and investment income net of operating expenses for a particular year.

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

The Target Fund range is between 0.6% and 0.9% of TID for both the conventional and Islamic DIFs. Based on the level of TID as at 31 December 2012, the range in RM absolute terms is between RM2.3 billion and RM3.4 billion for the conventional DIF and between RM347 million and RM521 million for the Islamic DIF. The Target Fund modelling was reviewed during the year as part of the annual review process, and the conclusion was that the existing Target Fund level is still current and relevant.

The current levels of DIFs compared to the Target Fund range are described in the following table:

DEPOSIT INSURANCE FUNDS	2013 ACTUAL RM MILLION / %	2012 ACTUAL RM MILLION / %	TARGET FUND	
			LOWER RANGE RM MILLION / %	UPPER RANGE RM MILLION / %
Conventional Deposit Insurance Fund				
Balance	660.9	533.8	2,252	3,378
Percentage of Total Insured Deposits	0.18%	0.15%	0.6%	0.9%
Islamic Deposit Insurance Fund				
Balance	107.4	83.3	347	521
Percentage of Total Insured Deposits	0.19%	0.17%	0.6%	0.9%

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013

### 10. FUNDS AND RESERVES (continued)

#### a. Deposit Insurance Funds (continued)

##### Accumulated surpluses (continued)

In order to achieve the Target Fund levels within a reasonable timeframe, the premium rates to be assessed on member banks have been revised. Details of the premium rates revision are described in Note 11(a).

Based on the current level accumulated surpluses and approved premium rates, the lower range of the Target Fund is expected to be achieved within the next 9 to 11 years.

#### b. Takaful and Insurance Benefits Protection Funds

##### i. Accumulated surpluses

	2013				
	Total RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Solidarity Takaful RM'000
Balance as at 1 January	1,080,900	994,167	74,218	4,091	8,424
Net surplus	67,257	30,269	29,894	2,391	4,703
<b>Balance as at 31 December</b>	<b>1,148,157</b>	<b>1,024,436</b>	<b>104,112</b>	<b>6,482</b>	<b>13,127</b>

	2012				
	Total RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Solidarity Takaful RM'000
Balance as at 1 January	991,779	948,607	36,670	2,091	4,411
Net surplus	89,121	45,560	37,548	2,000	4,013
Balance as at 31 December	1,080,900	994,167	74,218	4,091	8,424

PIDM will be developing a Target Fund framework for the general insurance industry in 2014 and thereafter, for the remaining Fund within the TIPFs, similar to that of DIFs, over the next several years.

### 10. FUNDS AND RESERVES (continued)

#### b. Takaful and Insurance Benefits Protection Funds (continued)

##### ii. Other reserves

	2013				
	Total RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Solidarity Takaful RM'000
Balance as at 1 January	(182)	(182)	-	-	-
Net unrealised losses on available-for-sale investments arising during the year	(525)	(525)	-	-	-
Net realised losses on available-for-sale investments reclassified to Statement of Profit or Loss	707	707	-	-	-
Net gains / (losses) from prior years on available-for-sale investments recognised during the year in other comprehensive income	182	182	-	-	-
<b>Balance as at 31 December</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

	2012				
	Total RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Solidarity Takaful RM'000
Balance as at 1 January	(573)	(573)	-	-	-
Net unrealised gains on available-for-sale investments arising during the year	354	354	-	-	-
Net realised losses on available-for-sale investments reclassified to Statement of Profit or Loss	37	37	-	-	-
Net gains / (losses) from prior years on available-for-sale investments recognised during the year in other comprehensive income	391	391	-	-	-
<b>Balance as at 31 December</b>	<b>(182)</b>	<b>(182)</b>	<b>-</b>	<b>-</b>	<b>-</b>

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013

### 11. PREMIUM REVENUES

#### a. Premium revenues from member banks

	2013		
	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000
First premiums	-	-	-
Annual premiums	180,319	151,565	28,754
<b>Total premium revenues from member banks</b>	<b>180,319</b>	<b>151,565</b>	<b>28,754</b>

	2012		
	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000
First premiums	500	500	-
Annual premiums	125,945	106,894	19,051
<b>Total premium revenues from member banks</b>	<b>126,445</b>	<b>107,394</b>	<b>19,051</b>

For 2013 financial year, premiums were levied in accordance with the Malaysia Deposit Insurance Corporation (Annual Premium and First Premium in respect of Deposit-Taking Members) (Amendment) Order 2012 (Premium Order – Member Banks 2012).

#### i. Rate for annual premium under the Differential Premium Systems

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

PREMIUM CATEGORY [COLUMN (1)]	PREMIUM RATE [COLUMN (2)]
1	0.04%
2	0.08%
3	0.16%
4	0.32%

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

### 11. PREMIUM REVENUES (continued)

#### a. Premium revenues from member banks (continued)

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

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

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

##### ii. Rates for first premium

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

For the 2012 financial year, premiums were levied in accordance with Malaysia Deposit Insurance Corporation (Annual Premium and First Premium in respect of Deposit-Taking Members) Order 2011, which took effect from the assessment year of 2011.

##### iii. Revised rates for annual premium

With the establishment of the Target Fund and the Premium Order – Member Banks 2012, the premium rate for member banks has been revised beginning assessment year 2013 as follows:

PREMIUM CATEGORY	2012 PREMIUM RATES	2013 PREMIUM RATES (REVISED)	2014 PREMIUM RATES (REVISED)	2015 (ONWARDS) PREMIUM RATES (REVISED)
1	0.03%	<b>0.04%</b>	0.05%	0.06%
2	0.06%	<b>0.08%</b>	0.10%	0.12%
3	0.12%	<b>0.16%</b>	0.20%	0.24%
4	0.24%	<b>0.32%</b>	0.40%	0.48%



# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013

### 11. PREMIUM REVENUES (continued)

#### b. Premium revenues from insurer members

	2013				
	Total RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Solidarity Takaful RM'000
First premiums	-	-	-	-	-
Annual premiums	64,781	7,487	47,252	3,370	6,672
<b>Total premium revenues from insurer members</b>	<b>64,781</b>	<b>7,487</b>	<b>47,252</b>	<b>3,370</b>	<b>6,672</b>

	2012				
	Total RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Solidarity Takaful RM'000
First premiums	250	-	-	-	250
Annual premiums	87,567	23,978	54,654	3,025	5,910
<b>Total premium revenues from insurer members</b>	<b>87,817</b>	<b>23,978</b>	<b>54,654</b>	<b>3,025</b>	<b>6,160</b>

#### i. Premium rates under a Differential Levy System for general and life insurer members effective from the assessment year 2013

Effective from the 2013 financial year, all general and life insurer members are assessed based on the Malaysia Deposit Insurance Corporation (Differential Premium Systems in respect of Insurer Members) Regulations 2012 (DPS Regulation – Insurer Members 2012). The premium rates applicable to an insurer member is determined in accordance with the Malaysia Deposit Insurance Corporation (First Premium and Annual Premium in respect of Insurer Members) Order 2012 (Premium Order – Insurer Members 2012) based on the premium category for which that insurer member is classified. Subject to the transitional provision as specified in the DPS Regulation – Insurer Members 2012, the rates assessed on the general and life insurer members, as specified in the Premium Order – Insurer Members 2012, are as follows:

PREMIUM CATEGORY	GENERAL INSURANCE	LIFE INSURANCE
1	0.05%	0.025%
2	0.1%	0.05%
3	0.2%	0.1%
4	0.4%	0.2%

### 11. PREMIUM REVENUES (continued)

#### b. Premium revenues from insurer members (continued)

#### i. Premium rates under a Differential Levy System for general and life insurer members effective from the assessment year 2013 (continued)

The above new annual premiums payable were subject to minimum premiums based on their premium category as follow:

PREMIUM CATEGORY	MINIMUM ANNUAL PREMIUM AMOUNT (RM)
1	75,000
2	150,000
3	300,000
4	600,000

In respect of a new insurer member [as defined in Regulation 3 of the Malaysia Deposit Insurance Corporation (Differential Premium Systems in respect of Insurer Members) Regulations 2012], the rate for the first premium for such new insurer member will be the same as the premium rate for premium category 1.

#### ii. Premium rates for general takaful and family takaful members for the assessment year 2013

For the 2013 financial year, premiums on general takaful and family takaful members were levied in accordance with the Premium Order – Insurer Members 2012. The general takaful and family solidarity takaful members were assessed based on a flat rate applied on the relevant protected benefits during the preceding year, as follows:

BUSINESS SEGMENT	PREMIUM RATE
General Takaful	0.25% of the total net premiums received
Family Solidarity Takaful	0.06% of actuarial valuation of family solidarity takaful liabilities

Premiums payable by each general takaful and family solidarity takaful member was not lower than RM150,000.

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013

### 12. INVESTMENT INCOME

#### a. Investment income according to investment securities

	2013		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Malaysian Government Securities and Investment Issues	31,069	10,999	20,070
Bank Negara Malaysia Bills and Negotiable Notes	21,235	9,405	11,830
Private Debt Securities	3,634	-	3,634
Placements in Short-term Money Market Deposits	204	121	83
<b>Total investment income</b>	<b>56,142</b>	<b>20,525</b>	<b>35,617</b>

	2012		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Malaysian Government Securities and Investment Issues	28,697	7,631	21,066
Bank Negara Malaysia Bills and Negotiable Notes	16,627	8,694	7,933
Private Debt Securities	3,096	-	3,096
Placements in Short-term Money Market Deposits	362	209	153
<b>Total investment income</b>	<b>48,782</b>	<b>16,534</b>	<b>32,248</b>

#### b. Investment income according to nature of income

	2013		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Coupon / dividend from investment securities	16,800	-	16,800
Returns from accretion of discounts from investment securities (net of amortisation of premiums)	39,138	20,404	18,734
Returns from placements in Short-term Money Market Deposits	204	121	83
<b>Total investment income</b>	<b>56,142</b>	<b>20,525</b>	<b>35,617</b>

	2012		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Coupon / dividend from investment securities	21,215	-	21,215
Returns from accretion of discounts from investment securities (net of amortisation of premiums)	27,205	16,325	10,880
Returns from placements in Short-term Money Market Deposits	362	209	153
<b>Total investment income</b>	<b>48,782</b>	<b>16,534</b>	<b>32,248</b>

### 12. INVESTMENT INCOME (continued)

#### c. Weighted Average Effective Yield Rates (WAEYR)

The WAEYR for investment securities that were effective during the financial year are as follows:

YEAR	TYPE OF PORTFOLIO	DIS		TIPS			
		CONVENTIONAL	ISLAMIC	GENERAL INSURANCE	LIFE INSURANCE	GENERAL TAKAFUL	FAMILY SOLIDARITY TAKAFUL
2013	Other cash equivalents and investments	2.95%	2.97%	3.12%	2.96%	2.96%	2.96%
	Placements in Short-term Money Market Deposits	2.19%	2.03%	2.40%	2.31%	1.98%	2.04%
	<b>Overall</b>	<b>2.85%</b>		<b>3.05%</b>			
2012	Other cash equivalents and investments	2.96%	2.97%	3.21%	3.00%	2.99%	2.99%
	Placements in Short-term Money Market Deposits	2.14%	1.97%	2.34%	2.22%	1.95%	1.93%
	<b>Overall</b>	<b>2.80%</b>		<b>3.10%</b>			

### 13. GAINS / (LOSSES) RELATING TO DIVESTMENT OF INVESTMENT SECURITIES

	2013		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Gains from divestment of held-to-maturity investments	57	-	57
Losses from divestment of available-for-sale investments	(707)	-	(707)
<b>Net gains / (losses) from divestment of investments</b>	<b>(650)</b>	<b>-</b>	<b>(650)</b>

	2012		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Gains / (losses) from divestment of held-to-maturity investments	-	-	-
Losses from divestment of available-for-sale investments	(37)	-	(37)
<b>Net gains / (losses) from divestment of investments</b>	<b>(37)</b>	<b>-</b>	<b>(37)</b>

Included in the 'gains / (losses) from divestment of available-for-sale investments' are losses from prior years of RM181,928 (2012: losses of RM391,079), transferred from Other Reserves to the Statements of Profit or Loss arising from the divestment of available-for-sale investments. Refer to Note 10(b)(ii).

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013

### 14. EMPLOYEE BENEFIT EXPENSES

	2013		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Wages and salaries	36,648	21,196	15,452
Contributions to defined contribution plan	4,860	2,810	2,050
Provision for unutilised leave	153	76	77
Other benefits	2,524	1,469	1,055
<b>Total employee benefit expenses</b>	<b>44,185</b>	<b>25,551</b>	<b>18,634</b>

	2012		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Wages and salaries	32,460	18,524	13,936
Contributions to defined contribution plan	4,258	2,401	1,857
Provision for unutilised leave	296	180	116
Other benefits	2,376	1,393	983
<b>Total employee benefit expenses</b>	<b>39,390</b>	<b>22,498</b>	<b>16,892</b>

The number of employees at the end of the financial year was 142 (2012: 136).

### 15. OTHER EXPENSES

	2013		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Audit fees	44	26	18
Directors' fees and remuneration*	626	370	256
Hosting international event	454	263	191
Incorporation expenses of subsidiaries	-	-	-
Parking space rental	516	305	211
Printing and stationery	1,426	843	583
Professional and consultancy fees	3,735	1,040	2,695
Scholarship programme	474	280	194
Subscriptions and memberships	453	268	185
Telecommunication and computer systems	1,881	1,113	768
Training and development	2,337	1,372	965
Travelling	922	570	352
Utilities, office maintenance and general insurance	951	561	390
Miscellaneous	522	329	193
<b>Total other expenses</b>	<b>14,341</b>	<b>7,340</b>	<b>7,001</b>

	2012		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Audit fees	40	24	16
Directors' fees and remuneration*	665	398	267
Hosting international event	513	305	208
Incorporation expenses of subsidiaries	77	40	37
Parking space rental	453	271	182
Printing and stationery	1,401	838	563
Professional and consultancy fees	5,872	2,020	3,852
Scholarship programme	443	265	178
Subscriptions and memberships	429	256	173
Telecommunication and computer systems	1,655	990	665
Training and development	1,728	1,003	725
Travelling	879	530	349
Utilities, office maintenance and general insurance	706	422	284
Miscellaneous	778	522	256
<b>Total other expenses</b>	<b>15,639</b>	<b>7,884</b>	<b>7,755</b>

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



# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013

### 16. TAXATION

PIDM is exempted from income tax at the statutory level.

### 17. OPERATING LEASES

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

PIDM has entered into a non-cancellable tenancy contract for the use of space for PIDM's interim Disaster Recovery Site. The tenancy is for two years (First Term) beginning 1 April 2011 at a fixed rental rate. Thereafter, PIDM has the option to renew for another two years (Second Term) plus a further two years (Third Term), both at a rate to be agreed upon between PIDM and the landlord. There is no purchase option clause included in the contract. During the year, PIDM exercised its option to extend the tenancy contract for the Second Term at the same rate as agreed by both PIDM and the landlord.

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

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

	2013 RM'000	2012 RM'000
Future minimum lease payments:		
Not later than 1 year	5,376	5,337
Later than 1 year and not later than 5 years	3,923	8,945
<b>Total operating lease commitments</b>	<b>9,299</b>	<b>14,282</b>

### 18. CAPITAL COMMITMENTS

	2013 RM'000	2012 RM'000
Approved and contracted for:		
Land and building	5,483	3,383
Office equipment and computer systems	3,329	1,402
<b>Total capital commitments</b>	<b>8,812</b>	<b>4,785</b>

The capital commitment for land and building includes the remaining balance of the payment for the purchase of land as well as professional and consultancy expenses for the development of PIDM's Disaster Recovery Centre.

### 19. RELATED PARTY DISCLOSURES

#### a. Transactions with related parties

PIDM is a statutory body governed by the PIDM Act. As such, PIDM is related by way of common interest with all Government Department, agencies and other statutory bodies. During the financial year, PIDM has transacted with some of these related parties for various provision of services. All the transactions were transacted at commercial arm's length basis. The following table discloses the significant related party transactions:

	NOTE	EXPENSES		PAYABLES	
		2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Bank Negara Malaysia	i	276	2,563	23	-
Kumpulan Wang Simpanan Pekerja	ii	4,780	4,189	12	91
Pertubuhan Keselamatan Sosial	ii	80	69	-	-

- Transaction relates to rental of space for the Disaster Recovery Centre (DRC) and purchase of land for DRC.
- PIDM makes contributions to the statutory national pension scheme, the Employees Provident Fund as well as the Social Security Organisation as disclosed in Note 14.

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

#### b. Remuneration of key management personnel

	2013 RM'000	2012 RM'000
Short-term benefits	11,081	10,417
Post employment benefits:		
Contributions to defined contribution plan	1,000	855
<b>Total remuneration of key management personnel</b>	<b>12,081</b>	<b>11,272</b>

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

The amount above does not include Directors whose remuneration is disclosed separately in Note 15. Remuneration of key management personnel is also included in the employee benefits disclosure in Note 14.

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013

### 20. SEGMENT INFORMATION

#### Fund reporting

#### STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2013

ASSETS	Note	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Solidarity Takaful RM'000
Cash and cash equivalents	4a	874,242	314,265	79,229	415,544	52,914	1,424	10,866
Investments								
<i>Available-for-sale investments</i>	5a	-	-	-	-	-	-	-
<i>Held-to-maturity investments</i>	5b	1,023,280	335,763	25,679	604,313	50,371	5,000	2,154
Other assets	6	8,863	2,617	820	4,535	741	55	95
Investments in subsidiaries	7	-	-	-	-	-	-	-
Property and equipment	8	17,156	11,922	2,179	833	1,888	108	226
<b>Total Assets</b>		<b>1,923,541</b>	<b>664,567</b>	<b>107,907</b>	<b>1,025,225</b>	<b>105,914</b>	<b>6,587</b>	<b>13,341</b>
LIABILITIES								
Payables	9	7,029	3,619	500	789	1,802	105	214
<b>Total Liabilities</b>		<b>7,029</b>	<b>3,619</b>	<b>500</b>	<b>789</b>	<b>1,802</b>	<b>105</b>	<b>214</b>
FUNDS AND RESERVES								
Accumulated surpluses	10	1,916,512	660,948	107,407	1,024,436	104,112	6,482	13,127
Other reserves	10	-	-	-	-	-	-	-
<b>Total Funds and Reserves</b>		<b>1,916,512</b>	<b>660,948</b>	<b>107,407</b>	<b>1,024,436</b>	<b>104,112</b>	<b>6,482</b>	<b>13,127</b>
<b>Total Liabilities, Funds and Reserves</b>		<b>1,923,541</b>	<b>664,567</b>	<b>107,907</b>	<b>1,025,225</b>	<b>105,914</b>	<b>6,587</b>	<b>13,341</b>

### 20. SEGMENT INFORMATION (continued)

#### Fund reporting (continued)

#### STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012

ASSETS	Note	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Solidarity Takaful RM'000
Cash and cash equivalents	4a	745,211	289,930	49,975	377,123	24,315	1,107	2,761
Investments								
<i>Available-for-sale investments</i>	5a	4,859	-	-	4,859	-	-	-
<i>Held-to-maturity investments</i>	5b	923,396	228,091	30,068	606,736	49,868	2,977	5,656
Other assets	6	9,194	2,569	706	5,431	408	26	54
Investments in subsidiaries	7	-	-	-	-	-	-	-
Property and equipment	8	24,123	18,026	3,287	765	1,728	102	215
<b>Total Assets</b>		<b>1,706,783</b>	<b>538,616</b>	<b>84,036</b>	<b>994,914</b>	<b>76,319</b>	<b>4,212</b>	<b>8,686</b>
LIABILITIES								
Payables	9	8,988	4,794	781	929	2,101	121	262
<b>Total Liabilities</b>		<b>8,988</b>	<b>4,794</b>	<b>781</b>	<b>929</b>	<b>2,101</b>	<b>121</b>	<b>262</b>
FUNDS AND RESERVES								
Accumulated surpluses	10	1,697,977	533,822	83,255	994,167	74,218	4,091	8,424
Other reserves	10	(182)	-	-	(182)	-	-	-
<b>Total Funds and Reserves</b>		<b>1,697,795</b>	<b>533,822</b>	<b>83,255</b>	<b>993,985</b>	<b>74,218</b>	<b>4,091</b>	<b>8,424</b>
<b>Total Liabilities, Funds and Reserves</b>		<b>1,706,783</b>	<b>538,616</b>	<b>84,036</b>	<b>994,914</b>	<b>76,319</b>	<b>4,212</b>	<b>8,686</b>

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013

### 20. SEGMENT INFORMATION (continued)

#### Fund reporting (continued)

#### STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Solidarity Takaful RM'000
Premium revenues	11	245,100	151,565	28,754	7,487	47,252	3,370	6,672
Investment income from cash and investment securities	12	56,142	17,639	2,886	32,297	2,833	152	335
Realised gains / (losses) from divestment of investment securities	13	(650)	-	-	(650)	-	-	-
<b>Total revenues</b>		<b>300,592</b>	<b>169,204</b>	<b>31,640</b>	<b>39,134</b>	<b>50,085</b>	<b>3,522</b>	<b>7,007</b>
Employee benefits	14	44,185	21,717	3,834	5,085	11,579	650	1,320
Public relations and advertising		10,406	5,171	917	1,179	2,687	149	303
Depreciation	8	7,590	6,136	1,135	87	196	11	25
Operating leases		5,535	2,816	500	606	1,379	77	157
Other expenses	15	14,341	6,238	1,102	1,908	4,350	244	499
<b>Total expenses</b>		<b>82,057</b>	<b>42,078</b>	<b>7,488</b>	<b>8,865</b>	<b>20,191</b>	<b>1,131</b>	<b>2,304</b>
<b>Net surplus for the year</b>		<b>218,535</b>	<b>127,126</b>	<b>24,152</b>	<b>30,269</b>	<b>29,894</b>	<b>2,391</b>	<b>4,703</b>
<b>Other comprehensive income</b>								
<b>Items that can be subsequently reclassified to profit or loss</b>								
Net gains / (losses) on available-for-sale investments	10b	182	-	-	182	-	-	-
<b>Total comprehensive income for the year</b>		<b>218,717</b>	<b>127,126</b>	<b>24,152</b>	<b>30,451</b>	<b>29,894</b>	<b>2,391</b>	<b>4,703</b>

### 20. SEGMENT INFORMATION (continued)

#### Fund reporting (continued)

#### STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Solidarity Takaful RM'000
Premium revenues	11	214,262	107,394	19,051	23,978	54,654	3,025	6,160
Investment income from cash and investment securities	12	48,782	14,316	2,218	30,029	1,910	96	213
Realised gains / (losses) from divestment of investment securities	13	(37)	-	-	(37)	-	-	-
<b>Total revenues</b>		<b>263,007</b>	<b>121,710</b>	<b>21,269</b>	<b>53,970</b>	<b>56,564</b>	<b>3,121</b>	<b>6,373</b>
Employee benefits	14	39,390	19,219	3,279	4,598	10,391	612	1,291
Public relations and advertising		9,937	5,054	862	1,094	2,474	146	307
Depreciation	8	5,236	4,299	790	40	90	6	11
Operating leases		5,114	2,579	443	567	1,289	76	160
Other expenses	15	15,639	6,740	1,144	2,111	4,772	281	591
<b>Total expenses</b>		<b>75,316</b>	<b>37,891</b>	<b>6,518</b>	<b>8,410</b>	<b>19,016</b>	<b>1,121</b>	<b>2,360</b>
<b>Net surplus for the year</b>		<b>187,691</b>	<b>83,819</b>	<b>14,751</b>	<b>45,560</b>	<b>37,548</b>	<b>2,000</b>	<b>4,013</b>
<b>Other comprehensive income</b>								
<b>Items that can be subsequently reclassified to profit or loss</b>								
Net gains / (losses) on available-for-sale investments	10b	391	-	-	391	-	-	-
<b>Total comprehensive income for the year</b>		<b>188,082</b>	<b>83,819</b>	<b>14,751</b>	<b>45,951</b>	<b>37,548</b>	<b>2,000</b>	<b>4,013</b>



# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013

### 20. SEGMENT INFORMATION (continued)

#### Fund reporting (continued)

#### STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Solidarity Takaful RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>								
Premiums received from member institutions		245,100	151,565	28,754	7,487	47,252	3,370	6,672
Payments in the course of operations to suppliers and employees		(76,414)	(36,514)	(6,657)	(9,072)	(20,644)	(1,163)	(2,364)
Receipts of investment income		58,111	17,699	2,604	34,277	2,914	204	413
<b>Net cash flows from operating activities</b>		<b>226,797</b>	<b>132,750</b>	<b>24,701</b>	<b>32,692</b>	<b>29,522</b>	<b>2,411</b>	<b>4,721</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>								
Proceeds from sale of investment securities		2,836,027	1,186,934	216,228	1,140,377	243,750	13,511	35,227
Purchase of investment securities		(2,932,446)	(1,294,668)	(211,556)	(1,134,499)	(244,334)	(15,586)	(31,803)
Purchase of property and equipment		(1,347)	(681)	(119)	(149)	(339)	(19)	(40)
<b>Net cash flows (used in) / generated from investing activities</b>		<b>(97,766)</b>	<b>(108,415)</b>	<b>4,553</b>	<b>5,729</b>	<b>(923)</b>	<b>(2,094)</b>	<b>3,384</b>
<b>Net increase in cash and cash equivalents</b>		<b>129,031</b>	<b>24,335</b>	<b>29,254</b>	<b>38,421</b>	<b>28,599</b>	<b>317</b>	<b>8,105</b>
Cash and cash equivalents at beginning of year		745,211	289,930	49,975	377,123	24,315	1,107	2,761
<b>Cash and cash equivalents at end of year</b>	4a	<b>874,242</b>	<b>314,265</b>	<b>79,229</b>	<b>415,544</b>	<b>52,914</b>	<b>1,424</b>	<b>10,866</b>

### 20. SEGMENT INFORMATION (continued)

#### Fund reporting (continued)

#### STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Solidarity Takaful RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>								
Premiums received from member institutions		214,262	107,394	19,051	23,978	54,654	3,025	6,160
Payments in the course of operations to suppliers and employees		(74,083)	(35,609)	(6,146)	(8,854)	(19,839)	(1,171)	(2,464)
Receipts of investment income		49,359	14,336	2,281	30,894	1,688	45	115
<b>Net cash flows from operating activities</b>		<b>189,538</b>	<b>86,121</b>	<b>15,186</b>	<b>46,018</b>	<b>36,503</b>	<b>1,899</b>	<b>3,811</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>								
Proceeds from sale of investment securities		1,779,133	795,277	124,961	715,443	127,566	2,975	12,911
Purchase of investment securities		(1,561,669)	(822,024)	(124,459)	(442,883)	(147,935)	(5,900)	(18,468)
Purchase of property and equipment		(1,154)	(589)	(101)	(126)	(285)	(17)	(36)
<b>Net cash flows generated from / (used in) investing activities</b>		<b>216,310</b>	<b>(27,336)</b>	<b>401</b>	<b>272,434</b>	<b>(20,654)</b>	<b>(2,942)</b>	<b>(5,593)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>405,848</b>	<b>58,785</b>	<b>15,587</b>	<b>318,452</b>	<b>15,849</b>	<b>(1,043)</b>	<b>(1,782)</b>
Cash and cash equivalents at beginning of year		339,363	231,145	34,388	58,671	8,466	2,150	4,543
<b>Cash and cash equivalents at end of year</b>	4a	<b>745,211</b>	<b>289,930</b>	<b>49,975</b>	<b>377,123</b>	<b>24,315</b>	<b>1,107</b>	<b>2,761</b>

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013

### 21. FINANCIAL INSTRUMENTS

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

Part of the former Insurance Guarantee Scheme Funds (IGSF) investment portfolio previously administered by Bank Negara Malaysia, that was transferred to PIDM in 2011 comprises investment securities that are not in line with PIDM's approved Investment Policy. In 2011, a specific approval from the Board of Directors has been obtained in order to exempt these investment securities from complying with the Investment Policy. The investment securities that are not in compliance with the Investment Policy consist of Government securities with long-term tenures and PDS.

#### a. Foreign currency risk

PIDM is currently not exposed to any currency risk as all transactions were transacted in Ringgit Malaysia denominated currency.

#### b. Interest rate risk and rate of return risk

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

The financial assets are primarily made up of investment assets held in Malaysian Government Securities and Investment Issues as well as Bank Negara Malaysia Bills and Negotiable Notes. The interest rate risk in this respect arises from fluctuations in market interest rate that 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, may consequently affect the market values and reinvestment decisions of these financial assets. To mitigate these risks, PIDM currently only invests in short-term and medium-term securities that 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 that are exposed to interest rate risk.

### 21. FINANCIAL INSTRUMENTS (continued)

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

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

Conventional Deposit Insurance Fund	Note	WAYR %	Within 3 months RM'000	4 - 12 months RM'000	13 - 36 months RM'000	37 - 60 months RM'000	61 - 120 months RM'000	Total RM'000
<b>31 December 2013</b>								
<b>Fixed rate</b>								
Cash and cash equivalents	4a	2.90	314,265	-	-	-	-	314,265
Investments	5	2.90	-	335,763	-	-	-	335,763
31 December 2012								
Fixed rate								
Cash and cash equivalents	4a	2.96	289,930	-	-	-	-	289,930
Investments	5	2.99	-	228,091	-	-	-	228,091
<b>Islamic Deposit Insurance Fund</b>								
<b>31 December 2013</b>								
<b>Fixed rate</b>								
Cash and cash equivalents	4a	2.94	79,229	-	-	-	-	79,229
Investments	5	2.94	-	25,679	-	-	-	25,679
31 December 2012								
Fixed rate								
Cash and cash equivalents	4a	3.00	49,975	-	-	-	-	49,975
Investments	5	2.99	-	30,068	-	-	-	30,068

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013

### 21. FINANCIAL INSTRUMENTS (continued)

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

General Insurance Protection Fund	Note	WAYR %	Within 3 months RM'000	4 - 12 months RM'000	13 - 36 months RM'000	37 - 60 months RM'000	61 - 120 months RM'000	Total RM'000
<b>31 December 2013</b>								
<b>Fixed rate</b>								
Cash and cash equivalents	4a	2.94	415,544	-	-	-	-	415,544
Investments	5	3.22	-	310,094	177,701	61,036	55,482	604,313
<b>31 December 2012</b>								
<b>Fixed rate</b>								
Cash and cash equivalents	4a	2.99	377,123	-	-	-	-	377,123
Investments	5	3.34	-	206,738	267,737	60,837	76,283	611,595
<b>Life Insurance Protection Fund</b>								
<b>31 December 2013</b>								
<b>Fixed rate</b>								
Cash and cash equivalents	4a	2.91	52,914	-	-	-	-	52,914
Investments	5	2.87	-	50,371	-	-	-	50,371
<b>31 December 2012</b>								
<b>Fixed rate</b>								
Cash and cash equivalents	4a	2.97	24,315	-	-	-	-	24,315
Investments	5	3.00	-	49,868	-	-	-	49,868

### 21. FINANCIAL INSTRUMENTS (continued)

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

General Takaful Protection Fund	Note	WAYR %	Within 3 months RM'000	4 - 12 months RM'000	13 - 36 months RM'000	37 - 60 months RM'000	61 - 120 months RM'000	Total RM'000
<b>31 December 2013</b>								
<b>Fixed rate</b>								
Cash and cash equivalents	4a	2.90	1,424	-	-	-	-	1,424
Investments	5	2.90	-	5,000	-	-	-	5,000
<b>31 December 2012</b>								
<b>Fixed rate</b>								
Cash and cash equivalents	4a	1.95	1,107	-	-	-	-	1,107
Investments	5	3.00	-	2,977	-	-	-	2,977
<b>Family Solidarity Takaful Protection Fund</b>								
<b>31 December 2013</b>								
<b>Fixed rate</b>								
Cash and cash equivalents	4a	2.91	10,866	-	-	-	-	10,866
Investments	5	2.90	-	2,154	-	-	-	2,154
<b>31 December 2012</b>								
<b>Fixed rate</b>								
Cash and cash equivalents	4a	2.74	2,761	-	-	-	-	2,761
Investments	5	3.00	-	5,656	-	-	-	5,656



# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013

### 21. FINANCIAL INSTRUMENTS (continued)

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

Based on PIDM's investment portfolio as at 31 December 2013, the following table shows how net surplus would have been affected by a 50 basis points increase or decrease in WAYR.

	NET SURPLUS						
	TOTAL RM'000	CONVENTIONAL DIS RM'000	ISLAMIC DIS RM'000	GENERAL INSURANCE RM'000	LIFE INSURANCE RM'000	GENERAL TAKAFUL RM'000	FAMILY SOLIDARITY TAKAFUL RM'000
<b>50 basis points increase</b>							
<b>31 December 2013</b>	<b>9,226</b>	<b>2,995</b>	<b>488</b>	<b>5,177</b>	<b>480</b>	<b>28</b>	<b>58</b>
31 December 2012	7,864	2,429	377	4,681	322	18	37
<b>50 basis points decrease</b>							
<b>31 December 2013</b>	<b>(9,226)</b>	<b>(2,995)</b>	<b>(488)</b>	<b>(5,177)</b>	<b>(480)</b>	<b>(28)</b>	<b>(58)</b>
31 December 2012	(7,864)	(2,429)	(377)	(4,681)	(322)	(18)	(37)

#### c. Liquidity risk

PIDM's liquidity risk relates to the capability of PIDM to meet its obligations as they become due, without incurring unacceptable losses. This may be caused by the inability to liquidate assets as they become due or to obtain funding to meet its liquidity needs. A significant amount of funds available for investment were invested in short-term securities. PIDM continuously endeavours to manage the maturity profiles of these securities in order to ensure that sufficient funds are available at all times to meet the day to day working capital requirements or to bring any financial risk exposures within the approved exposure limits. The values of these investments by the maturity profiles are represented in Note 21(b). The following table sets PIDM's short-term assets and liabilities maturity profile.

	Note	31 December 2013				31 December 2012			
		LESS THAN 30 DAYS RM'000	31- 60 DAYS RM'000	MORE THAN 60 DAYS RM'000	TOTAL RM'000	LESS THAN 30 DAYS RM'000	31- 60 DAYS RM'000	MORE THAN 60 DAYS RM'000	TOTAL RM'000
<b>Cash and cash equivalents</b>	4a	<b>288,455</b>	<b>396,163</b>	<b>189,624</b>	<b>874,242</b>	177,416	440,804	126,991	745,211
<b>Payables</b>	9	<b>(5,303)</b>	<b>(223)</b>	<b>(1,503)</b>	<b>(7,029)</b>	(7,106)	-	(1,882)	(8,988)
<b>Net short-term assets / (liabilities)</b>		<b>283,152</b>	<b>395,940</b>	<b>188,121</b>	<b>867,213</b>	170,310	440,804	125,109	736,223

### 21. FINANCIAL INSTRUMENTS (continued)

#### c. Liquidity risk (continued)

PIDM also has a funding framework to deal with funding requirements relating to IFR activities. The main objective of the framework is to ensure that PIDM has adequate financial resources required for the proper operations of a robust and sound DIS as well as TIPS. The funding framework takes into consideration PIDM's role in the financial safety net and its legislative powers relating to sources of funding as well as clear objectives for its internal and external sources of funding.

i. **Internal funding** is developed through the accumulation of net surpluses after operating expenses. The annual net surplus is credited into the respective Protection Funds as reserves and is accumulated to meet future obligations that may arise from providing the financial consumer protection programmes.

ii. **External funding** may be raised through either borrowings from the Government, from capital markets or other sources as deemed necessary and appropriate. External funding sources will be used to meet any additional liquidity requirements that may arise. The PIDM Act empowers PIDM to borrow or raise funds to meet its obligations. PIDM may borrow from the Government with the approval of the Minister of Finance on such terms and conditions as the Minister determines.

#### d. Market risk

PIDM's market risk relates to the risk of loss resulting from adverse changes in the value of its asset holdings arising from movements in market rates or prices. Market risk in PIDM includes investment-related risks. The market risk exposure of PIDM may vary during normal operations or as a result of IFR activities. Under normal operations, PIDM invests in short-term and medium-term securities which are intended to be held-to-maturity. As such, PIDM's current exposure to market risk in the context of these investments is minimal.

#### e. Credit risk

PIDM invests primarily in Malaysian Government Securities and Investment Issues, Bank Negara Malaysia Bills and Negotiable Notes, which are generally considered as low risk assets. PIDM does not expect the counterparties to default and as such, considers the credit risk on these investment assets to be minimal.

Besides the Government investment securities and Bank Negara Malaysia notes, PIDM also has investments in PDS, which were part of the investment assets transferred from the former IGSF in 2011. Of these securities, PIDM only maintains PDS that are issued by the Government-Linked Companies (GLCs) with a minimum rating of AA+. As these PDS potentially exposes PIDM to credit risk of default, PIDM continuously monitors the credit standing of the issuers of the PDS for any potential downgrade in the credit ratings. This credit risk is only applicable to the PDS transferred from the former IGSF.

#### f. Fair values

Generally, the carrying values of financial assets and liabilities of DIFs and TIPFs approximate their fair values, except for the investments in PDS whereby the fair value may be represented by the market values of these securities noted in Note 5.

PIDM has an appropriate framework and policies that provide guidance concerning the practical considerations, principles and analytical approaches for the establishment of prudent valuation for financial instruments measured at fair value.

The fair value of a financial instrument is the amount at which the instrument can be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than in a forced or liquidation sale. The valuations of financial instruments are determined by reference to quoted prices in active markets or by using valuation techniques based on observable inputs or unobservable inputs. Management judgement is exercised in the selection and application of appropriate parameters, assumptions and modelling techniques where some or all of the parameter inputs are not observable in deriving fair value.

In addition, PIDM continuously enhances its design and validation methodologies and processes used to produce valuations. The valuation models are validated both internally and externally, with periodic reviews to ensure that the model remains suitable for its intended use.

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013

### 21. FINANCIAL INSTRUMENTS (continued)

#### f. Fair values (continued)

##### Determination of fair value

##### i. Level 1: Quoted prices

This refers to financial instruments that are regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, pricing service or regulatory agency and those prices that represent actual and regularly occurring market transactions on an arm's length basis. Such financial instruments include actively traded government securities.

##### ii. Level 2: Valuation techniques using observable inputs

This refers to inputs other than quoted price included within Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices). Examples of Level 2 financial instruments include corporate and other government bonds.

##### iii. Level 3: Valuation techniques using significant unobservable inputs

This refers to financial instruments where the fair value is measured using significant unobservable market inputs. The valuation technique is consistent with Level 2. The chosen valuation technique incorporates PIDM's own assumptions and data. Examples of Level 3 instruments include corporate bonds in illiquid markets.

The following table shows PIDM's financial assets that are measured at fair value analysed by level within the fair value hierarchy.

##### Fair value disclosures based on 3-level hierarchy

Classification of financial instruments measured at fair values using the following fair value hierarchies:

	As at 31 December 2013		
	Valuation technique using		
	Observable Inputs Level 2 RM'000	Unobservable Inputs Level 3 RM'000	Total RM'000
Financial assets measured at fair values:			
Available-for-sale investments	-	-	-
	-	-	-

### 21. FINANCIAL INSTRUMENTS (continued)

#### f. Fair values (continued)

##### Fair value disclosures based on 3-level hierarchy (continued)

	As at 31 December 2012		
	Valuation technique using		
	Observable Inputs Level 2 RM'000	Unobservable Inputs Level 3 RM'000	Total RM'000
Financial assets measured at fair values:			
Available-for-sale investments	-	4,859	4,859
	-	4,859	4,859

##### Valuation techniques

The valuation techniques used for the financial instruments that are not determined by reference to quoted prices (Level 1) are described below:

##### Available-for-sale investments

The fair values of available-for-sale investments in 2012 were determined based on internal valuation model as those investments were thinly traded. All available-for-sale investments were divested in the 2013 financial year which resulted in the realised losses of RM707,437 as disclosed in the Note 13 to the financial statements.

Reconciliation of fair value measurements in Level 3 of the fair value hierarchy:

At 1 January 2013

Divestment

At 31 December 2013

Losses on divestment of available-for-sale investments recognised during the year consist of:

Net losses arising the during the year

Prior year losses recognised in Other Reserves reclassified to the Statement of Profit or Loss

Available-for-sale investments RM'000
4,859
(4,859)
-
(525)
(182)
(707)

## FINANCIAL STATEMENTS

### NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013

#### 22. CURRENCY

All amounts are stated in Ringgit Malaysia.

#### 23. CONTINGENT LIABILITIES

##### Exposure to losses

Under the PIDM Act, PIDM has an inherent exposure to losses resulting from insuring deposits under DIS as well as protecting insurance policies and takaful certificates under TIPS held by policy holders. However, this inherent exposure cannot be accurately ascertained or estimated with any acceptable degree of reliability. During the year, there have been no events that would require PIDM to record a specific provision in its financial statements in accordance with MFRS 137 *Provisions, Contingent Liabilities and Contingent Assets*.

As part of its mandate, PIDM undertakes risk assessment and monitoring of all member institutions and works closely with the supervisory authority to ensure that concerns about the business and affairs of member institutions are addressed promptly. However, PIDM necessarily relies on the supervisory authority to take prompt corrective action to mitigate the possibility of a member institution failure.

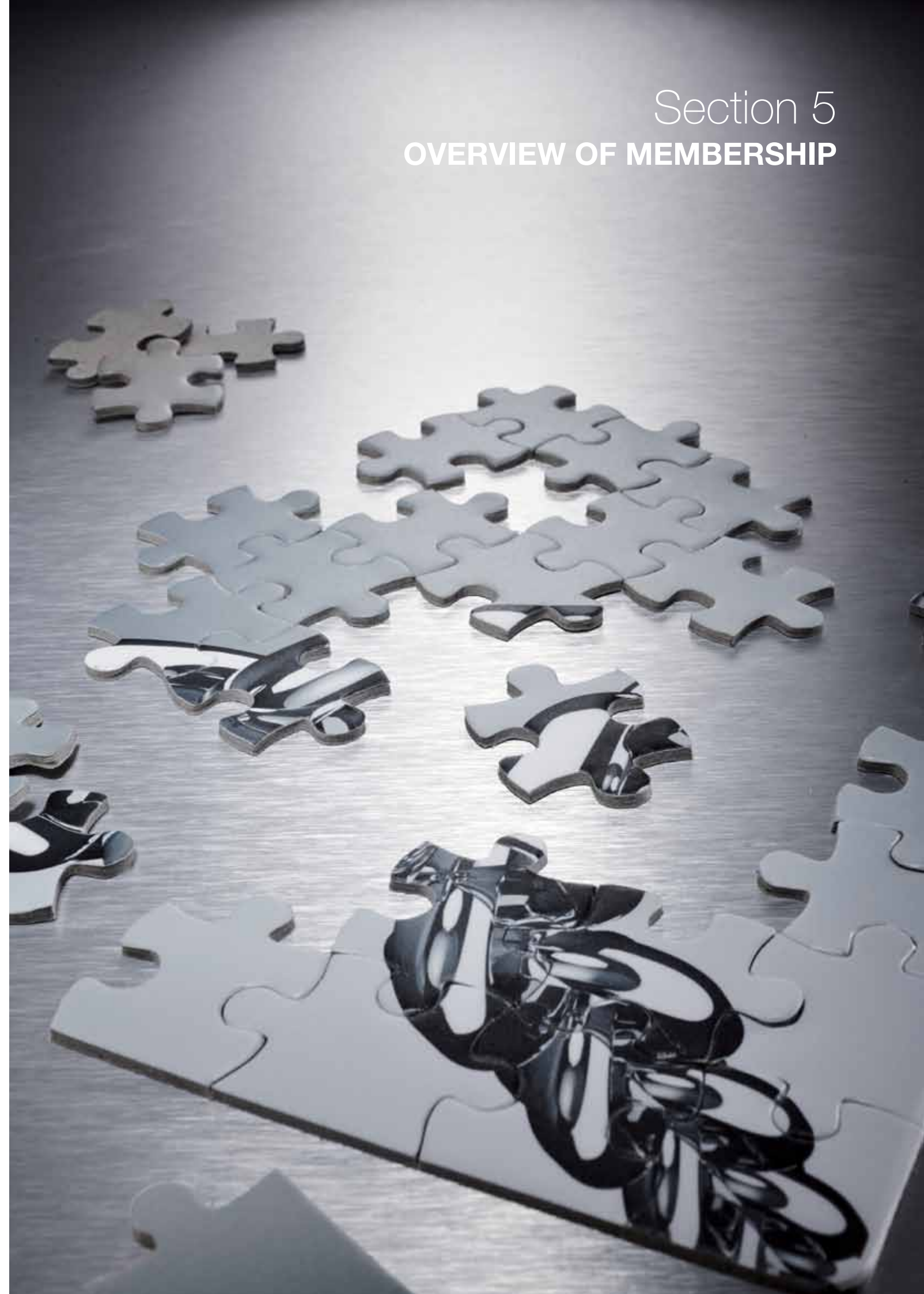
For member banks, PIDM reinforces financial discipline through its DPS, which provides strong incentives for member banks to adopt sound and rigorous risk management practices including the maintenance of strong capital positions. During the year, PIDM implemented a similar DLS for conventional insurer members. PIDM plans to implement a DLS for takaful operators in 2014.

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

While provisions are not recorded unless a specific event occurs, PIDM continues to build reserves in its Protection Funds through the accumulation of annual net surpluses arising from its operations. Accumulated surpluses are held in each Fund to cover losses when respective obligations arise. Accumulated surpluses in one Fund cannot be used to cover obligations of another Fund. As discussed in Note 10, PIDM has established the Target Fund framework for DIFs. PIDM will also be developing a Target Fund framework for the general insurance industry in 2014 and thereafter, for the remaining Funds within the TIPFs, similar to that of DIFs, over the next several years.

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

## Section 5 OVERVIEW OF MEMBERSHIP





## OVERVIEW OF MEMBERSHIP

The continuing favourable operating landscape in 2013 contributed to steady growth and sustained earnings at our member institutions. The year ended on a positive footing for member institutions, as reflected by strong business fundamentals, which was underpinned by healthy domestic demand and an accommodative borrowing environment.

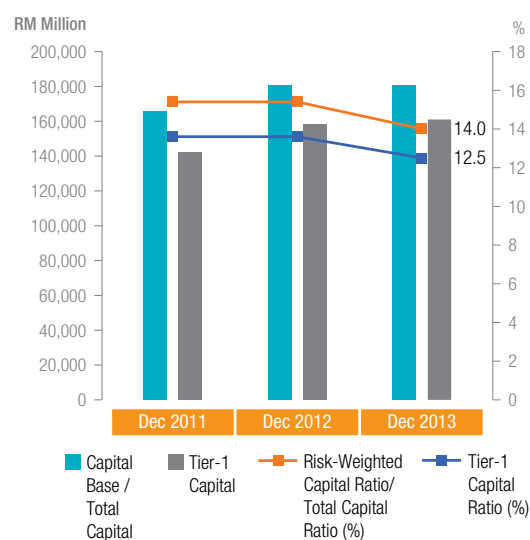
PIDM's total members stood at 87 as at end of 2013, comprising 43 member banks and 44 insurer members. The number of insurer members reduced by two in 2013, following the completion of two merger exercises involving major players in the market. Moving forward, we expect further consolidation in the insurance industry.

### MEMBER BANKS

#### Strong Capital Position

Capitalisation at member banks remained healthy in 2013, despite the stricter Basel III capital requirements. The banking industry's average common equity Tier-1 (CET1), Tier-1 and total capital ratios stood strong at 11.7%, 12.5% and 14.0% respectively. The current capital base provides a buffer of RM77.7 billion for loss absorption, before the minimum 8% regulatory requirement on total capital would be breached.

Similarly, the leverage ratio for member banks was at a respectable 12.3 times of total assets (2012: 11.4 times).



Note: Beginning January 2013, capital components are reported based on Basel III Capital Adequacy Framework

Chart 1: Capital Position

#### Resilient and Stable Asset Quality

The overall asset quality of member banks remained strong, with stable credit indicators across most segments. Although there was a slight increase in the quantum of impaired loans in 2013, gross and net impaired loans ratios were at an all-time low of 1.9% and 1.3% respectively (2012: 2.0% and 1.4% respectively). Meanwhile, the loan loss coverage ratio stood at a comfortable level of 105.1% (2012: 99.2%).

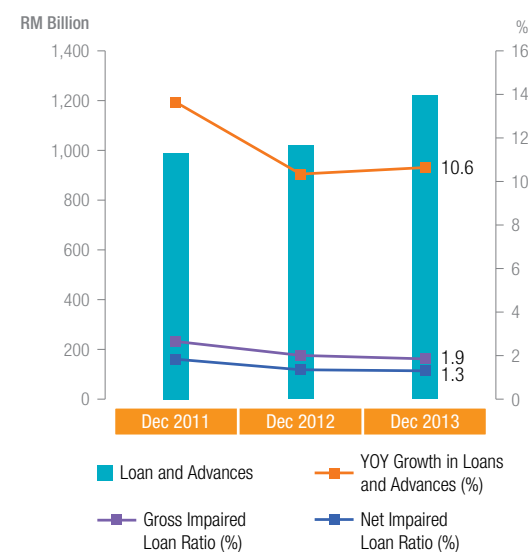


Chart 2: Selected Asset Quality Indicators

Bank financing grew by 10.6% in 2013, marginally higher than the 10.3% recorded in 2012. Household financing continued to drive this expansion, growing by 12.0% during the year vis-à-vis 11.4% in the previous calendar year. Financing for purchase of residential property remained the primary catalyst for growth, while funding towards other household sectors saw some moderation, in line with the stricter lending requirements issued by Bank Negara Malaysia (BNM).

#### Sustained Earnings Performance

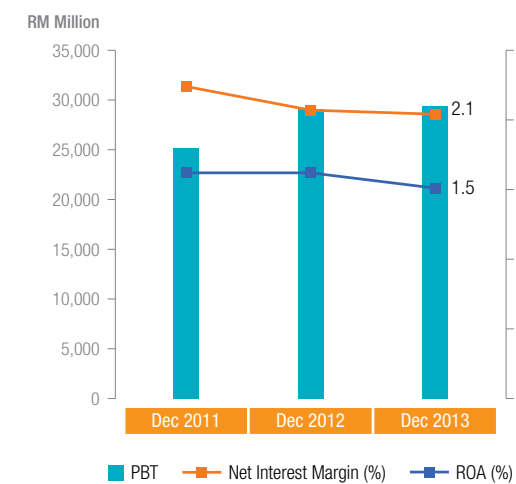


Chart 3: Profitability Trends

Member banks recorded higher profit before tax of RM28.8 billion in 2013 (2012: RM28.2 billion). However, profitability ratios showed signs of moderation as indicated by the lower return on assets of 1.5% versus 1.6% in 2012. This was underpinned by net interest margin compression arising from intense competition among domestic banks as well as credit cost normalisation after strong recoveries in 2012. Positively, we see an increased focus on non-interest income, especially fee based income, to supplement earnings and diversify the income base.

#### Stable Liquidity and Funding Profile

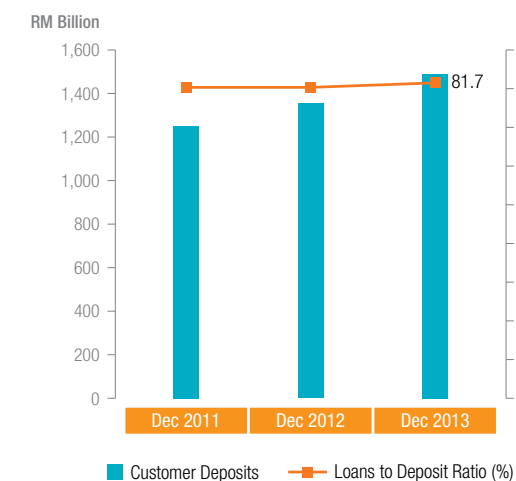


Chart 4: Selected Liquidity and Funding Indicators

The liquidity and funding profile of our member banks remained stable. Customer deposits rose 9.0% year-on-year to RM1.5 trillion in 2013. The loans to deposit ratio remained comfortable, despite increasing slightly to 81.7% (2012: 80.1%) as loan expansion outpaced deposit growth. Overall, the depositor composition in member banks was well diversified – individual depositors comprised 37.8%, followed by business enterprises at 34.4%.

### INSURER MEMBERS

#### Capital Adequacy Continued to be Resilient

In 2013, we continued to observe resilient capital adequacy in the insurance industry, as evidenced by a sound capital adequacy ratio (CAR) of 245.7% (2012: 218.0%). The industry's capital buffer was strong and stood at RM17.3 billion. None of the insurer members were operating below BNM's supervisory target level of 130%.

Year 2013 was important for the takaful industry. The requirement for parallel reporting of the Risk-Based Capital Framework for Takaful Operators (RBCT) came into effect, as takaful operators geared towards the implementation of RBCT in 2014.

With the introduction of RBCT, the capital requirements for takaful operators are now aligned with those for conventional insurer members. Similar to the key objective of Risk-Based Capital Framework for Insurers (RBC) implemented by BNM since 2009, RBCT was established to define the regulatory expectation for takaful operators to maintain capital adequacy levels that are commensurate with the risk profile of their operations and to act as the financial buffer for takaful exposure. Ultimately, RBCT promotes greater vigilance in managing risk profiles, leading to efficient use of capital.

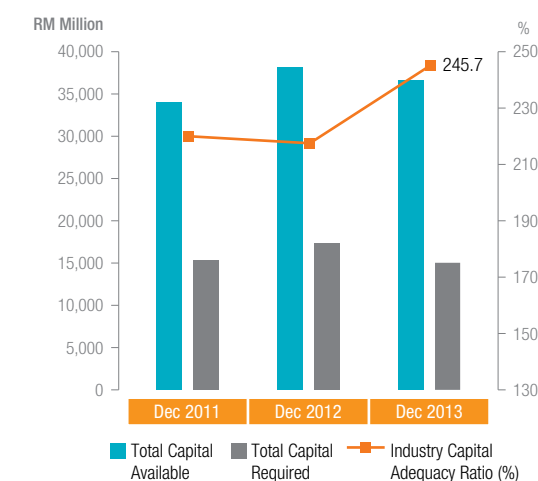


Chart 5: Capital Position

## OVERVIEW OF MEMBERSHIP

### Steady Growth in Assets

In 2013, total assets held by general and life insurer members grew by 9.3% (2012: 7.3%) and 6.8% (2012: 10.2%) respectively, riding on resilient private consumption growth. In relation to assets composition, investments in corporate debt and securities continued to dominate the life insurance fund. Meanwhile, the general insurance fund was largely made up of cash and deposits, consistent with the liquidity required to manage the short-tailed insurance liabilities of the general insurance business.

For the takaful operators, general takaful operators saw assets expansion of 8.0% in 2013, while family takaful operators' assets expanded by 10.3%, compared to 7.2% and 13.3% respectively in 2012. In relation to assets composition, the trend from previous years continued with Islamic debt securities comprising the majority of the assets portfolio in both family and general takaful funds.

### Stable Operating Results

Earnings performance for the insurance business continued to show positive results for the 12 months ending December 2013. The general insurance business registered favourable gross premium growth of 6.4% (2012: 8.0%), bolstered by growth in private consumption that drove the demand for personal line products. In terms of underwriting results, the general insurance industry recorded a slight decline in the underwriting margin ratio of 12.5% in 2013 (2012: 12.8%). This was contributed by the motor business, the largest line of business in the general insurance industry, which reported a slight increase in claims and continued to drive the industry's net claims incurred ratio.

For the life insurance business, net premium showed positive growth of 5.6% in 2013 (2012: 9.4%). The slower growth compared with 2012 was due to a moderation in demand for investment-linked businesses during the year after recording impressive progress in the previous year. In terms of new business composition, the single premium life insurance business marginally outweighed the annual premium business in 2013, with a business concentration ratio of 97.9% (2012: 102.6%).<sup>1</sup> This may be attributed to the continued growth of investment-linked business, particularly its single premium products, and the expansion of credit-related products from bancassurance, which are also mostly single premium. In 2013, the life insurer members have also demonstrated strong ability to preserve their business without high level of lapses or early terminations, by recording an improved conservation ratio of 92.1% (2012: 87.8%).

In the takaful segment, wider distribution coverage and the launch of more new products led to the general takaful business recording strong top line growth of 9.8% in 2013 (2012: 9.2%). Meanwhile, the family takaful business' net contributions saw marginal growth of 4.7% over the same period (2012: 23.5%), primarily due to slower expansion of the mortgage term family takaful business. In terms of underwriting results, the general takaful business recorded a stable performance with an underwriting margin ratio of 14.9% in 2013 compared with the previous year, with a ratio of 14.8%.

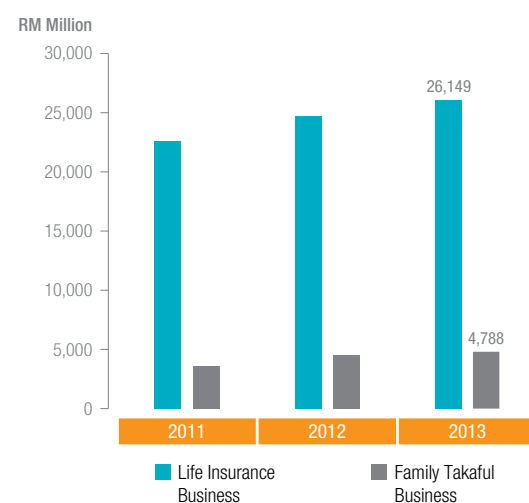


Chart 6: Net Premiums / Contributions

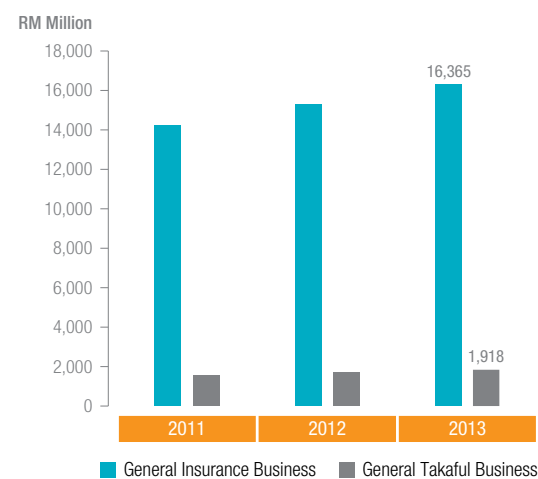


Chart 7: Gross Premiums / Contributions

## OUTLOOK AND CONCLUSION

Going forward, the Malaysian economy is expected to chart steady growth on the back of a recovering global economy and expanding export opportunities. Nonetheless, subsidy rationalisation and uncertainties brought about by impending tax reforms may restrain local private consumption, leading to challenges on the business front. On the whole, member institutions are likely to remain conservative in the coming year, both in their expansion plans and strategic business focus.

For the banking sector, softened consumer spending and rising cost of living, will likely lead to a tapering of growth in household financing. Although the threat of excessive build-up of household debt is still of concern, the potential impact over the immediate term is regarded low, as the largely strong fundamentals of member banks indicate resilience against short-term shocks.

Similarly, the insurer members are expected to remain robust in the increasingly challenging business environment. In the immediate term, we anticipate that the insurance industry will see steady growth, underpinned by low insurance penetration rate and resilient domestic demand for insurance protection.

In order to achieve efficient and focused business operations, the composite insurance licence holders are now required by the Financial Services Act (FSA) 2013 and Islamic Financial Services Act (IFSA) 2013 to separate their operations into individually licensed life and general insurance entities in five years. Driven by this development and together with the ongoing deregulation of motor tariff for general insurer members, we expect market consolidation to accelerate further and efforts in diversifying business portfolio to intensify.

The cautious sentiments and ongoing uncertainties pose challenges to the financial industry in 2014. However, given their strong fundamentals, the likely impact to our member institutions is not expected to be significant. The safety and soundness of the local financial industry is also well-supported by a strong supervisory regime, which emphasises the continuous enhancement of risk management practices. Likewise, PIDM will remain vigilant in monitoring all aspects of risks to the financial sector and continue to incentivise prudent management of member institutions.

<sup>1</sup> Business Concentration Ratio of more than 100% denotes that the composition of annual premium business is higher than single premium business, and vice versa

## Section 6

### ARTICLE

## ARTICLE

### EFFECTIVE SAFETY NET ARRANGEMENTS

#### FINANCIAL SECTOR ASSESSMENT PROGRAMME ON MALAYSIA

In 2012 - 2013, Malaysia participated in the Financial Sector Assessment Programme (FSAP), a comprehensive and in-depth assessment to gauge the stability of a country's financial sector. The FSAP is conducted jointly by the International Monetary Fund and the World Bank, and include two major components: a financial stability assessment and a financial development assessment. For Malaysia, the programme included an assessment of PIDM's compliance against the International Association of Deposit Insurers (IADI) Core Principles for Effective Deposit Insurance Systems (Core Principles). This assessment was initiated in March 2012 and completed in February 2013.

The FSAP concluded that PIDM exhibited a high degree of compliance with the Core Principles. Strengths include a culture of cooperation with other safety net participants, strong performance in its exit from the Government Deposit Guarantee, a robust public awareness programme, effective readiness and planning for potential member institution resolutions as well as openness and transparency in its operations and reporting. The report noted that there was room for improvement in areas such as the establishment of a back-up Government funding agreement and for enhancing PIDM's operational independence.

On cooperation with other safety-net participants, the Core Principle 6 of IADI's Core Principles is headed "Relationship with Other Safety Net Participants". The principle emphasises on the need for "A framework ... for the close coordination and information sharing, on a routine basis as well as in relation to particular banks, among the deposit insurer and other financial system safety-net participants. Such information should be accurate and timely (subject to confidentiality when required). Information-sharing and coordination arrangements should be formalised".

The Core Principles recognise that information sharing and coordination among a country's financial safety-net participants are particularly important for deposit insurance systems to work effectively.

A key aspect of the FSAP is therefore an evaluation of institutional arrangements, and their soundness. In particular, the FSAP assesses whether they enable safety-net players to work together to promote financial stability and respond effectively to a crisis. In addition to a well-designed deposit insurance system, the FSAP requires that these arrangements should include explicit inter-agency coordination mechanisms; a legal basis for the exchange of confidential information at all times; powers to intervene early; and a robust resolution framework.

In some jurisdictions, the robustness of such institutional arrangements is found lacking. This may be as a result of "turf" issues, the absence of clear and explicit demarcation of mandates and accountabilities, conflicting objectives and mandates, legal impediments to the sharing of confidential information or institutional resistance to proper checks and balances.

#### THE DESIGN OF FINANCIAL STABILITY INSTITUTIONS

The financial safety net to the financial system encapsulates functions and tools such as prudential regulation and supervision, the lender of last resort, deposit insurance, working together with policy and legislative functions. These functions, broadly speaking, have either "preventative" or "resolution" objectives. Preventative tools include application of prudential regulations, control and supervision. Resolution tools ensure prompt and efficient resolution processes once an institution can no longer be dealt with through the enforcement of prudential rules. An effective safety net arrangement is an integral part of a smooth-functioning financial system and contributes to economic stability.



## ARTICLE

### EFFECTIVE SAFETY NET ARRANGEMENTS



In general, the functions and tools of the financial safety net tend to be allocated to different agencies. For example, the lender of last resort role is generally the responsibility of central banks. Prudential regulation and supervision may be with a central bank or a financial regulator, and deposit insurance may be administered by another Government agency. Why, one may ask, should all of the safety net functions not be assigned to one agency?

The situation and circumstances of a jurisdiction's safety net development at the time of adopting deposit insurance does play a role in how a jurisdiction decides on which entity that is assigned the responsibility to administer a deposit insurance system, and the type of deposit insurance system chosen. There are however compelling reasons for separating the functions into different agencies:

- Provided the respective mandates are clearly set out, separation into different agencies provides for clear accountability for actions and decisions. By assigning the mandate clearly in the law, there will be little confusion about which agency is accountable for that role and the scope for unproductive finger pointing is minimised, if not avoided.
- An entity that both regulates and resolves a financial institution may be conflicted when an institution is in trouble, and raise questions about regulatory forbearance and regulatory capture, especially in relation to key issues such as the authorisation of a merger or acquisition, the provision of short term emergency liquidity assistance and the need to intervene or to liquidate a financial institution.

As for the organisation structure in the design of deposit insurance systems, one of the IADI's Guidance papers concludes that "Integrating the deposit insurance function into one of the departments of the central bank or the supervisory authority can be cost-effective and can result in better access to supervisory data on member institutions. However, analysis shows that the physical independence of the deposit insurer is a crucial element of a well-functioning safety net, as it supports the decision-making processes of various safety net members and enhances corporate governance by identifying the roles, responsibilities, and authorities of the various safety net players".<sup>1</sup>

<sup>1</sup> General Guidance for an Effective Deposit Insurance Mandate, Draft Guidance Paper prepared by the Subcommittee on the Deposit Insurance System Mandate Research and Guidance Committee International Association of Deposit Insurers, page 5

At the same time, the financial safety net is affected by the various functions within it. For example, resolution policies and the allocation of costs for a failure of an institution have an impact on the risk-taking behaviour of financial institutions. As such, capital regulation and supervision should be integrated with intervention and resolution policies in order to mitigate failures.

There is also always a risk of unproductive overlap and duplication of roles and efforts, which could lead to agencies working at cross-purposes. Thus, coordination and close cooperation among the safety net players in all aspects of managing financial system stability becomes critical. As noted earlier, it is also essential to have explicit and distinct mandates that provide clear demarcation of roles and responsibilities. In particular, clarity in mandates is a must in order to prevent unproductive overlaps and duplication, as well as confusions about objectives to be achieved and delayed interventions.

#### KEY ELEMENTS FOR EFFECTIVE SAFETY NET ARRANGEMENTS IN MALAYSIA

In Malaysia, legislation states that PIDM helps to promote confidence in the financial system. It is mandated to administer the Deposit Insurance System and the Takaful and Insurance Benefits Protection System. PIDM is to provide incentives for sound risk management in member institutions, and we do this through the implementation of our differential premium and levy systems. In addition, PIDM is to carry out this mandate in such manner so as to minimise costs to the financial system.

In carrying out our role and responsibilities, PIDM supports and works in collaboration with Bank Negara Malaysia (BNM) as the primary regulator and supervisor of the banking and insurance sectors. Deposit insurers with a "risk minimising" role must also necessarily be involved in risk identification and assessment. PIDM therefore also assesses and monitors our insurance risks in each member institution but does not duplicate BNM's supervisory role.<sup>2</sup>

#### LEGISLATIVE FRAMEWORK

In developing the financial safety net arrangements, the task force set up by BNM was also conscious of the need to avoid unproductive overlaps and duplication. This is clear from the design of legislation and relevant provisions. In particular:

- **Mandates and the trigger:** There is no overlap or duplication of resolution powers. PIDM is the resolution authority for its member institutions and has a broad range of powers designed to allow for prompt resolution of a failed member institution and this is fully acknowledged, under the new Financial Services Act and Islamic Financial Services Act.<sup>3</sup> The full range of intervention and resolution powers of PIDM under the Malaysia Deposit Insurance Corporation Act (PIDM Act) will be invoked only upon the receipt of a non-viability determination by BNM. PIDM is solely responsible for the selection of its intervention approach and how it resolves a troubled member institution and is clearly accountable for its actions.
- **Coordination and cooperation:** The PIDM Act contemplated, since its original enactment in 2005, that there would be a Strategic Alliance Agreement between BNM and PIDM. Further, in order to ensure better coordination and for more effective and efficient working relationships, our Board composition involves ex officio Members of the Board from other safety net participants, namely, the Governor of BNM and the Secretary General of Treasury, Ministry of Finance.
- **Access to information:** To minimise the duplication of regulatory functions, and to enable PIDM to minimise its deposit insurance risk exposure, PIDM undertakes its insurance risk assessment and monitoring. To do this, it relies on information provided by BNM and does not obtain information directly from member institutions. As a result, unwarranted reporting burden by member institutions is also avoided. Further, the PIDM Act does not provide for PIDM to examine member institutions directly except in circumstances where failure might be imminent. PIDM only obtains information from member institutions directly in circumstances where this is directly related to its mandate, i.e., for the collection of premiums or to ensure timely reimbursement of deposits or protected benefits.

<sup>2</sup> Access to timely and accurate information is important so we can assess the financial condition of a member institution and financial industry as a whole. This enables us to anticipate the financial troubles of individual member institutions and deal with them effectively when they arise

<sup>3</sup> Section 160 of the Financial Services Act 2013 and section 172 of the Islamic Financial Services Act 2013

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### EFFECTIVE SAFETY NET ARRANGEMENTS

As far as coordination and information sharing is concerned, in stable periods, our activities include promoting public awareness, collecting premiums, and monitoring risk as described above. Coordination is needed in the areas of premium assessment (the rating of the supervisor is a key component of our differential premium and levy systems), stress testing (monitoring), communications, as well as the design of legislation. In a situation of a failure, relationships are more complex and these matters must also be addressed at the outset. In preparation for a failure, the areas that need clarity between the financial safety net participants are, typically, matters with respect to depositor information; the trigger date for resolution activities; clearing and settlement issues; funding matters; and knowing that public confidence is not eroded.

#### STRATEGIC ALLIANCE AGREEMENT

As highlighted earlier, the PIDM Act contemplates that there would be an agreement between BNM and PIDM that would address the details as to how they would collaborate with each other. This agreement, known as the Strategic Alliance Agreement (SAA), has been in existence since 2006.

Explicit areas of collaboration and cooperation between BNM and PIDM that have been formalised in the SAA are as follows:

- (i) **Information sharing protocols:** PIDM has timely access to the financial information submitted by member institutions to BNM and leverages on this information. Written reports are provided to PIDM following supervisory examinations conducted on the member institutions and information that may affect PIDM's operations and mandate is also reported. PIDM will in turn share its risks assessments and monitoring results of its member institutions with the supervisors.
- (ii) **Resolution planning:** Working arrangements are formalised and define the roles of both agencies during the various stages of the life cycle of a member institution including the planning and / or the undertaking of any intervention and resolution.
- (iii) **Triggers:** The criteria for early intervention and non-viability triggers are explicitly formalised.
- (iv) **Communications:** Relevant activities, including crisis communication and public awareness initiatives, are coordinated among the agencies.
- (v) **National crisis management:** There is inter-agency collaboration in the development of a crisis management framework (for example, having the Chief Executive Officer of PIDM as a member of the Financial Sector Executive Committee and the joint development of the Recovery and Resolution Plan Framework).
- (vi) **Consultation on policy matters:** There is inter-agency consultation during policy formulation, for example, in making a decision to impose a premium surcharge.
- (vii) **Inter-agency relationship:** A governance structure (called the "Liaison Committee") was formed in respect of the SAA to address any emerging issues relating to the partnership as well as to assess the effectiveness of the arrangements.

#### CONCLUSION

"The combined strength of each safety net player is needed to steer financial stability and each has a key role to play. It is their combined strengths and efforts that make the difference, which is far greater than the sum of individual contributions."

J.P. Sabourin

Under the Financial Sector Masterplan 2001 - 2011, the introduction of an effective deposit insurance system was considered crucial to strengthen the financial consumer protection framework in Malaysia. Policymakers and designers of the system have made great efforts to ensure that there is clarity in PIDM's role and mandate within the safety net framework.

However, the design of the mandate is only one part of the equation. Critical to the success of the financial safety net in any country is the close cooperation and goodwill among its financial safety net players. The experiences of the recent global financial crisis have clearly reinforced the importance of having clear mandates, roles and responsibilities and effective inter-relationships among safety net players.

We are pleased that the FSAP assessment of the Deposit Insurance System in Malaysia had validated the design of our deposit guarantee system as well as the legislative framework and explicit inter-agency coordination mechanisms that support our financial safety net.

Going forward, the Financial Sector Blueprint 2011 - 2020 envisages that PIDM will become a resolution authority for dealing with other large, non-viable financial institutions in Malaysia that can affect financial stability. Effective safety net coordination with other relevant authorities within and outside Malaysia will be critical to the successful implementation of the Blueprint's vision.



## Section 7

# PUBLIC AWARENESS INITIATIVES AND CORPORATE SOCIAL RESPONSIBILITY

## PUBLIC AWARENESS INITIATIVES AND CORPORATE SOCIAL RESPONSIBILITY

### PUBLIC AWARENESS INITIATIVES

At PIDM, our mandate includes the promotion of public confidence in the financial system. Public awareness and understanding about PIDM, the Deposit Insurance System (DIS) and the Takaful and Insurance Benefits Protection System (TIPS) continues to be a priority for the Corporation. Educating and raising public awareness is a continuous process over the long term. This requires the adoption of a systematic and comprehensive approach, which the Corporation undertakes through its rolling five-year Integrated Communications Plan (ICP).

#### IMPLEMENTATION OF THE INTEGRATED COMMUNICATIONS PLAN

Building on the foundations of the Corporation's first ICP 2007 - 2011, in 2012 we began implementation of our second five-year ICP. The ICP 2012 - 2016 is based on three strategic thrusts – strengthening awareness of DIS, TIPS and promoting confidence in the role of PIDM; actively contributing to the enhancement of financial awareness and literacy through education initiatives and programmes; and enhancing engagement with member institutions and relevant strategic partners.

To achieve these thrusts, PIDM employs several strategies. This includes expanding our target audience base for optimum information dissemination and maximum public reach; using key communications initiatives and tools that combine creative insights and the right mix of media to promote awareness and understanding; and enhancing existing partnerships as well as establishing new partnerships with relevant stakeholders.

For 2013 and 2014, our communications initiatives are focused on implementing the following:

- instilling greater trust in the Corporation's role as an integral part of the financial safety net that is operationally ready to deliver on its mandate in the event of a member institution failure;
- enhancing awareness of DIS and TIPS amongst the expanded target audiences via the most relevant and cost effective communications tools and channels; and
- promoting better understanding of the features, benefits and limitations of DIS and TIPS via various engagement, educational and advocacy-based communications initiatives.

In developing the specific plans and initiatives for 2013, we continued our "Do You Know" (DYK) campaign. The DYK campaign is a strategic "call-for-action" and engagement

campaign introduced in 2012 and employed across all communications initiatives during the year to encourage depositors and policy owners to find out about PIDM and the features of DIS and TIPS from our member institutions and the Corporation.

#### AN OVERVIEW OF OUR INITIATIVES IN 2013

Consumer research has consistently indicated that advertising remains the primary source of public awareness of PIDM, DIS and TIPS. For 2013, advertising continued to anchor our communications initiatives. This was supported by other communications and public relations tools, including stakeholder engagement programmes with various target groups as well as the PIDM Project MoneySmart education programme.

PIDM's advertising campaign for 2013 reinforced the previous year's creative approach that focused on the key messages of the DYK campaign. Later in the year, we adopted a tactical campaign that provided more in-depth information on the protection features, PIDM's member institutions as well as the benefits and limitations of DIS and TIPS.

During the year, we also introduced our advocacy campaign, PIDM MoneySmart 123, through a soft launch in collaboration with the Federation of Malaysian Consumers Associations (FOMCA). The campaign is designed as a sustainable long-term programme to improve financial literacy levels amongst the Malaysian public through the promotion of good financial consumer habits. It was envisaged that the campaign would provide tips to enable the public to have greater appreciation of the financial consumer protection provided by the Corporation.

The Corporation's stakeholder engagement programmes in 2013 focused on strategic collaborative arrangements with member institutions via their training arms, the Malaysian Insurance Institute (MII), FOMCA and the Federation of Chinese Associations Malaysia (or *Hua Zong*). We also developed the "Train-the-Trainer" programme to train and certify speakers from MII, FOMCA as well as our insurer members to deliver briefings on PIDM, DIS and TIPS, ensuring greater reach of our communications messages for heightened public awareness.

We also continued to implement our PIDM Project MoneySmart education programme with activities that educate participants on the importance of savings and prudent financial management, and for the first time we



# PUBLIC AWARENESS INITIATIVES AND CORPORATE SOCIAL RESPONSIBILITY

## PUBLIC AWARENESS INITIATIVES

introduced the Photography Competition for secondary schools and the Campus Challenge for tertiary level students. To date, our education programme has directly benefited approximately 500,000 students and 3,000 teachers from 1,500 schools and 150 institutions of higher learning, while the PIDM Project MoneySmart Facebook page has been visited by 6 million students and teachers.

As is our annual practice, a nationwide consumer survey was conducted by an independent research agency to assess the level of public awareness of PIDM, DIS and TIPS. At the end of 2013, public awareness of PIDM increased to 53% from 48% in 2012, while awareness of DIS also improved to 46% from 42% during the same period.

While there are steady improvements at both PIDM and DIS levels, awareness of TIPS was at 32% as at end of 2013 from 34% in 2012. The slight drop can be attributed to the stabilisation of TIPS awareness level after starting high at 37% in 2011. Nevertheless, detailed findings showed that there is now better understanding of TIPS features among those aware of the protection system, indicating effectiveness in the communication of our key messages through our public awareness programmes and initiatives.

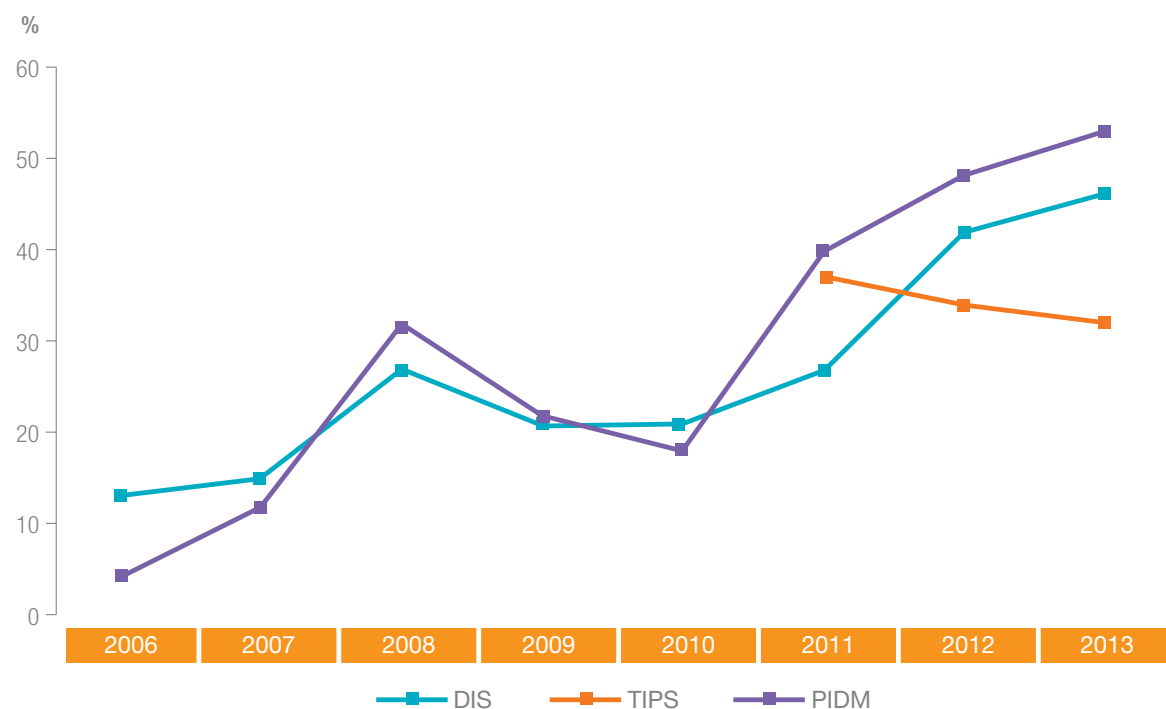


Chart 1: Public Awareness Levels from 2006 to 2013

## HIGHLIGHTS OF OUR INITIATIVES IN 2013

### ADVERTISING AND PUBLICITY

For the second year of the ICP 2012 - 2016, PIDM's approach was to build on the previous year's broad "call-to-action" campaign to create public interest in the financial consumer protection systems administered by PIDM.

The advertising campaign strategies and tactics were aimed at facilitating deeper understanding of and enhancing financial consumer confidence in DIS and TIPS. The creative approach and key messages developed for 2013 provided target audiences with more in-depth information and education about how DIS and TIPS works as a process, from beginning to end. There was greater emphasis on the specific features of each protection system with details of PIDM's membership, scope of coverage, coverage limits and automatic protection.

We continued to use the broadcast, print and electronic media channels to reach our target audience segments among the masses. The strategy for our media placement was to air creative materials from the preceding year for the first part of 2013 for better recall and follow through with new materials in the latter part of the year.

PIDM continued to use the corporate website, which is available in four languages, as an additional channel to cater to the needs of all stakeholders by providing information on PIDM, DIS and TIPS as well as publishing our Corporate Plans, Annual Reports, guidelines, policies and consultation papers for public comments and feedback. In 2013, visits to the website increased by 13.44% to 156,825 visits from 138,246 in 2012.

During the year, PIDM was awarded the Order of Merit 2013 by the Promotion Marketing Awards of Asia (PMAA), Malaysian chapter, jointly with our advertising agency for our brand-building campaign. The award was in recognition of communications initiatives executed for the Corporation's 2012 advertising campaign.



# PUBLIC AWARENESS INITIATIVES AND CORPORATE SOCIAL RESPONSIBILITY

## PUBLIC AWARENESS INITIATIVES

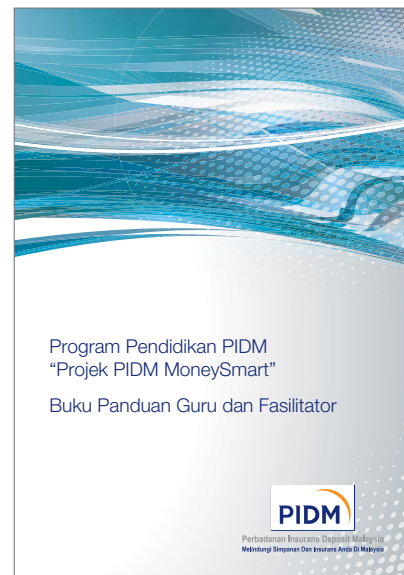
### FINANCIAL AWARENESS AND LITERACY

The education programme, PIDM Project MoneySmart, continued to be effective in enhancing financial literacy levels among students since its launch in 2010. The approach for programme implementation is enhanced annually in collaboration with the Ministry of Education, State Education Departments and District Education Offices. The PIDM Project MoneySmart School Challenge, PIDM Project MoneySmart Campus Challenge, Photography with Best Caption, Online Game, recognition of teacher advisors as PIDM Ambassadors and the use of social media are among the strategies utilised during the year to maximise the programme's reach to Malaysian students.

In 2013, the PIDM Project MoneySmart included the following:

- central briefings to 830 teachers representing 542 secondary schools;
- briefings in 500 secondary schools involving 150,000 students;
- 30 road shows in institutions of higher learning involving some 10,000 students;
- the PIDM Project MoneySmart School Challenge involving 79 secondary schools leading to a total of 126,000 Facebook "Like" votes;
- the PIDM Project MoneySmart Facebook page visited by approximately 5 million students and teachers;
- the MoneySmart Online Game Competition saw participation of close to 2,500 students with invitations sent by students to 135,800 friends to play the Game;
- the Photography with Best Caption Competition, in which participants capture photographs based on the theme of "Financially Savvy Habits", received 100 entries; and
- the PIDM Project MoneySmart Campus Challenge received 20 entries for Best Song or Music Category and 27 entries for Best Video Category.

The PIDM Project MoneySmart Education Programme 2013 Awards and Recognition Ceremony was held on 20 November 2013 and officiated by Dato' Haji Sufa'at Bin Tumin, Deputy Director General of Education (Education Operations). During the ceremony, the five finalist teams of the PIDM Project MoneySmart School Challenge 2013 received their winning prizes and 16 teacher advisors who made significant contribution and achievement towards enhancing financial literacy and awareness in their respective schools were recognised as Best PIDM Ambassadors for 2013.



### COMMUNITY RELATIONS

#### Corporate Outreach

PIDM's Corporate Outreach programme for 2013 was held in Melaka. The event, held at different states across Malaysia annually, is a platform for PIDM's Board of Directors and senior management to engage with Government officials, community leaders as well as the public to enhance awareness about PIDM and the financial consumer protection systems it administers.

A Special Tea Talk for senior State Government officials and business community leaders was held on 17 June 2013 as part of the outreach activities, with 82 participants in attendance. A public talk on "Effective Financial Consumer Protection" was held the following day and attended by some 100 participants. The talk was organised to educate the audience about PIDM and enhance awareness of other organisations that provide financial consumer protection and education, namely Bank Negara Malaysia (BNM), the Credit Counselling and Debt Management Agency (*Agensi Kaunseling dan Pengurusan Kredit* – AKPK) and the Financial Mediation Bureau (FMB).

#### Exhibitions and Road Shows

PIDM participated in a number of exhibitions during the year. An exhibition was also held at the launch event of our advocacy campaign, PIDM MoneySmart 123, in conjunction with FOMCA's Financial Literacy Month on 19 October 2013.

Other exhibitions PIDM participated in include events organised by FOMCA in conjunction with Malaysian Consumer Day (*Hari Pengguna Malaysia*), Money Compass and the Association of Financial Advisers (AFA).

PIDM also participated in the DeafMoolah Financial Fair organised for the deaf community on 6 and 7 July 2013. In conjunction with this fair, PIDM had an exhibition booth and a briefing session with the assistance of a sign language interpreter.

For a complete listing of our participation in exhibitions and road shows, please refer to our Calendar of Events for 2013 (pages 200 - 212).





# PUBLIC AWARENESS INITIATIVES AND CORPORATE SOCIAL RESPONSIBILITY

## PUBLIC AWARENESS INITIATIVES

### STAKEHOLDER ENGAGEMENT

In 2013, PIDM enhanced its briefing approach through the PIDM “Train-the-Trainer” programme. As at the end of the year, PIDM had successfully trained and certified 31 trainers from various insurer members who are qualified to conduct briefings on the financial consumer protection systems PIDM administers to their agents nationwide. PIDM has also trained FOMCA officers and MII trainers, as outsourced speakers for our public and other stakeholder briefings.

During the year, a total of 89 briefings were conducted nationwide by these trainers and PIDM speakers, reaching out to over 5,800 participants comprising bank call centre officers and front liners, insurance agents and company employees, students, corporate and Government officers as well as community groups. These briefings were organised in collaboration with several parties including MII, FOMCA, Federation of Chinese Associations Malaysia (or *Hua Zong*), Money Compass, training centres of banks and insurance companies.

The annual meeting with Liaison Officers (LOs) of our member institutions was held to provide updates on new corporate initiatives and guidance on regulatory and compliance matters. The meetings were held on 26 and 27 February 2013 with LOs of insurer members and member banks respectively.

For a complete listing of our briefings and stakeholder engagement programmes, please refer to our Calendar of Events for 2013 (pages 200 - 212).

### MEDIA RELATIONS

During the year, PIDM issued nine press releases in Bahasa Malaysia, English, Chinese and Tamil. We also held press conferences in conjunction with the launch of the PIDM MoneySmart 123 advocacy campaign and the PIDM Project MoneySmart Education Programme 2013 Awards and Recognition Ceremony.

Interview sessions were held with PIDM senior management, whereby several feature articles were published in the various media including Nanyang Siang Pau, Smart Investor, Insurance magazine (published by MII), Asia Insurance Review and New Sunday Times.

Regular networking sessions with editors of the print, online and electronic media as well as representatives of the East Malaysian press continued throughout the year in an ongoing effort to enhance our working relationships with members of the media. In addition, the annual media *Buka Puasa* event was held on 16 July 2013 and attended by senior editors and journalists.

A knowledge sharing session on understanding the media was held for all PIDM employees on 2 December 2013. During this event, employees also pledged contributions to The Sun's Typhoon Haiyan Relief Fund.



### MOVING FORWARD

For 2014, the communications initiatives will be guided by the strategies outlined for implementation in the third year of the ICP 2012 - 2016. Broadly these initiatives will be geared towards educating, raising engagement and understanding about PIDM, DiS and TIPS, particularly on PIDM's automatic coverage, protection limits, insured products and member institutions.

Our advertising campaign will continue to employ the tactical approach of the DYK campaign for further reinforcement of the key messages on the features of both financial consumer protection systems. We will also roll-out the PIDM MoneySmart 123 advocacy campaign aimed at cultivating a more financially literate society for better appreciation of the financial consumer protection available to the public.

PIDM will also continue to reach out to specific target groups including bankers, insurance and takaful agents, Government employees and other industry players through various briefings, training sessions and seminars. The “Train-the-Trainer” programme will be extended to more organisations, particularly those in the banking and insurance sectors, complemented by the use of interactive training materials developed by PIDM. At the same time, the PIDM Project MoneySmart education programme will explore new and creative activities, including expanding the use of social media to enhance engagement with students at both secondary and tertiary levels.

The component initiatives and strategies for the year are reviewed and fine-tuned annually based on the consumer research findings, thus enabling PIDM to ensure the continued effectiveness of our public awareness efforts.



# PUBLIC AWARENESS INITIATIVES AND CORPORATE SOCIAL RESPONSIBILITY

## CORPORATE SOCIAL RESPONSIBILITY

### INTRODUCTION

The focus of PIDM's Corporate Social Responsibility (CSR) is aligned towards developing sustainable social development as well as delivering sustainable value to the environment. Guided by our corporate values and backed by the Government's support in contributing to a positive CSR environment, our CSR initiatives emphasise on community involvement, which includes community development and environmental protection.

### SCHOLARSHIP PROGRAMME

The objective of the annual PIDM Scholarship Programme that commenced in 2010 is to support students who have the ability to achieve academic excellence and who need financial assistance to further their undergraduate education locally. To date, the scholarship programme has supported a total of 35 scholars.

For 2013, the 10 successful recipients hail from Selangor, Negeri Sembilan, Melaka, Pulau Pinang, Terengganu and Sabah. Similar to the previous year, we have four scholars who are pursuing a Bachelor of Accounting with Honours. The other six scholars are pursuing degrees in Bachelor of Commerce (Hons) majoring in Accounting, Bachelor of Business Administration (Hons) majoring in Human Resources, Bachelor of Science majoring in Mathematics, Bachelor of Syariah and Law, Bachelor of Law and Bachelor of Statistics.

We are also pleased to announce that we celebrated the graduation of and presented a memento to our five scholars from the first and second batch of recipients. The scholars and their respective field of studies are stated in the table below.

NAME	COURSE OF STUDY	UNIVERSITY
Firdaus Ally Zulkipli	Bachelor of Information Technology (Hons)	Universiti Tun Abdul Razak (UNIRAZAK)
Farah Afiza Salmanfarsi	Bachelor of Accounting (Hons)	Universiti Teknologi Mara (UiTM)
Leong Zhi Cong	Bachelor of Science (Hons) Actuarial Science	Universiti Tunku Abdul Rahman (UTAR)
Vicneshwaran A/L Bala	Bachelor of Science (Hons) Actuarial Science	Universiti Tunku Abdul Rahman (UTAR)
Norliana Binti Misuraken	Bachelor of Science (Hons) in Actuarial Science	Universiti Teknologi Mara (UiTM)

Prior to their graduation, two of the scholars have completed their internship programme with PIDM while another two scholars have taken advantage of the opportunity to do practical training with PIDM to acquire the necessary exposure and experience during their long semester breaks.

Since their graduation, all five scholars have embarked on their respective career paths and have successfully secured permanent positions in various established organisations.



### OTHER CSR ACTIVITIES

As a nation, we are fully aware of the importance of financial education. Many corporations provide a variety of financial education programmes through school activities, websites and media campaigns. However, as previously reported, a study we commissioned revealed that there is a need to increase financial literacy amongst the visually, hearing and motor impaired. We have since begun partnering with others in designing and implementing effective financial literacy programmes for the visually, hearing and motor impaired.

#### Continuing Our Financial Literacy Programme

We had commenced our financial literacy programme for the hearing impaired since 2011 and continued to contribute in this area in 2013. As reported in 2012, we have had experience working with DeafMoolah, an organisation managed by the deaf, for the deaf, whose primary goal is to educate the deaf community on the importance of money management and helping them achieve financial independence.

We were the main sponsor of DeafMoolah's second financial fair held on 6 and 7 July 2013. The theme of the fair was "OKU Financial and Career Fair 2013" as it aimed to raise financial awareness among people with various forms of disability in Malaysia (*Orang Kurang Upaya* – OKU), and not just the deaf and hearing-impaired. Close to 500 people including OKUs and their family members, volunteers and exhibitors, attended the two-day fair. We took the opportunity to conduct a briefing on the financial consumer protection provided by PIDM.

#### Employee Engagement

PIDM actively supports our employees' participation in charitable activities and community work that are in line with our CSR Policy. Employees are also encouraged to highlight to us the needs of charitable organisations that they support.

**Auctions:** To assist employees in raising funds for the cause that they support, we conducted two separate auctions among employees during the *Hari Raya* and Christmas celebrations. Hampers received from our stakeholders were put up for auction among employees. The proceeds of the auctions were matched by PIDM and donated to the charitable cause of the winning bidders' choice. The first auction raised RM3,000 whilst the second auction raised RM30,776. The winners of the auctions pledged the proceeds of the auctions to Pertubuhan Kebajikan Baitul Barokah Wal Mahabbah, a charitable organisation set up to provide shelter and education to underprivileged students.



## PUBLIC AWARENESS INITIATIVES AND CORPORATE SOCIAL RESPONSIBILITY

### CORPORATE SOCIAL RESPONSIBILITY



**Spreading cheer:** Pertubuhan Kebajikan dan Perlindungan Nur Qaseh Malaysia is a home for orphaned, underprivileged and abused girls. Although the home does not house boys, it provides similar support and financial assistance to those who meet the requirements. Together with the home's management, we identified a list of items required by the home, and undertook a collection drive for these items. We invited the home to our *Buka Puasa* event on 26 July 2013. The event was attended by 25 beneficiaries and five caretakers of the home. The beneficiaries each received a set of *baju raya* and *duit raya* of RM60, while the caretakers were also presented with a token *duit raya* of RM50 each, in appreciation of their efforts. During the school holidays in November 2013, we organised an outing to Aquaria KLCC and a trip to the movies, which was attended by 30 beneficiaries and four caretakers of the home.



#### Going Green

In conducting its affairs and business, PIDM continuously strives to ensure minimum environmental impact in its usage of resources and materials. As such, we have continued to collect recyclables such as paper, plastic, cardboard, glass, aluminium and newsprint. Proceeds from the sale of the collected recycled items are added to the CSR fund and the monies in the CSR fund will be matched ringgit for ringgit by the Corporation. The fund is held in trust for charitable causes that the Corporation will choose to contribute to from time to time.

**Aluminium ring tabs:** One of the CSR initiatives in 2013 was the collection of aluminium ring tabs from cans, which we donated to a charitable organisation to be used in the production of wheelchairs or prostheses. The wheelchairs or prostheses will be donated to amputees who are unable to afford the prostheses. We turned the ring tabs collection initiative into an inter-divisional competition. In December 2013, the winning division was presented with a RM1,000 voucher, to be donated to a charitable fund of its choice. In total, we collected 23.065 kilogrammes of the ring tabs.



#### CONCLUSION

We are unrelenting in our efforts to engage in activities that have positive impact on the community and environment, which go beyond the interests of PIDM. Based on the employees' response to our CSR efforts in 2013, we believe that we, as individuals and as an organisation, are inspired by Nelson Mandela's words – "What counts in life is not the mere fact that we have lived. It is what difference we have made to the lives of others that will determine the significance of the life we lead".

## Section 8

### CALENDAR OF EVENTS





# CALENDAR OF EVENTS

## JANUARY

### 22 PIDM, Kuala Lumpur

Audit Committee Meeting

## FEBRUARY

### 4 - 7 Ottawa, Canada

Presentation by PIDM on Cross Border Cooperation at the 38<sup>th</sup> International Association of Deposit Insurers (IADI) Executive Council Meeting and 1<sup>st</sup> Annual Conference of the IADI Regional Committee of North America

### 14 PIDM, Kuala Lumpur

Audit Committee Meeting

### 19 Jakarta, Indonesia

Presentation by PIDM on Role of Deposit Insurance in Crisis Preparation and Management at the South East Asian Central Banks (SEACEN) programme on Crisis Preparedness in Interconnected Markets

### 20 - 22 Mumbai, India

Presentation by PIDM on Investment Activities and Portfolio Management – Experience of Malaysia at the 1<sup>st</sup> IADI Asia-Pacific Regional Committee (APRC) Seminar on Investment Management for Deposit Insurance Agencies

### 27 Kuala Lumpur

Annual Meeting with Liaison Officers of Member Banks

### 22 - 23 PIDM, Kuala Lumpur

Study Visit by Indonesia Deposit Insurance Corporation (IDIC)

### 13 PIDM, Kuala Lumpur

Governance Committee Meeting

### 13 PIDM, Kuala Lumpur

Briefing on Differential Levy System (DLS) Guidelines for insurer members

### 18 PIDM, Kuala Lumpur

Board of Directors Meeting

### 20 Kota Kinabalu, Sabah

Tripartite Meeting on Cross Border Cooperation hosted by PIDM

### 20 PIDM, Kuala Lumpur

Train-the-Trainer session for Federation of Malaysian Consumers Associations (FOMCA) facilitators

### 26 Kuala Lumpur

Annual Meeting with Liaison Officers of Insurer Members

### 28 Athens, Greece

Presentation by PIDM on the Deliberation and Conclusion of the International Workshop on Integrated Deposit Insurance System at the 3<sup>rd</sup> European Insurance Guarantee Schemes Meeting



## MARCH

### 1 - 3 Kuala Lumpur

Exhibition at the Golden Years Retirement Seminar and Expo 2013

### 11 Petaling Jaya, Selangor

Briefing on PIDM Financial Consumer Protection for PIDM Project MoneySmart 2013 education programme trainers

### 22 PIDM, Kuala Lumpur

Board of Directors Meeting

### 6 - 8 Tokyo, Japan

Presentation by PIDM on Designing Integrated Protection Schemes at the 7<sup>th</sup> Deposit Insurance Corporation of Japan (DICJ) Roundtable

### 18 - 22 Port of Spain, Trinidad and Tobago

Participated in the Regional Workshop on Assessment of Compliance with the IADI Core Principles for Effective Deposit Insurance Systems

### 26 PIDM, Kuala Lumpur

Train-the-Trainer session for PIDM Project MoneySmart 2013 education programme trainers

### 26 Kuala Lumpur

Participated in the 2<sup>nd</sup> Asian Resolution Roundtable

## APRIL

### 2 PIDM, Kuala Lumpur

Briefing on DLS Reporting Forms for insurer members

### 5 Pasir Mas, Kelantan

PIDM Community Talk organised by FOMCA

### 9 - 10 Basel, Switzerland

Presentation by PIDM on Deposit Insurance Funding Mechanisms at the IADI 2013 Research Conference

### 15 - 16 PIDM, Kuala Lumpur

Train-the-trainer session for Malaysian Insurance Institute (MII) trainers

### 25 Kuala Lumpur

Briefing on PIDM Financial Consumer Protection for employees of RHB Bank Berhad

### 29 PIDM, Kuala Lumpur

Board of Directors Meeting

### 29 Segamat, Johor

PIDM Community Talk organised by FOMCA

### 30 PIDM, Kuala Lumpur

Governance Committee Meeting





## CALENDAR OF EVENTS

### MAY

#### 7 Ipoh, Perak

Briefing on PIDM Financial Consumer Protection for employees of RHB Bank Berhad

#### 10 Melaka Tengah, Melaka

PIDM Community Talk organised by FOMCA

#### 10 Ayer Keroh, Melaka

PIDM Community Talk organised by FOMCA

#### 16 Bangi, Selangor

Presentation by PIDM on Islamic Deposit Insurance System and Takaful Benefits Protection System at Universiti Kebangsaan Malaysia

#### 21 Sibu, Sarawak

Briefing on PIDM Financial Consumer Protection for employees of RHB Bank Berhad

#### 22 Kuala Lumpur

Special Governance Committee Meeting

#### 22 Miri, Sarawak

Briefing on PIDM Financial Consumer Protection for employees of RHB Bank Berhad

#### 22 Kota Kinabalu, Sabah

Briefing on PIDM Financial Consumer Protection for employees of RHB Bank Berhad

#### 27 PIDM, Kuala Lumpur

Audit Committee Meeting

#### 9 Georgetown, Pulau Pinang

Briefing on PIDM Financial Consumer Protection for employees of RHB Bank Berhad

#### 13 - 15 Seoul, Korea

Presentation by PIDM on Prerequisites for and Key Elements of Effective Deposit Insurance Systems at the IADI APRC 11<sup>th</sup> Annual Meeting and International Conference

#### 20 Kuala Lumpur

Briefing on PIDM Financial Consumer Protection for employees of HSBC Amanah Takaful (Malaysia) Sdn. Bhd.

#### 21 - 22 Bali, Indonesia

18<sup>th</sup> Advisory Group Meeting and Asia-Pacific Economic Cooperation (APEC)-Financial Regulators Training Initiative (FRTI) Conference for Financial Regulators chaired by PIDM

#### 23 Kuching, Sarawak

Briefing on PIDM Financial Consumer Protection for employees of RHB Bank Berhad

#### 23 Johor Bahru, Johor

Briefing on PIDM Financial Consumer Protection for member institutions

#### 28 PIDM, Kuala Lumpur

Board of Directors Meeting



### JUNE

#### 4 Kuala Lumpur

Remuneration Committee Meeting

#### 8 Shah Alam, Selangor

PIDM Family Day

#### 13 Kuala Lumpur

Briefing on PIDM Financial Consumer Protection for member institutions

#### 17 Bangi, Selangor

Briefing on PIDM Financial Consumer Protection for employees of Public Bank Berhad

#### 17 - 21 Manila, Philippines

Presentation by PIDM on Financial Inclusion and Inclusive Growth at the 39<sup>th</sup> IADI Executive Council Meeting and International Conference

#### 19 Batu Pahat, Johor

Briefing on PIDM Financial Consumer Protection for employees of RHB Bank Berhad

#### 24 Kuala Lumpur

Briefing on PIDM Financial Consumer Protection for officers from the Co-Curriculum Unit of State Education Departments

#### 26 - 27 Ottawa, Canada

Presentation by PIDM on Policy Options from the Perspective of a National Resolution Authority at the Banking Law Symposium

#### 29 Petaling Jaya, Selangor

Train-the-Trainer session on PIDM Project MoneySmart 2013 education programme for PIDM Ambassadors

#### 5 Kuala Lumpur

Corporate-wide Enterprise Risk Management (ERM) Risk Assessment Workshop

#### 11 - 13 PIDM, Kuala Lumpur

PIDM Open House for the African Region

#### 16 - 17 Bandar Melaka, Melaka

Board Education Session

#### 17 - 18 Bandar Melaka, Melaka

PIDM Corporate Outreach 2013

#### 18 Manila, Philippines

Memorandum of Understanding (MOU) Signing Ceremony with Philippine Deposit Insurance Corporation (PDIC)

#### 20 Permas Jaya, Johor

Briefing on PIDM Financial Consumer Protection for employees of RHB Bank Berhad

#### 25 Bangi, Selangor

Briefing on PIDM Financial Consumer Protection for employees of RHB Bank Berhad

#### 27 Bangi, Selangor

Briefing on PIDM Financial Consumer Protection for employees of Malayan Banking Berhad





## CALENDAR OF EVENTS

### JULY

#### 1 PIDM, Kuala Lumpur

PIDM Safety and Health Initiative – Reality Environment Applied Combat Tactics (REACT) Training on Crime Prevention and Survival Programme for PIDM employees

#### 3 Sibu, Sarawak

Briefing on PIDM Financial Consumer Protection for member institutions

#### 3 Kuala Lumpur

Briefing on PIDM Financial Consumer Protection for employees of Takaful Ikhlas Sdn. Bhd.

#### 6 - 7 Kuala Lumpur

PIDM Corporate Social Responsibility (CSR) Initiative - Exhibition and Briefing on PIDM Financial Consumer Protection at DeafMoolah Financial Fair for deaf community

#### 16 Kuala Lumpur

*Buka Puasa* with members of the media

#### 16 - 18 Washington DC, USA

Presentation by PIDM on Guiding Principles of Effective Reimbursement Systems Overview and Seamless Access to Insured Deposits at the IADI Executive Training Seminar on Claims Management: Reimbursement to Insured Depositors

#### 26 Kuala Lumpur

*Buka Puasa* for PIDM employees and families



### AUGUST

#### 1 Kuala Lumpur

Briefing on PIDM Financial Consumer Protection for students and academic staff of Financial Sector Talent Enrichment Programme (FSTEP)

#### 1 - 2 Kuala Lumpur

Briefing on PIDM Financial Consumer Protection for participants of Pembangunan Sumber Manusia Berhad's Train-the-Trainer programme

#### 13 PIDM, Kuala Lumpur

Special Governance Committee Meeting

#### 19 Kuala Lumpur

Briefing on PIDM Financial Consumer Protection for employees and agents of AXA Affin General Insurance Berhad and AXA Affin Life Insurance Berhad

#### 19 PIDM, Kuala Lumpur

Audit Committee Meeting

#### 20 PIDM, Kuala Lumpur

Board of Directors Meeting

#### 21 - 22 Kuala Lumpur

Strategic Planning Workshop for PIDM Senior Management

#### 20 Kuala Lumpur

Briefing on PIDM Financial Consumer Protection for employees and agents of AXA Affin General Insurance Berhad and AXA Affin Life Insurance Berhad

#### 22 Kuala Lumpur

Briefing on PIDM Financial Consumer Protection for employees and agents of AXA Affin General Insurance Berhad and AXA Affin Life Insurance Berhad

#### 22 - 24 Kuala Lumpur

PIDM Scholarship Induction Programme and Award Ceremony





## CALENDAR OF EVENTS

### AUGUST

#### 23 Kuala Lumpur

Briefing on PIDM Financial Consumer Protection for employees and agents of AXA Affin General Insurance Berhad and AXA Affin Life Insurance Berhad

#### 27 Kuala Lumpur

PIDM *Hari Raya* Open House for employees and key stakeholders

#### 27 Seremban, Negeri Sembilan

Briefing on PIDM Financial Consumer Protection for employees and agents of AXA Affin General Insurance Berhad and AXA Affin Life Insurance Berhad

#### 27 - 29 Basel, Switzerland

Presentation by PIDM on IADI-Basel Committee on Banking Supervision (BCBS) Core Principles 6 and 7 on Cross Border Resolutions and Relationships with Safety Net Partners at the Financial Stability Institute (FSI)-IADI Seminar on Bank Resolution and Deposit Insurance Issues

#### 28 - 29 Kuala Lumpur

Briefing on PIDM Financial Consumer Protection for employees of Takaful Ikhlas Sdn. Bhd.

#### 29 Bandar Melaka, Melaka

Briefing on PIDM Financial Consumer Protection for member institutions



### SEPTEMBER

#### 4 Seberang Perai, Pulau Pinang

Briefing on PIDM Financial Consumer Protection for member institutions

#### 4 - 5 PIDM, Kuala Lumpur

Seminar on Payout and Claims Settlement Strategy, System, Processes and Controls – Key Areas for Internal Auditors and Risk Managers hosted by PIDM

#### 6 PIDM, Kuala Lumpur

1<sup>st</sup> Informal Roundtable Session for Chief Internal Auditors and Audit Representatives of Deposit Insurance Corporations hosted by PIDM

#### 7 Kuala Lumpur

PIDM Community Talk organised by FOMCA

#### 6 Alor Setar, Kedah

Briefing on PIDM Financial Consumer Protection for members of the public

#### 10 PIDM, Kuala Lumpur

Governance Committee Meeting

#### 11 Kuantan, Pahang

Briefing on PIDM Financial Consumer Protection for member institutions

#### 17 Kuala Lumpur

Briefing on PIDM Financial Consumer Protection for agents of Prudential Assurance Malaysia Berhad

#### 17 - 19 Bangkok, Thailand

Presentation by PIDM on Cross Border Crisis Management and Resolution Framework at the 4<sup>th</sup> SEACEN High Level Seminar for Deputy Governors





## CALENDAR OF EVENTS

### SEPTEMBER

#### 19 Kuala Lumpur

Board Education Session

#### 19 Kuala Terengganu, Terengganu

Briefing on PIDM Financial Consumer Protection for employees of Takaful Ikhlas Sdn. Bhd.

#### 21 Kuala Lumpur

Exhibition and Community Talk at Malaysian Consumers Day 2013

#### 21 Nilai, Negeri Sembilan

Presentation by PIDM on Islamic Deposit Insurance System at the Seminar on Actuarial Science and Risk Management 2013, Universiti Sains Islam Malaysia

#### 24 Kuala Lumpur

Briefing on PIDM Financial Consumer Protection for member institutions

#### 27 Ipoh, Perak

Briefing on PIDM Financial Consumer Protection for employees of Takaful Ikhlas Sdn. Bhd.

#### 20 PIDM, Kuala Lumpur

Special Board of Directors Meeting - Strategic Planning

#### 20 Temerloh, Pahang

Briefing on PIDM Financial Consumer Protection for employees of Takaful Ikhlas Sdn. Bhd.

#### 20 Sungai Petani, Kedah

Briefing on PIDM Financial Consumer Protection for employees of Takaful Ikhlas Sdn. Bhd.

#### 23 - 27 Kuala Lumpur

Briefing on PIDM Financial Consumer Protection for participants of Pembangunan Sumber Manusia Berhad's Train-the-Trainer programme

#### 25 - 26 Bucharest, Romania

Presentation by PIDM on Critical Importance of Sound Interrelationships with Other Safety Net Authorities and the Need for Deposit Insurer's Mandate at the European Regional Committee (ERC) Contingency Planning Workshop

#### 30 Nilai, Negeri Sembilan

PIDM Community Talk organised by FOMCA



### OCTOBER

#### 1 PIDM, Kuala Lumpur

Board of Directors Meeting

#### 2 - 4 PIDM, Kuala Lumpur

Briefing on the Proposed Validation Programme on DLS and Premiums Calculation for insurer members and external auditors

#### 7 Kuala Lumpur

Briefing on Proposed Revision to the Differential Premium Systems Framework for Deposit Insurance System for member banks

#### 12 Batang Kali, Selangor

PIDM Community Talk organised by FOMCA

#### 17 - 18 Kuala Lumpur

Intervention and Failure Resolution (IFR) Case Study Simulation

#### 20 Jinjang, Selangor

PIDM Community Talk organised by FOMCA

#### 23 Alor Setar, Kedah

Briefing on PIDM Financial Consumer Protection for member institutions

#### 1 - 2 Kuala Lumpur

Study Visit by the Economic Department, Office of Vietnam National Assembly and Deposit Insurance of Vietnam

#### 6 Kuantan, Pahang

Briefing on PIDM Financial Consumer Protection for members of the public

#### 6 Senawang, Negeri Sembilan

PIDM Community Talk organised by FOMCA

#### 8 Kota Kinabalu, Sabah

Briefing on PIDM Financial Consumer Protection for member institutions

#### 17 Kuantan, Pahang

Briefing on PIDM Financial Consumer Protection for employees of Takaful Ikhlas Sdn. Bhd.

#### 19 Petaling Jaya, Selangor

Launch of PIDM MoneySmart 123 advocacy campaign in collaboration with FOMCA

#### 19 Petaling Jaya, Selangor

Briefing on PIDM Financial Consumer Protection for members of the public at PIDM MoneySmart 123 advocacy campaign launch

#### 21 - 22 Taipei, Taiwan

Presentation by PIDM on DLS and Takaful Protection System at the 2<sup>nd</sup> International Forum of Insurance Guarantee Schemes

#### 30 PIDM, Kuala Lumpur

Succession Planning Committee Meeting

#### 30 Kuala Lumpur

Exhibition at the 2<sup>nd</sup> Annual Conference of Association of Financial Advisers (AFA) 2013





## CALENDAR OF EVENTS

### NOVEMBER

#### 4 Buenos Aires, Argentina

IADI Islamic Deposit Insurance Group (IDIG) Meeting

#### 4 - 8 Buenos Aires, Argentina

Presentation by PIDM on Ex-ante Funding and Emergency Funding at the 12<sup>th</sup> IADI Annual General Meeting and Conference

#### 9 Kuala Lumpur

PIDM Community Talk organised by FOMCA

#### 10 Kuala Lumpur

PIDM Community Talk organised by FOMCA

#### 11 - 12 Kuala Lumpur

Train-the-Trainer session for insurer member trainers

#### 12 - 14 Singapore

Presentation by PIDM on Financial Stability and Bank Resolution – The Role of Deposit Insurance at the FSI-Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) Regional Seminar on Resolution Frameworks and Crisis Management

#### 13 Manjung, Perak

Briefing on PIDM Financial Consumer Protection for member institutions

#### 15 PIDM, Kuala Lumpur

Governance Committee Meeting

#### 16 Kota Kinabalu, Sabah

Briefing on PIDM Financial Consumer Protection for members of the public

#### 18 - 19 Kuala Lumpur

PIDM Project MoneySmart School Challenge 2013 Finale

#### 20 Kuala Lumpur

PIDM Project MoneySmart Education Programme 2013 Awards and Recognition Ceremony

#### 20 - 21 Kuala Lumpur

Study Visit by IDIC and Deposit Protection Agency Thailand



### NOVEMBER

#### 21 Kuala Lumpur

National Annual Corporate Report Awards (NACRA) 2013 Award Presentation Ceremony

#### 22 Kuala Lumpur

Remuneration Committee Meeting

#### 25 Kuala Lumpur

Audit Committee Meeting

#### 26 PIDM, Kuala Lumpur

Briefing on PIDM Financial Consumer Protection for students and academic staff of Universiti Putra Malaysia

#### 26 Shah Alam, Selangor

Business Continuity Plan Simulation Exercise

#### 27 Kuala Lumpur

Board Education Session

#### 28 Kuala Lumpur

PIDM CSR Initiative - Outing with children from Pertubuhan Kebajikan dan Perlindungan Nur Qaseh

#### 29 Seremban, Negeri Sembilan

PIDM Community Talk organised by FOMCA

#### 29 Taman Paroi, Negeri Sembilan

PIDM Community Talk organised by FOMCA

#### 29 Kuala Pilah, Negeri Sembilan

PIDM Community Talk organised by FOMCA

#### 30 Batu Gajah, Perak

PIDM Community Talk organised by FOMCA

#### 30 Tronoh, Perak

PIDM Community Talk organised by FOMCA





## CALENDAR OF EVENTS

### DECEMBER

#### 1 Ipoh, Perak

PIDM Community Talk organised by FOMCA

#### 1 Jelapang, Perak

PIDM Community Talk organised by FOMCA

#### 3 PIDM, Kuala Lumpur

Board of Directors Meeting

#### 5 Taipei, Taiwan

Presentation by PIDM on Update on the Core Principles for Effective Deposit Insurance Systems at the 1<sup>st</sup> IADI APRC Outreach Workshop

#### 5 PIDM, Kuala Lumpur

PIDM Safety and Health Initiative – Office Safety and Emergency Evacuation

#### 7 Kuala Lumpur

PIDM Annual Dinner 2013

#### 7 Seremban, Negeri Sembilan

PIDM Community Talk organised by FOMCA

#### 15 Johor, Negeri Sembilan

PIDM Community Talk organised by FOMCA

#### 21 Kuala Lumpur

PIDM Community Talk organised by FOMCA

#### 2 - 4 Taipei, Taiwan

Presentation by PIDM on Guiding Principles of Effective Reimbursement Systems at the IADI Executive Training on Claims Management

#### 4 PIDM, Kuala Lumpur

Talk by Pusat Pungutan Zakat (PPZ) to PIDM Muslim employees

#### 6 Kuala Lumpur

MOU Signing Ceremony with Korea Deposit Insurance Corporation (KDIC)

#### 14 Batu Pahat, Johor

Briefing on PIDM Financial Consumer Protection for members of the public

#### 16 - 17 Kuala Lumpur

Train-the-Trainer session for insurer member trainers



## APPENDIX





## APPENDIX

### CHARTER OF GOVERNANCE COMMITTEE

#### 1.0 MANDATE

Pursuant to section 7 of the Malaysia Deposit Insurance Corporation Act, the Corporation may establish any committee as it considers necessary or expedient for the performance of its functions. The Board has considered it necessary to establish a Governance Committee.

#### 2.0 OBJECTIVE

The Governance Committee (Committee) of the Board of Directors (the Board) of the Malaysia Deposit Insurance Corporation (Corporation) is responsible to direct the implementation of, and compliance with, sound corporate governance principles in the Corporation. In this regard, the principal objectives of the Committee are to assist with Board oversight of: maintaining effective corporate governance principles and practices; evaluating and assessing the functioning of the Board, Board Committees and Management; nominating individuals qualified to become Directors consistent with criteria approved by the Corporation; and succession planning.

#### 3.0 OPERATING PRINCIPLES

##### 3.1 Functions and Composition

- (a) The Committee shall comprise at least three members of the Board, as named by the Board.
- (b) Members of the Committee shall each be independent of Management.
- (c) The Committee shall carry out such functions as are assigned or delegated to it by the Board and any incidental activities consistent with this Charter as the Committee or the Board deems necessary or appropriate.

3.2 **Chair** – The Committee shall be chaired by the Chairman of the Board. In the absence of the Chairman of the Committee for any meeting or part of the meeting, the remaining members present shall elect one of the members present to chair the meeting.

3.3 **Quorum** – The presence of two members constitutes a quorum for a meeting of the Committee.

3.4 **Voting** – A matter put to a vote at a meeting of the Committee shall be decided by a majority of the votes cast, and in the event of an equality of votes its Chair has a second vote.

3.5 **Procedure and Conduct** – Subject to this Charter and any resolution of the Board respecting a specific matter, the Chair shall determine the procedures and conduct of meetings of the Committee.

3.6 **Secretary and Minutes** – The Corporate Secretary shall be the secretary of the Committee. Copies of the minutes of the proceedings of the Committee shall be sent by the Corporate Secretary to all members of the Board once they have been approved by the Committee.

3.7 **Frequency of Meetings** – The Committee will meet at the discretion of its Chair, but not less frequently than twice each year. The Chair shall call a meeting if asked to do so by the Chairman of the Board, and decide if a meeting is required if requested by another member of the Committee.

3.8 **Notice of Meetings** – The proper notice period for calling a meeting of the Committee shall be a minimum of 14 days or such shorter notice as agreed by the Committee.

3.9 **Meeting Agenda** – A written agenda for each meeting of the Committee will be distributed to the members of the Committee at least five days in advance of the meeting date, together with any related materials, if available.

3.10 **Supplemental Attendees** – Any person who may possess information that would be useful to the Committee in carrying out its duties may be invited by the Chair to attend any meeting of the Committee.

3.11 **Term of Appointment / Rotation / Re-appointment of Members** – Membership of the Committee should be changed on an appropriate, regular basis. Such change should be on a rotation basis in order to ensure that the entire membership of the Committee is not changed at any one time. The advice of the Chair on a Committee member's performance shall be considered where an extension of that member's tenure or re-appointment is being considered.

3.12 **Reporting** – The Committee will, where appropriate, provide a written or verbal report of each meeting of the Committee at the next regular Board meeting or as may otherwise be required by the Board.

3.13 **Review of Charter** – The Committee shall review and assess the adequacy of this Charter at least annually. If the Committee recommends any amendments, the Committee shall submit a revised Charter to the Board for its approval.

3.14 **Self-assessment** – An evaluation of the Committee shall be conducted regularly, in which the Committee shall review its performance for the purpose, among other things, of assessing whether the Committee fulfilled the responsibilities and duties stated in this Charter.

3.15 **Disclosure** – The Committee shall ensure that this Charter and its membership composition are publicly disclosed.

3.16 **Independent Counsel or Other Advisors** – The Committee has the authority to engage outside advisors, including but not limited to counsel, independent consultants and / or other experts, as needed, to review any matter under its responsibility, in accordance with the relevant Board resolution or policy.

3.17 **Conflict of Interest** – In the event that the matter being considered is the re-appointment of the Chairman or the re-appointment of a non-ex officio Director of the Board who is a member of the Committee, the Chairman or the non-ex officio Director (as the case may be) shall not participate in the meeting whilst the Committee discusses, deliberates or decides on the matter. During such time, the Chairman or the non-ex officio Director (as the case may be) will absent himself or herself from the meeting.

#### 4.0 PRINCIPAL DUTIES AND RESPONSIBILITIES

##### 4.1 Corporate Governance Oversight

- (a) The Committee shall review at least annually the Corporation's approach to governance issues and shall make recommendations to the Board respecting revisions to the Corporation's governance policies, including codes of business conduct and conflict of interest for Directors and employees. The Committee shall make recommendations to the Board on policies with regard to Director tenure, retirement and succession.

(b) The Committee shall ensure the ongoing administration of the policies and procedures that enable a Board Committee or member of the Board to engage separate independent counsel or other advisors in appropriate circumstances and at the Corporation's expense.

(c) On a periodic basis, the Committee shall review the Corporation's mandate as set out in the Malaysia Deposit Insurance Corporation Act and make any recommendation it sees fit to the Board.

(d) The Committee shall keep up to date on corporate governance developments so as to ensure the Corporation's governance practices are in line with best practices.

(e) The Committee shall undertake such other governance initiatives as may be necessary or desirable to ensure that the appropriate processes, structures and information necessary for effective direction and oversight are in place to contribute to the sound governance and management of the Corporation.

##### 4.2 Evaluation of Board Operations and Board Committees

(a) In consultation with the Chief Executive Officer (CEO), the Committee shall assess the needs of the Board in terms of the frequency and location of Board and Committee meetings, meeting agendas, documents and information, and the conduct of meetings, and make recommendations to the Board as required.

(b) The Committee shall annually review, for Board approval, the mandates and responsibilities of the Board, the Chairman of the Board, the CEO, a member of the Board and the Board Committees.

(c) The Committee shall annually implement, and regularly review, the process to assist the Board in determining whether the Board is satisfied with the manner, frequency and timeliness with which significant issues are brought to its attention, as well as the appropriateness of that information.

(d) The Committee shall annually implement, and regularly review, the method for regularly evaluating and assessing the effectiveness of the Board and of individual members of the Board and Board Committees and recommend any appropriate action plans to address any significant findings.

## APPENDIX

### CHARTER OF GOVERNANCE COMMITTEE

- (e) The Committee shall, after the affected Committees have conducted their annual review of their respective Charters, annually review each of the Board Committee Charters together and recommend proposed amendments (if any) to the Board Committee Charters to the Board.

#### 4.3 Board Nominations

- (a) The Committee shall annually review both a Board profile and a Board member profile of qualifications and skills and characteristics for individual directors, taking into consideration the current strengths, skills and experience on the Board, terms, retirement dates and the strategic direction of the Corporation.
- (b) The Committee shall identify a list of potential Board nominees who possess the skills, experience, knowledge and characteristics which fit the profiles and update such list on a regular basis.
- (c) When a vacancy or vacancies on the Board occurs or are anticipated, the Committee shall prepare and recommend to the Board a list of potential nominees.
- (d) Develop and implement a strategy to communicate the profiles and potential candidate or candidates to the Minister.
- (e) The Committee shall review periodically the compensation programme of members of the Board and make recommendations to the Board.
- (f) The Committee shall make recommendations regarding the orientation programme, training and ongoing development of members of the Board.

4.4 **Succession Planning** – The Committee shall review Management's succession plans for the corporate officers and make recommendations in respect of the same, to the Board for approval.

4.5 **Leadership Needs** – The Committee shall keep under review the leadership needs of the Corporation, both executive and non-executive, with a view to ensure the continued ability of the Corporation to efficiently and effectively meet its mandate.

4.6 **Reporting and Disclosure** – Recommend to the Board the content of such governance reports as may be required or considered advisable for public disclosure.

4.7 **Stakeholder Awareness and Engagement** – The Committee shall:

- (a) review and recommend for Board approval, any amendments to the Corporation's Communications Policy;
- (b) review and recommend for Board approval, the Corporation's long-term public awareness strategies and receive the public awareness plan of activities for the next fiscal year; and
- (c) regularly receive and review the results of such plan.

## APPENDIX

### CHARTER OF REMUNERATION COMMITTEE

#### 1.0 MANDATE

Pursuant to section 7 of the Malaysia Deposit Insurance Corporation Act, the Corporation may establish any committee as it considers necessary or expedient for the performance of its functions. The Board has deemed it necessary to establish a Remuneration Committee.

#### 2.0 OBJECTIVE

The Remuneration Committee (Committee) of the Board of Directors (the Board) of the Malaysia Deposit Insurance Corporation (Corporation) is responsible to ensure that the Corporation has fair, and equitable human resource policies that profiles for the hiring and retention of people with the appropriate expertise and qualifications. In this regard, the principal objectives of the Committee are to assist with Board oversight of: human resources and compensation matters; management succession plans generally; the review and approval of annual objectives for the Chief Executive Officer (CEO) and perform the annual evaluation thereof; and policies and processes relating to employee business conduct and ethical behaviour.

#### 3.0 OPERATING PRINCIPLES

##### 3.1 Functions and Composition

- (a) The Committee shall comprise at least three members of the Board, as named by the Board.
- (b) Members of the Committee shall each be independent of Management.
- (c) The Committee shall carry out such functions as are assigned or delegated to it by the Board and any incidental activities consistent with this Charter as the Committee or the Board deems necessary or appropriate.

3.2 **Chair** – The Committee shall be chaired by one of its members, as named by the Board. In the absence of the Chairman of the Committee for any meeting or part of the meeting, the remaining members present shall elect one of the members present to chair the meeting.

3.3 **Quorum** – The presence of two members constitutes a quorum for a meeting of the Committee.

3.4 **Voting** – A matter put to a vote at a meeting of the Committee shall be decided by a majority of the

votes cast, and in the event of an equality of votes its Chair has a second vote.

3.5 **Procedure and Conduct** – Subject to this Charter and any resolution of the Board respecting a specific matter, the Chair shall determine the procedures and conduct of meetings of the Committee.

3.6 **Secretary and Minutes** – The Corporate Secretary shall be the secretary of the Committee. Copies of the minutes of the proceedings of the Committee shall be sent by the Corporate Secretary to all members of the Board once they have been approved by the Committee.

3.7 **Frequency of Meetings** – The Committee will meet at the discretion of its Chair, but not less frequently than twice each year. The Chair shall call a meeting if asked to do so by the Chairman of the Board, and decide if a meeting is required if requested by another member of the Committee.

3.8 **Notice of Meetings** – The proper notice period for calling a meeting of the Committee shall be a minimum of 14 days or such shorter notice as agreed by the Committee.

3.9 **Meeting Agenda** – A written agenda for each meeting of the Committee will be distributed to the members of the Committee at least five days in advance of the meeting date, together with any related materials, if available.

3.10 **Supplemental Attendees** – Any person who may possess information that would be useful to the Committee in carrying out its duties may be invited by the Chair to attend any meeting of the Committee.

3.11 **Term of Appointment / Rotation / Re-appointment 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. The Chair shall provide advice to the Chairman of the Board on a Committee member's performance where an extension of that member's tenure or re-appointment is being considered.

3.12 **Reporting** – The Committee will, where appropriate, provide written or verbal report of each meeting of the Committee at the next regular Board meeting or as may otherwise be required by the Board.

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### CHARTER OF REMUNERATION COMMITTEE

- 3.13 **Review of Charter** – The Committee shall review and assess the adequacy of this Charter at least annually. Any proposed amendments to the Charter will be considered by the Governance Committee for recommendation to the Board.
- 3.14 **Self-assessment** – An evaluation of the Committee shall be conducted regularly, in which the Committee shall review its performance for the purpose, among other things, of assessing whether the Committee fulfilled the responsibilities and duties stated in this Charter.
- 3.15 **Disclosure** – The Committee shall ensure that this Charter and its composition are publicly disclosed.
- 3.16 **Independent Counsel or Other Advisors** – The Committee has the authority to engage outside advisors, including but not limited to counsel, independent consultants and / or other experts, as needed, to review any matter under its responsibility, in accordance with the relevant Board resolution or policy.
- 4.0 PRINCIPAL DUTIES AND RESPONSIBILITIES**
- 4.1 **Policies and Strategies**
- (a) The Committee shall review key human resource policies and strategies and propose such changes as seem desirable.
- (b) The Committee shall review the Corporation's compensation philosophy and its related policies, and make recommendations, if any, to the Board for approval.
- (c) The Committee shall ensure that the Corporation develops on an ongoing basis, adequate, appropriate and effective policies, strategies, controls, processes and procedures within the Corporation to maintain an organisational climate that fosters ethical employee business conduct and behaviour, employee commitment to the operations of the Corporation and a high degree of employee satisfaction and shall review policies and codes in respect of the same and make recommendations, if any, to the Board for approval.
- 4.2 **Compliance and Reports** – The Committee shall review reports with respect to:
- (a) compliance with legal requirements and major corporate policies pertaining to human resource matters on an annual basis; and
- (b) compliance with policies on employee business conduct and ethical behaviour on an annual basis or immediately where circumstances dictate. When required, the Committee shall request of Management that it provides a report to the Audit Committee in the event a breach occurs or a concern is raised that is of a nature that warrants such a report.
- 4.3 **Matters Referred by CEO** – The Committee shall review any matter concerning human resource and compensation matters that may be referred to it by the CEO.
- 4.4 **Reports to Board** – The Committee shall report to the Board as it deems appropriate regarding human resource and compensation matters and Management performance in this area.
- 4.5 **Bonus Policy, Bonus Range and Awards** – The Committee will make recommendations to the Board with regard to the annual bonus range and shall review and approve individual employee bonus awards as recommended by the CEO. The Committee shall also conduct a review of the Corporation's policy on bonus awards, and make recommendations to the Board as required.
- 4.6 **CEO Objectives and Evaluation** – The Committee shall:
- (a) review the annual statement of objectives for the CEO and recommend the 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.
- 4.7 **Complaints** – Save and except as expressly provided in any other Board Charter or policy, the Committee shall serve as the initial point of contact at the Board level for any complaints concerning the CEO that may reach the Board, on the understanding that the normal resolution mechanisms must be followed and complaints would only be brought forward when every other appeal process had been exhausted.

## APPENDIX

### CHARTER OF AUDIT COMMITTEE

#### 1.0 MANDATE

Pursuant to section 7 of the Malaysia Deposit Insurance Corporation Act, the Corporation may establish any committee as it considers necessary or expedient for the performance of its functions. The Board has deemed it necessary to establish an Audit Committee.

#### 2.0 OBJECTIVE

The Audit Committee (Committee) of the Board of Directors (the Board) of the Malaysia Deposit Insurance Corporation (Corporation) is responsible to ensure that the auditing, accounting principles and practices are in line with international and Malaysian best practices and conform to all legislative requirements. In this regard, the principal objectives of the Committee are to assist the Board with oversight of: the integrity of the Corporation's financial statements; the financial reporting process; the systems of internal accounting and financial controls; the performance of the Corporation's internal audit function; the identification and management of the Corporation's significant risks; and the Corporation's compliance with ethics-related policies and legal and regulatory requirements.

#### 3.0 OPERATING PRINCIPLES

- 3.1 (a) **Functions and Composition** – The Committee shall comprise at least three members of the Board 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.

The Chair and the Vice-Chair (if appointed) shall have financial expertise. "Financial expertise" means

a person who has professional qualifications as an accountant and who has had extensive experience in auditing.

Where appropriate, Committee members will enhance their familiarity with financial and accounting practices for Audit Committees and other areas relevant to their responsibilities by keeping abreast of trends and best practices in these areas including considering topical issues and their application to the Corporation and by participating in educational sessions or other opportunities for development.

- 3.2 **Chair** – The Chair is a non-ex officio Director, as named by the Board.
- 3.3 **Vice-Chair** – The Vice-Chair may, if the Board considers appropriate, for the purposes of succession planning be appointed from among the non-ex officio Directors, as named by the Board. In the absence of the Chair, if there is a Vice-Chair, the Vice-Chair shall preside at the meeting of the Committee, and while so presiding, shall have all the powers of the Chair. If the Chair or the Vice-Chair is absent or there is no Vice-Chair, a chair shall be appointed by the members present, who shall preside at the said meeting, or until the arrival of the Chair or the Vice-Chair, as the case may be. The Vice-Chair (if appointed) is the Chair's deputy, and shall perform on his behalf such duties as may be delegated by the Chair.
- 3.4 **Quorum** – The presence of two members constitutes a quorum for a meeting of the Committee. A quorum shall only be constituted where the Chair or Vice-Chair is present at the meeting.
- 3.5 **Voting** – A matter put to a vote at a meeting of the Committee shall be decided by a majority of the votes cast and in the event of an equality of votes its Chair has a second vote.
- 3.6 **Procedure and Conduct** – Subject to any resolution of the Board in respect of a specific matter, the Chair shall determine the procedure at and conduct of meetings of the Committee.
- 3.7 **Secretary and Minutes** – The Corporate Secretary shall be the secretary of the Committee. Copies of the minutes shall be sent by the Corporate Secretary to all members of the Board once they have been approved by the Committee.



## APPENDIX

### CHARTER OF AUDIT COMMITTEE

**3.8 Frequency and Calling of Meetings** – The Committee will meet at the discretion of the Chair of the Committee, but not less frequently than four times each year. The Chair shall call a meeting if asked to do so by the Chairman of the Board, and decide if a meeting is required if requested by another member of the Committee.

**3.9 Notice of Meetings** – The proper notice period for calling a meeting of the Committee shall be a minimum of 14 days or such shorter notice as agreed by the Committee.

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

- (a) entitled to receive notice of every meeting of the Committee and, at the expense of the Corporation, to attend and be heard at each meeting and the AG shall be invited to attend any or every meeting of the Committee; and
- (b) may call a meeting of the Committee.

**3.11 Private Meetings** – The Committee may meet privately as a committee, and periodically with Management, the AG and the heads of enterprise risk management and the internal audit function in separate private sessions.

**3.12 Meeting Agenda** – A written agenda for each meeting of the Committee will be distributed to the members of the Committee at least five days in advance of the meeting date, together with any related materials, if available.

**3.13 Supplemental Attendees** – Any person who may possess information that would be useful to the Committee in carrying out its duties may be invited by the Chair to attend any meeting of the Committee.

**3.14 Term of Appointment / Rotation / Re-appointment 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. The Chair shall provide advice to the Chairman of the Board on a Committee member's performance where an extension of that member's tenure or re-appointment is being considered.

**3.15 Reporting** – The Committee will, where appropriate, provide a written or a verbal report of each meeting of the Committee at the next regular Board meeting or as may otherwise be required by the Board.

**3.16 Review of Charter** – The Committee shall review and assess the adequacy of this Charter at least annually. Any proposed amendments to the Charter will be considered by the Governance Committee for recommendation to the Board.

**3.17 Self-assessment** – An evaluation of the Committee shall be conducted regularly, in which the Committee shall review its performance for the purpose, among other things, of assessing whether the Committee fulfilled the responsibilities and duties stated in this Charter.

**3.18 Disclosure** – The Committee shall ensure that this Charter and the composition of the Committee are publicly disclosed.

**3.19 Independent Counsel or Other Advisors** – The Committee has the authority to engage outside advisors, including but not limited to counsel, independent audit consultants and / or other experts, as needed, to review any matter under its responsibility, in accordance with the relevant Board resolution or policy.

#### 4.0 PRINCIPAL DUTIES AND RESPONSIBILITIES

**4.1 Advice and Recommendations to Board** – In discharging its duties and responsibilities, the Committee relies on the expertise of Management, the Corporation's internal audit function and the AG. Although it does not carry out internal audits, the Committee shall monitor the audit and review the reports, and make reasonable inquiries, to allow it to provide sound advice and recommendations to the Board.

**4.2 Investigation** – In assisting the Board in discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities, AG and personnel of the Corporation. The Committee shall recommend to the Board that special investigations be conducted into such matters as the Committee may deem appropriate based on information supplied to it.

**4.3 Financial Reporting** – The Committee shall assist the Board in discharging its oversight role of reliable, accurate and clear financial reporting, including by reviewing the Corporation's annual financial statements and Management's Discussion and Analysis (MD&A) prior to approval by the Board, and reviewing, as appropriate, releases to the public of significant non-public financial information. Such review shall include, where appropriate but at least annually, discussion with Management, the internal audit function, and the AG, of significant issues regarding accounting principles, the Corporation's accounting policies, and significant management estimates and judgments, including the quality and acceptability of Generally Accepted Accounting Principles (GAAP).

The Committee shall satisfy itself that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements, other than the public disclosure in the Corporation's annual financial statements and MD&A, and must periodically assess the adequacy of those procedures.

**4.4 Financial Reporting Processes, Accounting Policies and Internal Control Structure** – Management is responsible for the preparation, presentation, and integrity of the Corporation's financial statements and for maintaining appropriate accounting and financial reporting principles and policies and internal controls and procedures designed to ensure compliance with accounting standards and applicable laws and regulations.

The Committee shall seek Management's and the AG's views on opportunities to improve the quality of the Corporation's accounting principles as applied in its financial reporting, inquire into alternative treatments that may have been considered but rejected, review the aggressiveness or conservatism of the Corporation's accounting principles and estimates, and review instances where the AG's advice on accounting or disclosure matters has not been followed.

Specifically, the Committee shall assist the Board in its oversight of the financial reporting process of the Corporation including:

- (a) reviewing and advising the Board with respect to the Corporation's annual financial statements;
- (b) reviewing and advising the Board with respect to the AG's annual audit report;
- (c) reviewing major changes to the Corporation's auditing and accounting principles and practices as suggested by the AG, the internal audit function or Management;

(d) ensuring that Management has the necessary policies and procedures in place related to internal controls, in accordance with applicable laws, regulations and guidance, to provide reasonable assurance on the adequacy and effectiveness of the Corporation's internal control systems; and reviewing the related reporting by Management and the internal audit function on such internal controls;

(e) reviewing the integrity of the Corporation's financial reporting processes and the internal control structure;

(f) reviewing the process relating to and the certifications of the Chief Executive Officer (CEO) and the Chief Financial Officer on the integrity of the Corporation's financial statements;

(g) reviewing the plan for the annual audit by assessing the reasonableness of the audit scope and plan and determining whether the Corporation is receiving appropriate audit coverage and overall effort; satisfying itself that the AG has considered the work of the internal audit function in developing its overall audit strategy; and, assessing the degree of assurance that the Board will be able to take from the AG's work. Accordingly, the Committee should satisfy itself that the audit scope will not be restricted in any way and that key areas of interest to the Board are adequately covered;

(h) reviewing and monitoring the implementation of recommendations made through the annual audit by the AG and any management letter provided by the AG and Management's responses to such reports and any such letter;

(i) establishing systems of reporting to the Committee by each of Management, the AG and the internal audit function regarding any significant judgments made in Management's preparation of the financial statements and any significant difficulties encountered during the course of the review or audit, including any restrictions on the scope of work or access to required information; and

(j) through its oversight of the internal audit function, satisfying itself that the Corporation is maintaining its books of account, records in relation thereto, financial and management control and information systems and management practices in such manner as will provide reasonable assurance that:

- (i) the assets of the Corporation are safeguarded and controlled;
- (ii) the transactions of the Corporation are in accordance with the requirements of the Statutory Bodies (Accounts and Annual Reports) Act 1980 (Act 240), other legislative requirements, directives, circulars or guidelines issued by the Ministry of Finance or the Prime Minister's Department (if applicable); and

## APPENDIX

### CHARTER OF AUDIT COMMITTEE

- (iii) the financial, human and physical resources of the Corporation are managed economically and efficiently and the operations of the Corporation are carried out effectively.

#### 4.5 Strategic and Financial Management Oversight:

- (a) Corporate Plan and Operating Capital Budgets – review and recommend to the Board with respect to the Corporation's Corporate Plan and monitor and advise the Board with respect to Management's performance against said plan.
- (b) Financing – review and advise the Board with respect to the policies and procedures of the Corporation relating to and the terms and conditions of any external financing to be incurred or assumed by the Corporation, through the Corporation's debt or otherwise.
- (c) Investments – review and advise the Board with respect to the policies and procedures of the Corporation relating to and the terms and conditions of the investment of the Corporation's cash assets in short-term and long-term securities.
- (d) 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.

4.6 **The Internal Audit Function** – The internal audit function investigates and provides information and assurance to the Committee and Management on the Corporation's books of account and records and on the effectiveness and performance of financial and management control and information systems and management practices and that the operations of the Corporation are carried out effectively pursuant to the relevant legislation.

In order to fulfil its responsibilities, the internal audit function requires independent status and therefore, functionally reports to the Board directly through the Committee and, administratively reports to the CEO. This relationship requires that the Committee and the internal audit function have unrestricted access to each other directly.

The Audit Committee is responsible for the oversight of the work of the internal audit function and for the compensation and oversight of the Chief Internal Auditor (CIA). The Chair of the Committee shall be

consulted before the appointment or termination of the CIA and shall conduct entry and exit interviews with the same. The appointment of the CIA must be approved by the Board.

The Committee shall oversee any internal audit of the Corporation. The Committee's specific responsibilities include:

- (a) reviewing the internal audit function's mandate on an annual basis;
- (b) assessing the internal audit function's capabilities;
- (c) reviewing the internal audit function's independence and reporting relationships;
- (d) reviewing the internal audit function's audit plans, budgets, quality and quantity of staff and other resources it needs to do its job well;
- (e) reviewing the internal audit function's performance including performance against its audit plans and budgets;
- (f) reviewing the internal audit function's reports;
- (g) monitoring the implementation of the internal audit function's reports and recommendations;
- (h) ensuring coordination of the internal audit function with annual AG audits and special examinations; and
- (i) reviewing the overall operations of the internal audit function having regard to its mandate and taking into account current internal audit standards.

4.7 **Risk Management** – The enterprise risk management function provides independent advice, monitors and maintains the enterprise risk management framework of the Corporation, promotes effective management of all risk categories and fosters the establishment and maintenance of an effective risk culture throughout the Corporation.

The Chief Risk Officer (CRO), as the head of the enterprise risk management function, is responsible for the implementation and maintenance of the enterprise risk management framework for the Corporation. The enterprise risk management function assists and provides information to the Committee regarding all enterprise risk management activities and outcomes of the enterprise risk management process, that is, the identification, assessment, evaluation, treatment, monitoring and communication of the significant risks affecting the Corporation. The enterprise risk management

function also provides independent assessments in respect of the Corporation's risk management capabilities, and provides recommendations to improve these capabilities, where appropriate. The CRO shall have regular reporting duties to the Board through the Committee.

In order to fulfil its responsibilities effectively, the CRO requires independent status and therefore, functionally reports directly to the Committee and, administratively reports to the CEO. This relationship requires that the Committee and the CRO have unrestricted access to each other directly.

The Committee shall be responsible for the oversight of the work of the enterprise risk management function and for the performance and oversight of the CRO, and shall ensure that the enterprise risk management function has a sufficient amount, and quality of resources to fulfil its roles. The Chair of the Committee shall be consulted before the appointment of the CRO or the termination of his / her employment and shall conduct entry and exit interviews with the same. The appointment of the CRO must be approved by the Board.

The Committee shall:

- (a) ensure that sound policies, guidelines and practices are implemented for the management of key corporate risks;
- (b) receive sufficient information to understand the nature and magnitude of significant risks to which the Corporation is exposed;
- (c) review with Management and advise the Board on the Corporation's policies and guidelines implemented to manage the Corporation's risk exposures, and review such policies and guidelines at least once a year to ensure that they remain appropriate and prudent;
- (d) on a regular basis, obtain reasonable assurance that the Corporation's risk management policies and guidelines for significant risks are being adhered to;
- (e) report to the Board on: the significant risk profile; the mitigation plans and controls in place to manage these significant risks; and the overall effectiveness of the risk management process;
- (f) periodically consider the respective roles of the AG and internal audit function concerning risk management at the Corporation and annually evaluate the AG's and internal audit function's respective performance in relation to such roles;
- (g) request reports from the internal audit function validating Management's risk assessments; and
- (h) review with Management and advise the Board on whether a sound and effective approach has

been followed in establishing the Corporation's business continuity planning arrangements, including whether disaster recovery plans have been tested periodically.

4.8 **Ethical and Legal Compliance** – The Committee shall:

- (a) review with the Corporation's counsel any legal matter that could have a significant impact on the Corporation's financial statements;
- (b) ensure oversight for ethics and integrity and preservation of the Corporation's reputation by receiving from Management, reports on compliance with the Corporation's policies or codes of business conduct and ethical behaviour and any other matter of conduct or behaviour that may give rise to a liability to the Corporation; and by reviewing any report that is received from the internal audit function, the AG and / or other Committee Chairs on their review of compliance with same;
- (c) ensure there is a system for monitoring the Corporation's compliance with laws and regulations, and obtain reports, on an annual basis, that the Corporation is in conformity with applicable legal requirements;
- (d) review the results of Management's investigation of, and actions taken in connection with, any internal control or accounting matters that may be questionable;
- (e) establish and review from time to time the process for (i) the receipt, retention and treatment of complaints or concerns regarding accounting, internal controls or auditing matters; (ii) the confidential and anonymous submission, in accordance with established corporate policies, by the Corporation's employees of concerns regarding questionable accounting or auditing matters; and (iii) the receipt, retention and treatment of complaints regarding the CEO and senior officers of the Corporation. Establish and review from time to time a process for the evaluation, investigation and resolution of concerns relating to accounting, internal controls or auditing matters that may be questionable; and
- (f) investigate any allegations that any officer or Director of the Corporation, or any other person acting under the direction of such a person, took any action to influence, coerce, manipulate or mislead any person engaged in the performance of an audit of the financial statements of the Corporation for the purpose of rendering such financial statements materially misleading and, if such allegations prove to be correct, take or recommend to the Board appropriate disciplinary action.



## APPENDIX

### CHARTER OF SUCCESSION PLANNING COMMITTEE

#### 1.0 MANDATE

Pursuant to section 7 of the Malaysia Deposit Insurance Corporation Act, the Corporation may establish any committee as it considers necessary or expedient for the performance of its functions. The Board has deemed it necessary to establish a Succession Planning Committee.

#### 2.0 OBJECTIVE

The Succession Planning Committee (Committee) of the Board of Directors (the Board) of the Malaysia Deposit Insurance Corporation (Corporation) is responsible for advising and making recommendations to the Board on Chief Executive Officer (CEO) Succession Planning. In particular, the Committee is:

- (a) to review the current Board-approved long-term CEO succession plan to ensure the identification of a suitable candidate for CEO on retirement of an incumbent CEO;
- (b) to review the current short-term plan for any unplanned vacancy in the position of the CEO; and
- (c) to identify a suitable candidate for the office of the CEO of PIDM to take office when the term of the incumbent CEO expires.

CEO succession planning is a key responsibility of the Board, including overseeing the programme structure, setting selection criteria, evaluating candidates, and making the final choice of a CEO. The Committee will assist the Board by providing focus and due diligence on Succession Planning and the detailed practical work. The Committee will coordinate with other Committees and Management to ensure effective implementation of the plans.

#### 3.0 COORDINATION WITH OTHER COMMITTEES

- 3.1 Under the Governance Committee Charter, the Governance Committee is to review Management's succession plans for the corporate officers and make recommendations in respect of the same to the Board for approval<sup>1</sup> and keep under review the leadership needs of the Corporation, both executive and non-executive, with a view to ensure the continued ability of the Corporation to efficiently and effectively meet its mandate. The Remuneration Committee assists the Board with oversight of succession management policies generally.<sup>2</sup>
- 3.2 Under the Audit Committee Charter, the Audit Committee shall ensure that sound policies, guidelines and practices are implemented for the management of key corporate risks; that it receives sufficient information to understand the nature and magnitude of significant risks to which the Corporation is exposed; that it reviews with Management and advises the Board on the Corporation's policies and guidelines implemented to manage the Corporation's risk exposures, and reviews such policies and guidelines at least once a year to ensure that they remain appropriate and prudent.<sup>3</sup>
- 3.3 Subject to paragraph 3.4, to ensure that the respective Committees can continue to perform their functions, the Committee shall provide reports to the Board as a whole on the outcome of its work in such a manner that:
  - (a) the Governance and Remuneration Committees will have sufficient information to perform their oversight roles in relation to succession planning including talent development; and
  - (b) the Audit Committee will have sufficient information to perform its oversight role with respect to risk matters related to succession planning including talent development.

- 3.4 As and when required, the Committee will coordinate its work with that of the respective Committees by communicating key issues or proposed plans through the Chairpersons of the respective Committees as needed or through meetings.

- 3.5 The Governance Committee's responsibilities under paragraph 4.4 of the Governance Committee Charter will be deemed to be fulfilled.

#### 4.0 OPERATING PRINCIPLES

- 4.1 (a) **Functions and Composition** – The Committee shall comprise at least three members of the Board of Directors, as named by the Board. Membership shall include the Chairman of 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** – At least one of the Committee members appointed to the Committee must have the relevant experience or expertise on CEO Succession Planning.
- 4.2 **Chair** – The Committee shall be chaired by the Chairman of the Board. In the absence of the Chairman of the Committee for any meeting or part of the meeting, the remaining members present shall elect one of the members present to chair the meeting.
- 4.3 **Quorum** – The presence of two members constitutes a quorum for a meeting of the Committee and at least one of the two members shall be the Chair.
- 4.4 **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.
- 4.5 **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.
- 4.6 **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.

- 4.7 **Frequency and Calling of Meetings** – The Committee will meet at the discretion of the Chair of the Committee, but not less frequently than three times in a year. The Chair of the Committee shall decide if a meeting is required if requested to do so by another member of the Committee.

- 4.8 **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.

- 4.9 **Private Meetings** – The Committee may meet privately as a committee.

- 4.10 **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.

- 4.11 **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. In addition, other individuals such as the other Directors, the CEO and the Head of the Human Capital Division may be invited to attend all or part of any meeting as and when appropriate and necessary.

- 4.12 **Term of Appointment / Rotation of Committee Members** – Unless otherwise decided by the Board, members of the Committee will not be changed.

- 4.13 **Reporting** – The Committee will, where appropriate, provide a written or a verbal report of each meeting of the Committee at the next regular Board meeting or as may otherwise be required by the Board.

- 4.14 **Meetings with Other Committees** – The Committee may, as appropriate, request for meetings with other relevant Board Committees to clarify the coordination of work in this area or to discuss any issues or plans before bringing forward recommendations to the Board. Save for paragraph 4.3, these operating principles will apply. The presence of the Chairman of the Board and at least one other member of each Committee will constitute a quorum.

<sup>1</sup> Paragraph 4.4 of the Governance Committee Charter

<sup>2</sup> Paragraph 2 of the Remuneration Committee Charter

<sup>3</sup> Paragraph 4.7 of the Audit Committee Charter



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### CHARTER OF SUCCESSION PLANNING COMMITTEE

4.15 **Review of Charter** – The Committee shall review and assess the adequacy of this Charter as needed. Any proposed amendments to the Charter will be considered by the Governance Committee for recommendation to the Board.

4.16 **Self-assessment** – An evaluation of the Committee shall be conducted at the end of its term, 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.

4.17 **Disclosure** – The Committee shall ensure that this Charter and the composition of the Committee are publicly disclosed.

4.18 **Access to Information** – The Committee shall have direct access to, and complete and open communication with Management, and may obtain advice and assistance from internal human capital experts or other advisors.

4.19 **Independent Counsel or Other Advisors** – The Committee has the authority to engage outside advisors, including but not limited to counsel, and / or other experts, as needed, to review any matter under its responsibility, in accordance with the relevant Board policy.<sup>4</sup> For the purposes of carrying out its role and responsibilities under this Charter, the prior approval of the Board for the appointment of outside advisors shall be deemed to have been obtained.

#### 5.0 PRINCIPAL DUTIES AND RESPONSIBILITIES

5.1 **Advice and Recommendations to Board** – In discharging its duties and responsibilities, the Committee relies on the expertise of Management including the Head of Human Capital Division. The Committee shall review the long-term Board-approved CEO Succession Management Plan (CEO Succession Management Plan) and recommend, if needed, changes to the same to the Board for review and approval.

5.2 **CEO Succession Management Plan** – In particular, the Committee shall make recommendations to the Board regarding the CEO Succession Management Plan and its work in relation to the following:

- (a) in collaboration with the CEO, develop a well-defined candidate profile and qualifications (including experience, competencies and personal characteristics) for the CEO successor, so that the leadership needs of the Corporation can be met. This should take into account the vision of the organisation, its long-term strategy, and any developments in the sector;
- (b) in collaboration with the CEO, identify and evaluate internal candidates against the candidate profile, including the state of readiness to assume a larger role;
- (c) agree with the CEO and / or the Head of the Human Capital Division on development opportunities to be provided to identified candidates to overcome deficiencies in experience and / or education, as well as opportunities to increase exposure to the Board in business and social settings;
- (d) identify and evaluate potential external candidates identified and benchmark against internal candidates; and
- (e) identify and recommend to the Board a permanent CEO replacement.

5.3 **Emergency Plan** – In view of the existence of a Board-approved emergency succession plan (Emergency Plan), the Committee shall also make recommendations to the Board regarding its work in relation to the following:

- (a) its review of the existing Emergency Plan; and
- (b) carrying out the detailed process for implementing the emergency succession plan if needed.

5.4 The Emergency Plan is a plan for an unplanned vacancy, so that the Board can either decide on a successor, or, if there is no obvious choice, designate an interim CEO, and if needed, implement a temporary reassignment of duties among Management. The plan would include, among others, communications plans, and document and confirm the authorities so that there is clarity about the reassignment of duties and who has the authority to oversee the implementation of the tasks assigned. If the Board plans to embark on an exercise to source external candidates, the plan should address how to manage the communications with the incumbent, so that his or her talents can be retained within the Corporation.

5.5 Unless the Board otherwise decides, the Committee will perform the functions of the Governance Committee (instead of the Governance Committee) that are contemplated under the CEO Succession Management Plan and the Emergency Plan. This will include working with the CEO, any executive search firm, and the Head of the Human Capital Division to identify or interview any candidates and on internal and external communications regarding the CEO Succession Management Plan, and the Emergency Plan, or its execution.

5.6 **Other Duties and Responsibilities of the Committee** – The Committee shall:

- (a) if an external candidate is selected and appointed,<sup>5</sup> recommend how to ensure that a Board Committee can assist the Board in monitoring and assessing the CEO's performance on an ongoing basis, how to determine the CEO's fit with the culture, future needs of the Corporation, as well as his or her understanding of the Corporation's business and affairs;
- (b) consider how the Board would communicate with the Minister of Finance to secure the approval for the appointment of any replacement for the CEO; and
- (c) make recommendations on the role of the outgoing CEO, for a transitional period, if thought appropriate.

<sup>4</sup> Paragraph 2.2 of the Policy and Procedures for Engagement of Separate Independent Legal and Other Counsel provides that "Committees, other than the Audit Committee, or any individual Director shall obtain the prior approval of the Chairperson of the Board of Directors or the Board to engage independent counsel or other advisors to fulfil its or his or her responsibilities"

<sup>5</sup> In our case the approval of the Minister of Finance is necessary

## APPENDIX

### CORPORATE SCORECARD 2014 - 2016

Corporate Objectives		Key Performance Indicators (KPIs) / Corporate Initiatives	Targets			
			2014	2015	2016	
Stakeholders	A	Educated and informed stakeholders	1. Public awareness index: a. General awareness of PIDM b. General awareness of deposit insurance system (DIS) c. General awareness of takaful and insurance benefits protection system (TIPS)	57% 49% 34%	61% 52% 36%	65% 55% 38%
			2. Successful completion of key initiative(s): a. Integrated Communications Plan b. Education programme	Implement and review Implement and review	Implement and review Implement and review	Implement and review Implement and review
	B		Effective partnerships	3. PIDM's relationship with: a. Bank Negara Malaysia b. Member institutions c. Ministries and other Government regulatory agencies d. Key suppliers and strategic partners e. Deposit insurers and Insurance Guarantee Schemes f. Other key stakeholders	Strong Satisfactory Strong Strong Strong Satisfactory	Strong Satisfactory Strong Strong Strong Satisfactory
		4. Other international fora		Active participation	Active participation	Active participation
		5. The Financial Institutions Directors' Education (FIDE) Programme and the FIDE Forum		Active participation and support	Active participation and support	Active participation and support
	Governance and Internal Processes	C	Well-governed and well-managed organisation	6. Board assessment on: a. Best practices of governance adopted and maintained b. Significant policies and practices complied with and kept current and relevant c. Quality of management support to the Board	High satisfaction High satisfaction High satisfaction	High satisfaction High satisfaction High satisfaction
7. Successful completion of key initiative: a. Amendments to the PIDM Act				Complete	Review	Review
D		Robust risk assessment, monitoring, intervention and resolution capabilities	8. Successful completion of key initiative(s): a. Differential Premium Systems (DPS) Guidelines for DIS b. Differential Levy System (DLS) Guidelines for TIPS c. DLS framework for Takaful d. Risk Assessment System: i. DIS ii. TIPS e. Early Warning System (EWS): i. DIS ii. TIPS f. Evaluation Model and System for DIS and TIPS g. Intervention and resolution plans for complex financial institutions h. Claims management system, policies and procedures for insurer members: i. Premium Reimbursement and Claims Management System ii. Policy Holders Support Management System iii. Payment Management System i. Simulation on Intervention and Failure Resolution	Complete Review Develop and consult  Implement Develop  Implement Research Develop Research  Develop  - - Complete	Implement Review Implement  Review Develop and implement  Review Develop Develop Develop  Complete  Complete	Review Develop and consult Review  Review Review  Review Develop and validate Complete Develop  Implement Implement Complete

Corporate Objectives			Key Performance Indicators (KPIs) / Corporate Initiatives	Targets			
				2014	2015	2016	
Governance and Internal Processes	D	Robust risk assessment, monitoring, intervention and resolution capabilities	j. Regulations: i. TIPS Information Regulations ii. Terms and Conditions of Membership Regulations – DIS and TIPS k. Member institutions' compliance programme with the PIDM Act	Consult and implement Monitor	Monitor Monitor	Monitor Monitor	
			Implement	Implement	Review and enhance		
	E	Sound business and financial practices	9. Reporting through: a. Annual Report b. Corporate Plan	Complete Complete	Complete Complete	Complete Complete	
			10. Financial performance against approved budgets	±10% variance	±10% variance	±10% variance	
			11. Internal Control and Risk Management Compliance	Strong	Strong	Strong	
			12. Internal Customer Satisfaction Index	75%	75%	75%	
			13. Successful completion of key initiative(s): a(i). Target Fund for TIPS: i(1). General Fund i(2). Life Fund i(3). Takaful Funds a(ii). Alternative funding arrangements b. Develop and implement the following strategic plans: i. Annual Information Technology Strategic Plan ii. Annual Business Continuity Management Plan c. Disaster Recovery Centre (DRC) and infrastructure d. Corporate Information Management	Develop Research - Research and develop	Implement Develop Research Complete	Review Implement Develop Review	
			Complete Complete Construct Develop and implement	Complete Complete Construct Review	Complete Complete Complete Review		
	Learning and Growth	F	Competent and knowledgeable workforce	14. Learning and development plan	Complete	Complete	Complete
				15. Succession plan	Develop and monitor	Develop and monitor	Develop and monitor
G		Conducive corporate environment	16. Employee Engagement Index (survey conducted once every two years to gauge level of employee engagement)	-	80%	-	
			17. Successful completion of key initiative: a. Employee engagement programmes	Implement	Implement	Implement	

APPENDIX  
LIST OF MEMBER INSTITUTIONS

As at 31 December 2013, PIDM’s member institutions are as follows:

Commercial Banks (27)

- 1. Affin Bank Berhad
- 2. Alliance Bank Malaysia Berhad
- 3. AmBank (M) Berhad
- 4. Bangkok Bank Berhad
- 5. Bank of America Malaysia Berhad
- 6. Bank of China (Malaysia) Berhad
- 7. Bank of Tokyo-Mitsubishi UFJ (Malaysia) Berhad
- 8. BNP Paribas Malaysia Berhad \*
- 9. CIMB Bank Berhad
- 10. Citibank Berhad \*
- 11. Deutsche Bank (Malaysia) Berhad \*
- 12. Hong Leong Bank Berhad
- 13. HSBC Bank Malaysia Berhad
- 14. India International Bank (Malaysia) Berhad
- 15. Industrial and Commercial Bank of China (Malaysia) Berhad
- 16. J.P. Morgan Chase Bank Berhad
- 17. Malayan Banking Berhad
- 18. Mizuho Corporate Bank (Malaysia) Berhad
- 19. National Bank of Abu Dhabi Malaysia Berhad
- 20. OCBC Bank (Malaysia) Berhad
- 21. Public Bank Berhad
- 22. RHB Bank Berhad
- 23. Standard Chartered Bank Malaysia Berhad
- 24. Sumitomo Mitsui Banking Corporation Malaysia Berhad
- 25. The Bank of Nova Scotia Berhad
- 26. The Royal Bank of Scotland Berhad
- 27. United Overseas Bank (Malaysia) Bhd.

Islamic Banks (16)

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

Insurance Companies (32)

- 1. ACE Jerneh Insurance Berhad
- 2. AIA Bhd.
- 3. AIG Malaysia Insurance Berhad
- 4. Allianz General Insurance Company (Malaysia) Berhad
- 5. Allianz Life Insurance Malaysia Berhad
- 6. AmGeneral Insurance Berhad (formerly known as Kurnia Insurans Malaysia Berhad)
- 7. AmLife Insurance Berhad
- 8. AXA Affin General Insurance Berhad
- 9. AXA Affin Life Insurance Berhad
- 10. Berjaya Sampo Insurance Berhad
- 11. Etiqa Insurance Berhad
- 12. Great Eastern Life Assurance (Malaysia) Berhad
- 13. Hong Leong Assurance Berhad
- 14. Lonpac Insurance Berhad
- 15. Manulife Insurance Berhad
- 16. MCIS Zurich Insurance Berhad
- 17. MSIG Insurance (Malaysia) Bhd.
- 18. Multi-Purpose Insurans Berhad
- 19. Overseas Assurance Corporation (Malaysia) Berhad
- 20. Pacific & Orient Insurance Co. Berhad
- 21. Progressive Insurance Berhad
- 22. Prudential Assurance Malaysia Berhad
- 23. QBE Insurance (Malaysia) Berhad
- 24. RHB Insurance Berhad
- 25. Sun Life Malaysia Assurance Berhad (formerly known as CIMB Aviva Assurance Berhad)
- 26. The Pacific Insurance Berhad
- 27. Tokio Marine Insurans (Malaysia) Berhad
- 28. Tokio Marine Life Insurance Malaysia Bhd.
- 29. Tune Insurance Malaysia Berhad
- 30. Uni.Asia General Insurance Berhad
- 31. Uni.Asia Life Assurance Berhad
- 32. Zurich Insurance Malaysia Berhad

Takaful Operators (12)

- 1. AIA AFG Takaful Berhad
- 2. AIA Public Takaful Berhad (formerly known as ING Public Takaful Ehsan Berhad)
- 3. AmFamily Takaful Berhad
- 4. Etiqa Takaful Berhad
- 5. Great Eastern Takaful Berhad
- 6. Hong Leong MSIG Takaful Berhad
- 7. HSBC Amanah Takaful (Malaysia) Sdn. Bhd.
- 8. MAA Takaful Berhad
- 9. Prudential BSN Takaful Berhad
- 10. Sun Life Malaysia Takaful Berhad (formerly known as CIMB Aviva Takaful Berhad)
- 11. Syarikat Takaful Malaysia Berhad
- 12. Takaful Ikhlas Sdn. Bhd.

\* denotes this bank provides Islamic banking services under the *Skim Perbankan Islam* (SPI). SPI is defined by Bank Negara Malaysia as the Islamic banking scheme provided by licensed institutions to conduct banking business based on Islamic principles

APPENDIX  
GLOSSARY OF TERMS

Bridge institution

An institution which is a subsidiary of PIDM that would assume and operate part or all of the business, assets and liabilities of a failing member institution, and continue to service depositors, certificate owners or policy owners, until a purchaser for the business, assets and liabilities can be found to acquire the bridge institution. In other jurisdictions, the bridge institution is often used as a resolution option to preserve the franchise value of the troubled institution, and to allow for more time to address the problems of the troubled institution and find a purchaser.

Capital Adequacy Ratio (CAR)

The CAR is the ratio of a financial institution’s regulatory capital position relative to its risk exposures i.e. capital required. Bank Negara Malaysia (BNM) has set a Supervisory Target Capital Level at 130% CAR for insurance companies, below which supervisory actions of increasing intensity will be taken to resolve the financial position of the insurer member. For banks, beginning 2013, capital components are reported based on Basel III Capital Adequacy Framework. The framework sets out the approach for computing regulatory capital adequacy ratios, as well as the levels of those ratios at which banking institutions are required to operate. Regulatory capital requirement seek to ensure banks have an adequate amount of high quality capital which absorb losses on a going-concern basis. BNM requires banks to maintain a minimum Total Capital Ratio (TCR) of 8%, at all times.

Certificate owner

The person who has the legal title to a takaful certificate and includes the assignee, the personal representative of a deceased certificate owner and the annuitant.

Conventional Deposit Insurance Fund

All premiums received by PIDM from member banks providing conventional banking services and interest earned minus the direct cost of operating the conventional Deposit Insurance System (DIS).

Deposit Liability Information Management System (DLIMS)

An internal PIDM system used to process depositors’ details and deposit accounts, so as to compute the total insured deposits by entity. The system carries out processes that include the aggregation of deposit accounts for the same entity, making payment adjustments, holding back payments and generating payment files for further processing by payment management.

Differential Levy System

A differential premium system where conventional insurer members are charged levies at differential rates, based on their risk profiles.

Differential Premium Systems

A system where member banks are charged premiums at differential rates, based on their risk profiles.

Enterprise Risk Management

The framework applied on an organisation-wide basis to ensure and demonstrate that an entity’s significant risks are being consistently and continuously identified, assessed, managed, monitored and reported on.

Family Solidarity Takaful Protection Fund

All premiums received by PIDM from insurer members conducting family takaful business and returns made minus the direct costs of operating the Takaful and Insurance Benefits Protection System (TIPS).

Financial safety net

Usually comprises the deposit insurance function, prudential regulation and supervision, and the lender of last resort function.

Foreign currency

Any currency other than Ringgit Malaysia, the Malaysian currency.

General Insurance Protection Fund

All premiums received by PIDM from insurer members conducting general insurance business and interest earned minus the direct costs of operating TIPS.

General Takaful Protection Fund

All premiums received by PIDM from insurer members conducting general takaful business and returns made minus the direct costs of operating TIPS.

Government Deposit Guarantee (GDG)

The GDG announced by the Government of Malaysia on 16 October 2008 was a temporary deposit guarantee that covered the full amount of guaranteed deposits and instruments held in member banks and other guaranteed financial institutions. The GDG was a pre-emptive and precautionary measure, consistent with measures taken by neighbouring jurisdictions, to preserve confidence in the financial system. It was in effect until 31 December 2010.



## APPENDIX

### GLOSSARY OF TERMS

#### Impairment

A loan / financing asset is considered impaired if there is objective evidence of impairment as a result of: (i) a loss event that occurred after the initial recognition of the asset; (ii) the loss event had an impact on its estimated future cash flows; and that (iii) a reliable estimate of the loss amount can be made.

#### Insurance benefits

The aggregate of insurance benefits for which an insurance company is liable to any person in the usual course of the insurance business of the insurance company.

#### Insurer members

All insurance companies (including locally incorporated subsidiaries of foreign insurance companies operating in Malaysia) licensed under the Financial Services Act 2013 to conduct life and / or general insurance business in Malaysia, as well as takaful operators licensed under the Islamic Financial Services Act 2013 to conduct family and / or general takaful business in Malaysia. Membership is compulsory under the Malaysia Deposit Insurance Corporation Act (PIDM Act) 2011. A full list of these insurer members is available on page 230.

#### Integrated Communications Plan

This five-year plan identifies the strategies and initiatives to enhance understanding and awareness of the protection systems.

#### Intervention and failure resolution

Intervention refers to actions taken on a member institution by PIDM in order to address certain concerns with the member institution. These actions are usually taken prior to any failure resolution option being taken against the member institution. Failure resolution refers to actions in dealing with a failed member institution that has been determined by BNM as non-viable.

#### Islamic Deposit Insurance Fund

All premiums received by PIDM from Islamic member banks or commercial member banks providing Islamic banking services and returns made minus the direct costs of operating the Islamic DIS.

#### Islamic Protection Funds

Islamic Protection Funds refer to Islamic Deposit Insurance Fund; General Takaful Protection Fund; and Family Solidarity Takaful Protection Fund.

#### Life Insurance Protection Fund

All premiums received by PIDM from insurer members conducting life insurance business and interest earned minus the direct costs of operating TIPS.

#### Member banks

All commercial banks (including locally incorporated subsidiaries of foreign banks operating in Malaysia) licensed under the Financial Services Act 2013 and all Islamic banks licensed under the Islamic Financial Services Act 2013. Membership is compulsory under the PIDM Act. A full list of these member banks is available on page 230.

#### Member institutions

Members of PIDM comprising member banks and insurer members.

#### Moral hazard

The incentive for additional risk taking by financial institutions that might arise as a result of the provision of deposit insurance or deposit guarantee on the basis that financial institutions would not suffer the adverse consequences of risk taking.

#### Payment management

A process for handling payments to insured depositors, takaful beneficiaries and insured persons, including generating payment statements, keeping payment files and monitoring the payment status.

#### Payout

A process undertaken by PIDM to reimburse insured deposits to eligible depositors, or protected benefits to eligible takaful beneficiaries or insured persons of a non-viable member institution in accordance with sections 56 and 57, and sections 80 and 81 of the PIDM Act.

#### Policy owner

The person who has the legal title to an insurance policy and includes the assignee, the personal representative of a deceased policy owner and the annuitant.

#### Protection Funds

Protection Funds refer to Islamic and Conventional Deposit Insurance Fund as well as Takaful and Insurance Benefits Protection Funds.

#### Restructuring

A resolution method that involves a reorganisation of a member institution's financial position or in respect of other non-financial areas.

#### Risk-Based Capital Framework for Takaful Operators (RBCT)

Risk-Based Capital Framework for Takaful Operators (RBCT) refers to the framework introduced by BNM, which amongst others is to govern the capital adequacy computation of takaful operators. It also sets the expectation of BNM for takaful operator's maintenance of capital adequacy level to commensurate with the risk profile of the takaful operations, and act as financial buffer for the takaful exposure.

#### Shariah principles

The law of Islam, based upon the Quran, *Sunnah* (sayings and deeds of the Prophet Muhammad s.a.w.), *Ijma'* (consensus among Islamic scholars) and *Qiyas* (analogy).

#### Standard File Format (SFF)

A text file of relevant deposit information that is prepared by member banks in accordance with the format set out in the Guidelines on Deposit Information Systems and Submission issued by the Corporation. The SFF has dual purposes namely, to assist the Corporation to validate member banks' annual computation of total insured deposits as well as to facilitate the Corporation in undertaking its mandate of reimbursing insured depositors.

#### Takaful benefits

The aggregate of takaful benefits for which a takaful operator is liable to any person in the usual course of business of the takaful operator.

#### Takaful Protection Funds

Takaful Protection Funds refer to General Takaful Protection Fund and Family Solidarity Takaful Protection Fund.

#### Target fund

A target fund, in general, is the level of accumulated funds required to adequately cover expected losses arising from intervention and failure resolution activities.

#### Total Insured Deposits

The sum of deposits insured by PIDM and held in a member bank.

## APPENDIX

### CONTACT DETAILS

#### For more information about PIDM

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- Contact our Customer Service Call Centre at:  
Toll-free **1-800-88-1266**  
**8.30 am to 5.30 pm, Mondays to Fridays**
- Visit our website at **[www.pidm.gov.my](http://www.pidm.gov.my)**  
FAQs on PIDM, DIS and TIPS are available on our website
- Email to **[info@pidm.gov.my](mailto:info@pidm.gov.my)**
- Write to:  
**Communications and Public Affairs Division**  
**Perbadanan Insurans Deposit Malaysia**  
**Level 12, Quill 7,**  
**No. 9, Jalan Stesen Sentral 5,**  
**Kuala Lumpur Sentral,**  
**50470 Kuala Lumpur.**

Telephone: 603-2173 7436

Fax: 603-2173 7527 / 2260 7432