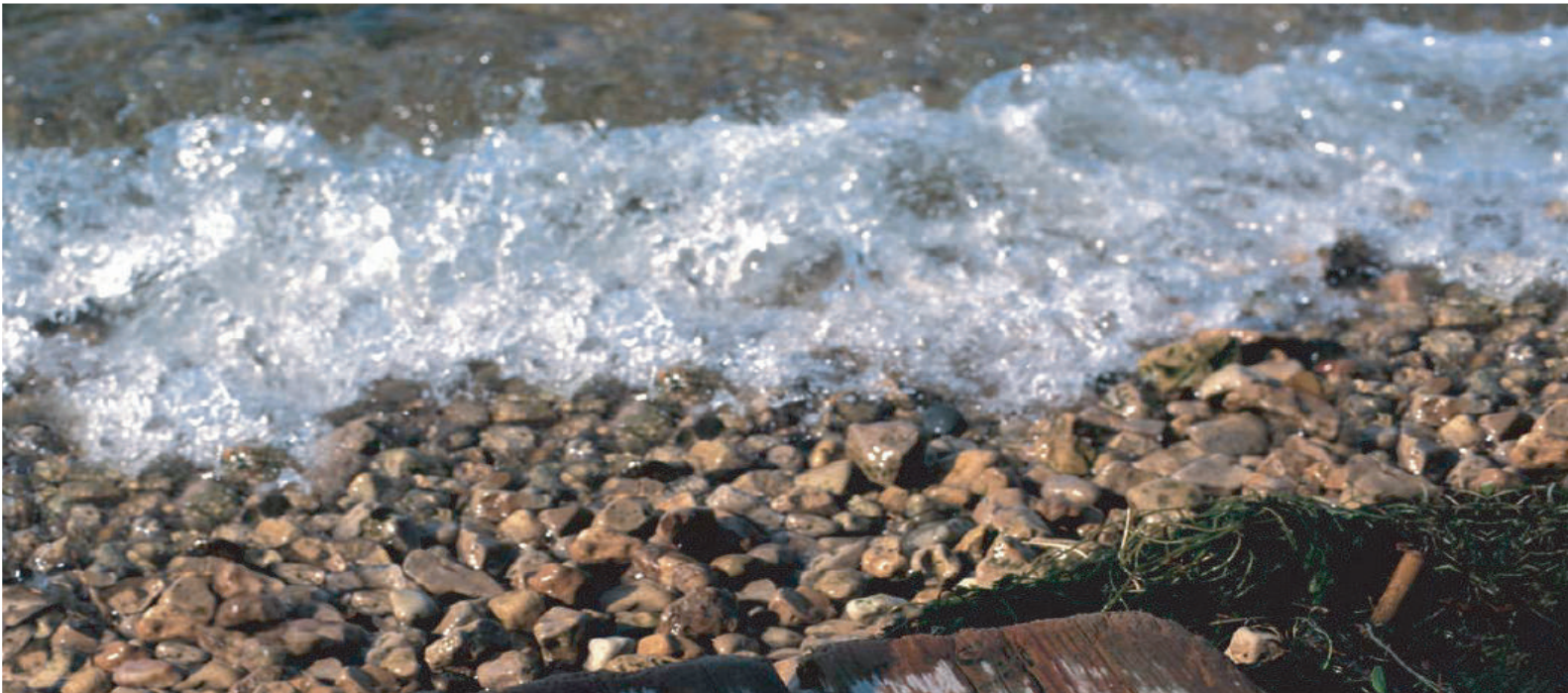




Perbadanan Insurans Deposit Malaysia
Malaysia Deposit Insurance Corporation



annual report 2005

Building
strong foundations



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message from the **chairman**



The strength of an institution's governance begins with its Board. In the first four months of MDIC's operations, the Board focused on building an effective organisational and reporting structure, and MDIC's governance framework.

Depositors now enjoy the guarantee of MDIC that their deposits kept in licenced commercial banks, finance companies and Islamic banks are safe.

We are committed to building strong relationship with our depositors, member institutions and other stakeholders.



DEPOSITOR PROTECTION AND FINANCIAL STABILITY

The establishment of the Malaysia Deposit Insurance Corporation (MDIC) is the culmination of the hard work and foresight of Bank Negara Malaysia which understands the vital role that a deposit insurer plays in building and maintaining confidence of depositors in the banking system.

A deposit insurer has one primary objective – to protect the depositing public against the loss of their deposits.

This is also the mandate of MDIC. Therefore, one of the first tasks of the Board was to prepare the groundwork for MDIC to provide deposit insurance coverage for depositors as quickly as possible. Deposit insurance protection was launched on 1 September 2005. Depositors now enjoy the guarantee of MDIC that their deposits kept in licenced commercial banks, finance companies and Islamic banks are safe. This guarantee is legislated by Parliament. It is therefore an unbreakable commitment of MDIC which is fully backed by the Government.

In the first quarter of 2006, we launched MDIC's website, so that the public can have access to comprehensive information about deposit insurance in Malaysia.



MANDATE AND PHILOSOPHY

The strength of an institution's governance begins with its Board.

In the first four months of MDIC's operations, the Board focused on building an effective organisational and reporting structure, and MDIC's governance framework. The task was made easier as the MDIC Act spells out the mandate of MDIC, the roles and responsibilities and provides the necessary powers for MDIC to fulfil the objects of the MDIC Act. The Act also contains a comprehensive system of checks and balances between the financial safety net participants.

Our objective is to establish strong foundations for MDIC, by incorporating the highest of governance standards based on the principles of integrity, independence, accountability, transparency and stewardship. We are most fortunate to have a strong management team that supports our commitment in this regard. For public confidence and acceptance, we intend to demonstrate that MDIC is well governed and responsibly managed, for the ultimate benefit of all stakeholders.

To help fulfil its governance responsibilities, the Board has also established three committees namely, the Audit, Governance and Remuneration Committees. In the process, the Board has also considered and approved charters for each committee which outlines the committee's terms of reference, duties, responsibilities and expected deliverables. The Board considers these charters to be the best international practice in governance.

STRATEGIC PLANNING

The Board has approved a three-year corporate plan setting out MDIC's four business strategies going forward namely,

- readiness;
- sound business and financial practices;
- public awareness; and
- strong partnerships.

Our objective is to establish strong foundations for MDIC, by incorporating the highest of governance standards based on the principles of integrity, independence, accountability, transparency and stewardship.

Our plan also sets out immediate and short term initiatives for implementation with emphasis on capacity building.


Although the banking system remains robust and sound, the Board is mindful that MDIC is required under the MDIC Act to stand ready to meet its obligations to depositors at all times. MDIC has thus carefully prioritised its program for implementing the necessary policies, systems and practices as part of our efforts to meet this mandate.

Legislation also requires that MDIC rely extensively on the examination work performed by Bank Negara Malaysia. As such, we consider it crucial to continue our close collaboration with Bank Negara Malaysia for the effective performance of our functions.

For our future success, we are also committed to building strong relationship with our depositors, member institutions and other stakeholders, so that we may formulate practical and effective policies with their support.

THANK YOU

Lastly, but not least, I would like to thank my fellow Board members for their valuable support, commitment and dedication, and the Chief Executive Officer, Mr JP Sabourin, Management and staff for their cooperation and diligence, in making MDIC's first fledgling steps highly successful.



Tan Sri Dato' Abdul Aziz bin Haji Taha

28 February 2006

message from the **chief executive officer**



Our foundations will include sound policies, systems, procedures, internal controls and an accountability regime, so that we may effectively administer the deposit insurance system.

2005 marked the commencement of our commitment for laying the foundations of our vision to be a world-class deposit insurer.

INSTITUTION-BUILDING TO DELIVER ON OUR VISION

The Board's vision is to build MDIC into a robust organisation with high governance standards and practices. It is with this vision that we have adopted our core values to guide us in the management of our business and affairs. Our core values are excellence and professionalism, integrity and trustworthiness, communication and teamwork, respect and fairness, and financial stewardship.

As a new organisation, we are in a position to build strong foundations and an institutional framework that will allow us to carry out our statutory functions effectively. Our foundations will include sound policies, systems, procedures, internal controls and an accountability regime, so that we may effectively administer the deposit insurance system.

Institution-building involves more than just systems, processes and practices. We believe that it involves having people who will perpetuate only the highest standards and quality. Therefore, we plan to attract and retain people with the right set of skills, expertise and attitude.

We place great emphasis on teamwork, quality and professionalism with minimal hierarchy.



OUR PEOPLE

Currently we have 18 employees; mostly professionals with backgrounds in finance or banking. Most of them have at least 10 years relevant working experience. We place great emphasis on teamwork, quality and professionalism with minimal hierarchy. While a few positions remain to be filled, we plan to keep our team small, highly-trained and specialised. Additional resources, where necessary, will be sourced from service providers such as consultants and specialists on an ad-hoc or temporary basis.

OPERATIONAL REVIEW

As with any other deposit insurer, we must fund our operations and build reserves to meet future obligations. For our first reporting, we posted a net surplus of RM32.5 million, having collected first premiums totalling RM35.7 million. Total expenditure during the year amounted to RM3.3 million as compared to a budget of RM5.3 million. We plan to continue to manage our budget responsibly.

We have launched a toll-free Customer Service Call Centre (1-800-88-1266) so that members of the public can call for answers on deposit insurance in their language of choice.



STRIVING FOR PUBLIC CONFIDENCE


We are also keenly aware that public understanding of the deposit insurance system is key to our success. As such, we are in the midst of developing a long-term strategic communications plan with a primary objective of providing accurate and timely information on deposit insurance to the public.

At the same time, we have already taken steps to educate the public. We have held briefing sessions with member institutions and Press interviews. We have launched a toll-free Customer Service Call Centre (1-800-88-1266) so that members of the public can call for answers on deposit insurance in their language of choice. In the first quarter of 2006, we launched MDIC's website, so that the public can have access to comprehensive information about deposit insurance in Malaysia through the internet at any hour of the day.

For a greater reach over depositors, we are building partnerships with our member institutions as a channel for information dissemination. Information brochures have been distributed to the public through their branches nationwide. To help member institutions better respond to queries on deposit insurance, we will also continue training seminars and informational sessions throughout 2006.

OUR INTERNATIONAL STANDING

Apart from the benefits of exchanging experiences and expertise, our active participation in international organisations and forums has raised our profile and credibility, at home and abroad. During the year, MDIC became a member of the International Association of Deposit Insurers (IADI). MDIC is also an active member of IADI – Asian Region. We have, in 2005, participated in international forums held in China and Taiwan and received visitors from the deposit insurance corporations of Taiwan, Nigeria and Jamaica. Furthermore, representatives from the International Monetary Fund visited MDIC to gather details on our deposit insurance system.



Our active participation in international organisations and forums has raised our profile and credibility, at home and abroad.

A NOTE OF THANKS

In closing, we wish to record a note of thanks to everyone who have contributed to the successful initiation and ongoing development of MDIC.

We extend our gratitude to Bank Negara Malaysia for their continuous support, in particular to all our friends at Bank Negara Malaysia who have contributed their time and efforts during the early months of MDIC's formation.

We would also express our appreciation to our colleagues from Kementerian Kewangan (Ministry of Finance), Jabatan Peguam Negara (Attorney General's Chambers) and Jabatan Audit Negara (National Audit Department) and other regulatory bodies who have cooperated with us and provided us with their assistance.

On a more personal note, I am honoured and gratified to have been given the opportunity to serve as MDIC's first Chief Executive Officer. Although MDIC has only been in operations for a few months, substantial work has already been accomplished. We have set for ourselves a challenging work plan to build an effective deposit insurer in short order.

I would like to acknowledge the dedication and perseverance of our employees who have had to work under tremendous time pressure and tight deadlines. I am confident that – together – we will establish an organisation that promotes confidence in the financial system and one that makes Malaysians proud!



Jean Pierre Sabourin

28 February 2006

board of **directors** and **chief executive officer**



1. **Tan Sri Dato' Abdul Aziz Bin Haji Taha**
Chairman
2. **Tan Sri Dato' Sri Dr Zeti Akhtar Aziz**
3. **Dato' Sri Izzuddin Bin Dali**
4. **Tan Sri Dato' Seri Haji Mohd Azmi**
Bin Dato' Haji Kamaruddin



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5. **Datuk Dr Sulaiman Bin Mahbob**
6. **Datuk Dr Abdul Samad Bin Haji Alias**
7. **Mr Michael Wong Kuan Lee**
8. **Mr Jean Pierre Sabourin**
Chief Executive Officer (Non-Board Member)

profile of board of directors and chief executive officer

TAN SRI DATO' ABDUL AZIZ BIN HAJI TAHA CHAIRMAN

Tan Sri Dato' Abdul Aziz bin Haji Taha is an independent non-executive director of United Malacca Berhad. A Chartered Accountant by profession, he has wide experience in banking and finance. He has served in various capacities in the public and private sectors. He was Governor of Bank Negara Malaysia from 1980-1985, Chairman of the Capital Issues Committee, a partner of Messrs Kassim Chan & Co/Deloitte Haskins & Sells, Malaysia and member of the Foreign Investment Committee, the National Development Planning Council, the Investment Panel of Lembaga Tabung Angkatan Tentera, the Investment Panel of Lembaga Tabung Haji, the Board of the Malaysian Industrial Development Finance Berhad and the Board of Perbadanan Nasional Berhad.

DATO' SRI IZZUDDIN BIN DALI

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

TAN SRI DATO' SRI DR ZETI AKHTAR AZIZ

Tan Sri Dato' Sri Dr Zeti Akhtar Aziz has been Governor of Bank Negara Malaysia since May 2000. A career central banker, she is widely respected internationally for her expertise and skills in financial sector development and monetary and economic management. At Bank Negara Malaysia, she presided over the formulation of the Financial Sector Master Plan, a ten-year road map for the development of the Malaysian financial system. She also oversaw the financial reforms transforming the financial system, the strengthening of the financial markets and the development of Islamic finance and regional financial cooperation.

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

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

DATUK DR SULAIMAN BIN MAHBAB

Datuk Dr Sulaiman bin Mahbob is the President of the Malaysian Institute of Integrity, an agency established to implement the National Integrity Plan. He is also an Adjunct Professor (Economics) at Universiti Malaya and at Universiti Utara Malaysia (Public Management and Law).

His experiences are in the areas of national economic planning, public finance, public policies and overall national economic management. He served the Malaysian Government for 33 years from 1971 till 2004 in various capacities including as Secretary General of Ministry of Domestic Trade and Consumer Affairs, Under-Secretary (Economics) at Ministry of Finance, and Director in the Economic Planning Unit of the Prime Minister's Department. He was also first Chairman of Companies Commission of Malaysia, Executive Director of Malaysian Institute of Economic Research and Board Member of Malaysian Intellectual Property Corporation, Malaysia International Shipping Corporation Berhad and Padiberas Nasional Berhad. During the last financial crisis in 1998, he was made Head of the Secretariat of National Economic Action Council. Currently, he is a member of the Board of Directors of Pengurusan Amanah Saham Nasional Berhad.

DATUK DR ABDUL SAMAD BIN HAJI ALIAS

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

MR MICHAEL WONG KUAN LEE

Mr Michael Wong Kuan Lee is a consultant to the legal firm, Messrs Shook Lin & Bok. He was its Managing Partner prior to his retirement in December 1991. He also holds directorships in several public listed companies.

He has acted as legal advisor to various local and international organisations including banks, merchant banks, securities and asset management firms, Bank Negara Malaysia and the Association of Banks in Malaysia. He also held several public appointments. He was a member of the Higher Education Advisory Council, a member of the Petaling Jaya Municipality, a member of Ahli Dewan Negara, a Member of the Tunku Abdul Rahman College Council and a member of the Board of Directors of Bank Negara Malaysia.

MR JEAN PIERRE SABOURIN
 CHIEF EXECUTIVE OFFICER
 (Non-Board Member)

Mr Jean Pierre (JP) Sabourin holds an MBA from the University of Toronto and has been appointed as Chief Executive Officer for a three-year term. He has unparalleled expertise in all aspects of deposit insurance and he is very much in demand internationally. His assistance has been widely sought by other countries on establishing and improving their deposit insurance systems. Among his many achievements, he chaired the Financial Stability Forum's international study and working groups on deposit insurance and the first ever APEC Policy Dialogue on Deposit Insurance held in Kuala Lumpur and he serves on the Advisory Council of the International Centre for Leadership in Finance (ICLIF). In May 2002, he was elected the first Chair of the Executive Council and President of the International Association of Deposit Insurers (IADI), a position he still holds. He was President and CEO of the Canada Deposit Insurance Corporation (CDIC) from 1990 until his retirement in 2005. Under his leadership, CDIC has become recognised around the world as a leader in deposit insurance.

corporate governance

AN UNWAVERING COMMITMENT TO GOOD GOVERNANCE

The Board and Management of MDIC are committed to conducting its affairs according to the highest standards of corporate governance and integrity applicable to statutory bodies and, in particular, to deposit insurers.

The Financial Stability Forum's Report on "*Guidance for Developing Effective Deposit Insurance Systems*" recommends, among other matters, that the basic governance arrangements for a deposit insurer should include:

- Having appropriate and knowledgeable individuals without conflicts of interest, and the authority to make decisions;
- Having access to interested parties;
- Transparent and accountable governance structures subject to oversight;
- Governance systems and practices to be developed on the basis of sound strategic planning, risk management practices, good internal control and audit systems; and
- The development of corporate governance rules.

OUR GOVERNANCE FRAMEWORK

The MDIC Act adopts these recommendations on governance, and more. Consistent with the aspirations of the Government and the recommendations of the Financial Stability Forum, the MDIC Act incorporates established principles of best governance, namely separation of powers of decision-makers, the establishment of appropriate internal controls and independence.

The governance framework of MDIC incorporates the following features:

- **Minister of Finance oversight:** The MDIC Act provides certain checks and balances in the form of the Minister having oversight of certain key powers affecting interested parties or the public, such as setting the annual premium. The MDIC board structure is also designed to ensure a strong regime of accountability and transparency;
- **Stringent legislative controls:** The MDIC Act sets limits or has checks and balances on the exercise of certain powers, for example, on the setting of maximum premiums, by requiring specific appeal procedures for termination of membership and provisions for payments to depositors under specified conditions;
- **Balanced Board:** Board members are drawn from both public and private sectors. This is to bring different skills and expertise to fulfil MDIC's mandate and to take into account the public policy objectives and financial safety net considerations;
- **Separation of powers:** Policy-making powers and the executive function of MDIC are separated between the Board and the Chief Executive Officer. Accordingly, the Board is the "directing mind" of MDIC and has collective responsibility for setting policies and the strategic direction, while day-to-day management of the business and affairs of MDIC resides with the Chief Executive Officer;
- **Sound internal control framework:** The external auditing function is vested with the Auditor General of Malaysia. MDIC itself has initiated efforts to establish a strong and independent internal auditing function; and

- **Transparency:** Quarterly financial statements, audited financial statements and Annual Reports are submitted to the Ministry of Finance. Audited financial statements and the Annual Report are also tabled in Parliament. These documents will also be published in MDIC's website.

IMPLEMENTING THE GOVERNANCE FRAMEWORK

Members of the Board are appointed by the Minister of Finance. The Board comprises seven experienced and high-calibre directors with skills in banking, finance, legal, accounting, and public and general management. For a balanced mix, three directors are from the public sector and four are from the private sector, one of whom is the non-executive Chairman. To ensure the public policy objectives are considered, the MDIC Act requires a quorum of four for Board meetings, of which two must be directors from the public sector.

Only individuals of integrity are appointed to the Board. Directors are appointed for a term not exceeding three years and are eligible for re-appointment. Directors are prohibited from being appointed or remaining as directors if they concurrently hold positions as:

- A member of the Upper House (Senate or Dewan Negara) or Lower House (House of Representatives or Dewan Rakyat) of Parliament or any State Legislative Assembly (Dewan Undangan Negeri);
- An officer of a member institution; or
- A divisional head, or who holds any similar office or position, in a political party.

In addition, the Minister may terminate or suspend the appointment of a director on the following grounds:

- He becomes of unsound mind or otherwise becomes incapable of carrying out his duties;
- There is imposed on the director any form of restriction or supervision by bond or otherwise, under any law relating to prevention of crime, or to preventive detention for prevention of crime or drug trafficking, or to restricted residence, or to banishment or immigration;
- He becomes a bankrupt, suspends payment or compounds with his creditors;
- He is charged for a criminal offence under any law punishable with imprisonment, whether by itself, or in lieu of, or in addition to, a fine, in any court in or outside Malaysia;
- He is guilty of serious misconduct in relation to his duties under this Act; or
- He is absent without approved leave from the Chairman or, in the case of the Chairman, from the Minister, from two board meetings within twelve months.

To ensure Board members act equitably and objectively, without fear or favour, a director is indemnified from any action, suit, prosecution or other proceeding brought against him for actions done in good faith. In addition, directors are required to act in the best interest of MDIC.

Since its establishment on 15 August 2005, the Board has focussed on building a strong foundation and organisational structure for MDIC. This involved development of key policies, including investments and the establishment of its financial reporting and monitoring system.

corporate governance

CORPORATE GOVERNANCE REPORT

The Board has met three times during the four months ended 31 December 2005 and attendance was as follows:

| | Board member | Number of meetings attended |
|---|--|------------------------------------|
| 1 | Tan Sri Dato' Abdul Aziz bin Haji Taha (<i>Chairman</i>) | 3 |
| 2 | Tan Sri Dato' Sri Dr Zeti Akhtar Aziz | 3 |
| 3 | Dato' Sri Izzuddin bin Dali | 2 |
| 4 | Tan Sri Dato' Seri Haji Mohd Azmi bin Dato' Haji Kamaruddin | 3 |
| 5 | Datuk Dr Sulaiman bin Mahbob | 2 |
| 6 | Datuk Dr Abdul Samad bin Haji Alias | 2 |
| 7 | Mr Michael Wong Kuan Lee | 3 |

The CEO executes the policies and directives of the Board and is responsible for the day-to-day administration of the business and affairs of MDIC. The CEO is not part of the Board. He is answerable and accountable to the Board for the exercise of the powers and the performance of his duties. To ensure independence, the CEO is appointed by the Minister, on the recommendation of the Board.

BOARD COMMITTEES

The Board has also established three committees, with individual charters which incorporate international best practices, to assist the Board to fulfil its governance responsibilities. The charters and the performance of the committees are to be reviewed annually. The members of the committees are:

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

charter of governance committee

A. MANDATE

Pursuant to Section 7 of the *Malaysia Deposit Insurance Corporation Act 2005*, the Corporation may establish any committee as it considers necessary or expedient for the performance of its functions. The Board has considered it necessary to establish a Governance Committee.

B. OBJECTIVE

The Governance Committee (Committee) of the Board of Directors (the Board) of the Malaysia Deposit Insurance Corporation (Corporation) is responsible to direct implementation of sound corporate governance principles in the Corporation. In this regard, the principal objectives of the Committee are to assist with Board oversight of: developing effective corporate governance principles and practices; evaluating and assessing the functioning of the Board, Board Committees and Management; nominating individuals qualified to become Directors consistent with criteria approved by the Corporation; and succession planning.

C. OPERATING PRINCIPLES

1. Functions and Composition

- (a) The Committee shall comprise three members of the Board, as named by the Board.
- (b) Members of the Committee shall each be independent of Management.
- (c) The Committee shall carry out such functions as are assigned or delegated to it by the Board and any incidental activities consistent with this Charter as the Committee or the Board deems necessary or appropriate.

2. Chair – The Committee shall be chaired by the Chairman of the Board.

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

4. Voting – A matter put to a vote at a meeting of the Committee shall be decided by a majority of the votes cast, and in the event of an equality of votes its Chair has a second vote.

5. Procedure and Conduct – Subject to this Charter and any resolution of the Board respecting a specific matter, the Chair shall determine the procedures and conduct of meetings of the Committee.

6. Secretary and Minutes – The Corporate Secretary shall be the secretary of the Committee. Copies of the minutes of the proceedings of the Committee shall be sent by the Corporate Secretary to all Members of the Board once they have been approved by the Committee.

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

8. Notice of Meetings – The proper notice period for calling a meeting of the Committee shall be a minimum of 14 days or such shorter notice as agreed by the Committee.

9. Meeting Agenda – A written agenda for each meeting of the Committee will be distributed to the members of the Committee at least five days in advance of the meeting date, together with any related materials, if available.

10. Supplemental Attendees – Any person who may possess information that would be useful to the Committee in carrying out its duties may be invited by the Chair to attend any meeting of the Committee.

11. Term of Appointment/Rotation of members – Members of the Committee should be changed on an appropriate, regular basis. Such change should be on a rotation basis in order to ensure that the entire Committee is not changed at any one time.

12. Reporting – The Committee will, where appropriate, provide written or verbal report of each meeting of the Committee at the next regular Board meeting or as may otherwise be required by the Board.

13. Review of Charter – The Committee shall review and assess the adequacy of this Charter at least annually. If the Committee recommends any amendments, the Committee shall submit a revised Charter to the Board for its approval.

14. Self-assessment – An evaluation of the Committee shall be conducted regularly, in which the Committee shall review its performance for the purpose, among other things, of assessing whether the Committee fulfilled the responsibilities and duties stated in this Charter.

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

16. Independent Counsel or Other Advisors – The Committee has the authority to engage outside advisors, including but not limited to counsel, independent consultants and/or other experts, as needed, to review any matter under its responsibility, in accordance with the relevant Board resolution or policy.

charter of governance committee

D. PRINCIPAL DUTIES AND RESPONSIBILITIES

1. Corporate governance oversight

- (a) The Committee shall review at least annually the Corporation's approach to governance issues and shall make recommendations to the Board respecting revisions to the Corporation's governance guidelines. The Committee shall make recommendations to the Board on policies with regard to director tenure retirement and succession.
- (b) Ensure there is a system that enables a Board committee or member of the Board to engage separate independent counsel or other advisors in appropriate circumstances, at the Corporation's expense, and be responsible for the ongoing administration of such a system.
- (c) On a periodic basis, review the Corporation's mandate as set out in the *Malaysia Deposit Insurance Corporation Act 2005* and make any recommendation it sees fit to the Board.
- (d) Keep up to date on corporate governance developments so as to ensure the Corporation's governance practices are in line with best practices.
- (e) Undertake such other governance initiatives as may be necessary or desirable to ensure that the appropriate processes, structures and information necessary for effective direction and oversight are in place to contribute to the sound governance and management of the Corporation.

2. Evaluation of Board operations and Board Committees

- (a) In consultation with the Chief Executive Officer (CEO), assess the needs of the Board in terms of the frequency and location of Board and committee meetings, meeting agendas, documents and information, and the conduct of meetings, and make recommendations to the Board as required.
- (b) Develop, recommend and annually review, for Board approval, the mandates and responsibilities of the Board, the Chairman of the Board, the CEO, a member of the Board and the Board Committees.
- (c) Develop a process to assist the Board in determining whether the Board is satisfied with the manner, frequency and timeliness with which significant issues are brought to its attention, as well as the appropriateness of that information.

- (d) Recommend to the Board, and annually implement, a method for regularly evaluating and assessing the effectiveness of the Board and of individual members of the Board and Board committees and recommend any appropriate changes arising therefrom.

3. Board nominations

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

- 4. **Succession Planning** – Review Management's succession plans for the CEO, Chief Financial Officer and General Counsel and make recommendations in respect of the same, if any, to the Board for approval; and

- 5. **Reporting and Disclosure** – Recommend to the Board that any reports on governance that may be required or considered advisable for public disclosure be produced.

charter of remuneration committee

A. MANDATE

Pursuant to Section 7 of the *Malaysia Deposit Insurance Corporation Act 2005*, the Corporation may establish any committee as it considers necessary or expedient for the performance of its functions. The Board has considered it necessary to establish a Remuneration Committee.

B. OBJECTIVE

The objective of the Remuneration Committee (Committee) of the Board of Directors (the Board) of the Malaysia Deposit Insurance Corporation (Corporation) is to ensure that the Corporation has fair, equitable human resource policies that profiles for the hiring and retention of people with the appropriate expertise and qualifications. In this regard, the principal objectives of the Committee are to assist with Board oversight of: human resource and compensation matters; management succession plans generally; the review and approval of annual objectives for the Chief Executive Officer (CEO) and perform the annual evaluation thereof; and policies and processes relating to employee business conduct and ethical behaviour.

C. OPERATING PRINCIPLES

1. Functions and Composition

- (a) The Committee shall comprise three members of the Board, as named by the Board.
- (b) Members of the Committee shall each be independent of Management.
- (c) The Committee shall carry out such functions as are assigned or delegated to it by the Board and any incidental activities consistent with this Charter as the Committee or the Board deems necessary or appropriate.

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

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

4. Voting – A matter put to a vote at a meeting of the Committee shall be decided by a majority of the votes cast, and in the event of an equality of votes its Chair has a second vote.

5. Procedure and Conduct – Subject to this Charter and any resolution of the Board respecting a specific matter, the Chair shall determine the procedures and conduct of meetings of the Committee.

6. Secretary and Minutes – The Corporate Secretary shall be the secretary of the Committee. Copies of the minutes of the proceedings of the Committee shall be sent by the Corporate Secretary to all Members of the Board once they have been approved by the Committee.

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

8. Notice of Meetings – The proper notice period for calling a meeting of the Committee shall be a minimum of 14 days or such shorter notice as agreed by the Committee.

9. Meeting Agenda – A written agenda for each meeting of the Committee will be distributed to the members of the Committee at least five days in advance of the meeting date, together with any related materials, if available.

10. Supplemental Attendees – Any person who may possess information that would be useful to the Committee in carrying out its duties may be invited by the Chair to attend any meeting of the Committee.

11. Term of Appointment/Rotation of members – Members of the Committee should be changed on an appropriate, regular basis. Such change should be on a rotation basis in order to ensure that the entire Committee is not changed at any one time.

12. Reporting – The Committee will, where appropriate, provide written or verbal report of each meeting of the Committee at the next regular Board meeting or as may otherwise be required by the Board.

13. Review of Charter – The Committee shall review and assess the adequacy of this Charter at least annually. If the Committee recommends any amendments, the Committee shall submit a revised Charter to the Board for its approval.

14. Self-assessment – An evaluation of the Committee shall be conducted regularly, in which the Committee shall review its performance for the purpose, among other things, of assessing whether the Committee fulfilled the responsibilities and duties stated in this Charter.

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

16. Independent Counsel or Other Advisors – The Committee has the authority to engage outside advisors, including but not limited to counsel, independent consultants and/or other experts, as needed, to review any matter under its responsibility, in accordance with the relevant Board resolution or policy.

charter of remuneration committee

D. PRINCIPAL DUTIES AND RESPONSIBILITIES

1. Policies and Strategies

- (a) The Committee shall review key human resource policies and strategies and propose such changes as considered desirable.
- (b) The Committee shall review the Corporation's compensation philosophy and its related policies, and make recommendations, if any, to the Board for approval.
- (c) The Committee shall ensure that the Corporation has ongoing, appropriate and effective policies and procedures with respect to employee business conduct and ethical behaviour and shall review policies and codes in respect of same and make recommendations, if any, to the Board for approval.

2. Compliance and Reports – The Committee shall review reports with respect to:

- (a) compliance with legal requirements and major corporate policies pertaining to human resource matters on an annual basis; and
- (b) compliance with employee business conduct and ethical behaviour on an annual basis or immediately where circumstances dictate. When required, the Committee shall request of Management that it provide a report to the Audit Committee in the event a breach occurs or a concern is raised that is of a nature that warrants such a report.

3. Matters referred by CEO – The Committee shall review any matter concerning human resource and compensation matters that may be referred to it by the CEO.

4. Reports to Board – The Committee shall report to the Board as it deems appropriate regarding human resource and compensation matters and Management performance in this area.

5. Bonus Awards – The Committee shall review and approve individual employee bonus awards as recommended by the CEO.

6. CEO Objectives and Evaluation – The Committee shall:

- (a) Review the annual statement of objectives for the CEO taking into account current government recommendations and guidelines in respect thereof and recommend same to the Board for approval; and
- (b) Review the performance of the CEO based on an evaluation thereof by the Chairman of the Board, having regard to the aforesaid statement of objectives and any other relevant factors. The Committee shall make recommendations, if any, to the Board with respect to the CEO's compensation and bonus, taking into account current government recommendations, policies and guidelines.

7. Complaints – Save and except as expressly provided in any other Board Charter or policy, the Committee shall serve as the initial point of contact at the Board level for any complaints concerning the CEO that may reach the Board, on the understanding that the normal resolution mechanisms must be followed and complaints would only be brought forward when every other appeal process had been exhausted.

charter of audit committee

A. MANDATE

Pursuant to Section 7 of the *Malaysia Deposit Insurance Corporation Act 2005*, the Corporation may establish any committee as it considers necessary or expedient for the performance of its functions. The Board has considered it necessary to establish an Audit Committee.

B. OBJECTIVE

The purpose of the Audit Committee (the Committee) of the Board of Directors (the Board) of the Malaysia Deposit Insurance Corporation (Corporation) is to ensure that the auditing, accounting principles and practices are in line with international and Malaysian best practices and conform to all legislative requirements. In this regard, the principal objectives of the Committee are to assist the Board with oversight of: the integrity of the Corporation's financial statements; the financial reporting process; the systems of internal accounting and financial controls; the performance of the Corporation's internal audit function; the identification and management of the Corporation's significant risks; and the Corporation's compliance with ethics-related policies, and legal and regulatory requirements.

C. OPERATING PRINCIPLES

1. (a) **Functions and Composition** – The Committee shall comprise three members of the Board of Directors, as named by the Board. Committee members shall each be independent of Management. The Committee will carry out such functions as are assigned or delegated to it by the Board.
- (b) **Competencies** – All Committee members appointed to the Committee shall either:
 - (i) be financially literate, upon appointment, that is, having a basic understanding of finance and accounting and being able to read and understand fundamental financial statements, including a balance sheet, income statement and statement of cash flows; or
 - (ii) undertake to be financially literate within a reasonable period of time after their appointment to the Committee.

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

Where appropriate, Committee members will enhance their familiarity with financial and accounting practices for Audit Committees and other areas relevant to their responsibilities by keeping abreast of trends and best practices in these areas including considering topical issues and their application to the Corporation and by participating in educational sessions or other opportunities for development.

2. **Chair** – The Chair is a non-ex officio Director, as named by the Board.
3. **Quorum** – The presence of two members constitutes a quorum for a meeting of the Committee.
4. **Voting** – A matter put to a vote at a meeting of the Committee shall be decided by a majority of the votes cast and in the event of an equality of votes its Chair has a second vote.
5. **Procedure and Conduct** – Subject to any resolution of the Board in respect of a specific matter, the Chair shall determine the procedure at and conduct of meetings of the Committee.
6. **Secretary and Minutes** – The Corporate Secretary shall be the secretary of the Committee. Copies of the minutes shall be sent by the Corporate Secretary to all Members of the Board once they have been approved by the Committee.
7. **Frequency and Calling of Meetings** – The Committee will meet at the discretion of the Chair of the Committee, but not less frequently than four times each year.
8. **Notice of Meetings** – The proper notice period for calling a meeting of the Committee shall be a minimum of 14 days or such shorter notice as agreed by the Committee.
9. **Auditor General (AG)** – The Auditor General, as referred to in the *Audit Act 1957 (Revised 1972) (Act 62)*, is:
 - (i) entitled to receive notice of every meeting of the Committee and, at the expense of the Corporation, to attend and be heard at each meeting, and the AG shall be invited to attend any or every meeting of the Committee; and
 - (ii) may call a meeting of the Committee.
10. **Private Meetings** – The Committee may meet privately as a committee, and periodically with Management, the AG and the head of the internal audit function in separate private sessions.
11. **Meeting Agenda** – A written agenda for each meeting of the Committee will be distributed to the members of the Committee at least five days in advance of the meeting date, together with any related materials, if available.

charter of audit committee

12. **Supplemental Attendees** – Any person who may possess information that would be useful to the Committee in carrying out its duties may be invited by the Chair to attend any meeting of the Committee.
13. **Term of Appointment/Rotation of Committee members** – Members of the Committee shall be changed on an appropriate, regular basis. Such change should be on a rotation basis in order to ensure that the entire Committee is not changed at any one time.
14. **Reporting** – The Committee will, where appropriate, provide written or a verbal report of each meeting of the Committee at the next regular Board meeting or as may otherwise be required by the Board.
15. **Review of Charter** – The Committee shall review and assess the adequacy of this charter at least annually. If the Committee considers amendments are necessary, the Committee shall recommend such amendments to the Board for its approval.
16. **Self-assessment** – An evaluation of the Committee shall be conducted regularly, in which the Committee shall review its performance for the purpose, among other things, of assessing whether the Committee fulfilled the responsibilities and duties stated in this Charter.
17. **Disclosure** – The Committee shall ensure that this Charter and the composition of the Committee are publicly disclosed.
18. **Independent Counsel or Other Advisors** – The Committee has the authority to engage outside advisors, including but not limited to counsel, independent audit consultants and/or other experts, as needed, to review any matter under its responsibility, in accordance with the relevant Board resolution or policy.

D. PRINCIPAL DUTIES AND RESPONSIBILITIES

1. **Advice and Recommendations to Board** – In discharging its duties and responsibilities, the Committee relies on the expertise of Management, the Corporation's internal audit function and the AG. Although it does not carry out internal audits, the Committee shall monitor the audit and review the reports, and make reasonable inquiries, to allow it to provide sound advice and recommendations to the Board.
2. **Investigation** – In assisting the Board in discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities, AG and personnel of the Corporation. The Committee shall recommend to the Board that special investigations be conducted into such matters as the Committee may deem appropriate based on information supplied to it.

3. **Financial Reporting** – The Committee shall assist the Board in discharging its oversight role of reliable, accurate and clear financial reporting, including by reviewing the Corporation's annual financial statements and Management's discussion and analysis (MD&A) prior to approval by the Board, and reviewing, as appropriate, releases to the public of significant non-public financial information. Such review shall include, where appropriate but at least annually, discussion with Management, the internal audit function, and the AG, of significant issues regarding accounting principles, the Corporation's accounting policies, and significant management estimates and judgments, including the quality and acceptability of generally accepted accounting principles (GAAP).

The Committee shall satisfy itself that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements, other than the public disclosure in the Corporation's annual financial statements and MD&A, and must periodically assess the adequacy of those procedures.

4. **Financial Reporting Processes, Accounting Policies and Internal Control Structure** – Management is responsible for the preparation, presentation, and integrity of the Corporation's financial statements and for maintaining appropriate accounting and financial reporting principles and policies and internal controls and procedures designed to ensure compliance with accounting standards and applicable laws and regulations.

The Committee shall seek Management's and the AG's views on opportunities to improve the quality of the Corporation's accounting principles as applied in its financial reporting, inquire into alternative treatments that may have been considered but rejected, review the aggressiveness or conservatism of the Corporation's accounting principles and estimates, and review instances where the AG's advice on accounting or disclosure matters has not been followed.

Specifically, the Committee shall assist the Board in its oversight of the financial reporting process of the Corporation including:

- (a) reviewing and advising the Board with respect to the Corporation's annual financial statements;
- (b) reviewing and advising the Board with respect to the AG's annual audit report;
- (c) reviewing major changes to the Corporation's auditing and accounting principles and practices as suggested by the AG, the internal audit function or Management;
- (d) reviewing the integrity of the Corporation's financial reporting processes and the internal control structure;

charter of audit committee

- (e) ensuring that Management has the necessary policies and procedures in place related to internal controls, in accordance with applicable laws, regulations and guidance, to provide reasonable assurance on the adequacy and effectiveness of the Corporation's internal control systems; and reviewing the related reporting by Management and the internal audit function on such internal controls;
- (f) reviewing the process relating to and the certifications of the Chief Executive Officer (CEO) and the Chief Financial Officer on the integrity of the Corporation's financial statements;
- (g) reviewing the plan for the annual audit by assessing the reasonableness of the audit scope and plan and determining whether the Corporation is receiving appropriate audit coverage and overall effort; satisfying itself that the AG has considered the work of the internal audit function in developing its overall audit strategy; and, assessing the degree of assurance that the Board will be able to take from the AG's work. Accordingly, the Committee should satisfy itself that the audit scope will not be restricted in any way and that key areas of interest to the Board are adequately covered;
- (h) reviewing and monitoring the implementation of recommendations made through the annual audit by the AG and any management letter provided by the AG and Management's responses to such reports and any such letter;
- (i) establishing systems of reporting to the Committee by each of Management, the AG and the internal audit function regarding any significant judgments made in Management's preparation of the financial statements and any significant difficulties encountered during the course of the review or audit, including any restrictions on the scope of work or access to required information;
- (j) through its oversight of the internal audit function, satisfying itself that the Corporation is maintaining its books of account, records in relation thereto, financial and management control and information systems and management practices in such manner as will provide reasonable assurance that:
 - (i) the assets of the Corporation are safeguarded and controlled;
 - (ii) the transactions of the Corporation are in accordance with the requirements of the *Statutory Bodies (Accounts and Annual Reports) Act 1980* (Act 240), other legislative requirements, directives, circulars or guidelines issued by the Ministry of Finance or the Prime Minister's Department; and

- (iii) the financial, human and physical resources of the Corporation are managed economically and efficiently and the operations of the Corporation are carried out effectively.

5. Financial Management Oversight:

- (a) Operating and Capital Budgets – monitor and advise the Board with respect to the annual operating budget and capital plan.
- (b) Financing – review and advise the Board with respect to the policies and procedures of the Corporation relating to and the terms and conditions of any external financing to be incurred or assumed by the Corporation, through the Corporation's debt or otherwise.
- (c) Investments – review and advise the Board with respect to the policies and procedures of the Corporation relating to and the terms and conditions of the investment of the Corporation's cash assets in short-term and long-term securities.
- (d) Chairman's and Officers' Expenses – receive reports from Management, and review reports thereon from the internal audit function and/or AG on their review of the expense accounts of the Chairman of the Board and Officers of the Corporation.

- 6. The Internal Audit Function** – The internal audit function investigates and provides information and assurance to the Committee and Management on the Corporation's books of account and records and on the effectiveness and performance of financial and management control and information systems and management practices and that the operations of the Corporation are carried out effectively pursuant to the relevant legislation.

In order to fulfil its responsibilities, the internal audit function requires independent status and therefore, functionally reports directly to the Committee and, administratively reports to the CEO. This relationship requires that the Committee and the internal audit function have unrestricted access to each other directly.

The Committee 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;

charter of audit committee

- (d) reviewing the internal audit function's audit plans, budgets, quality and quantity of staff and other resources it needs to do its job well;
- (e) reviewing the internal audit function's performance including performance against its audit plans and budgets;
- (f) reviewing the internal audit function's reports;
- (g) monitoring the implementation of the internal audit function's reports and recommendations;
- (h) ensuring coordination of the internal audit function with annual AG audits and special examinations; and
- (i) reviewing the overall operations of the internal audit function having regard to its mandate and taking into account current internal audit standards.

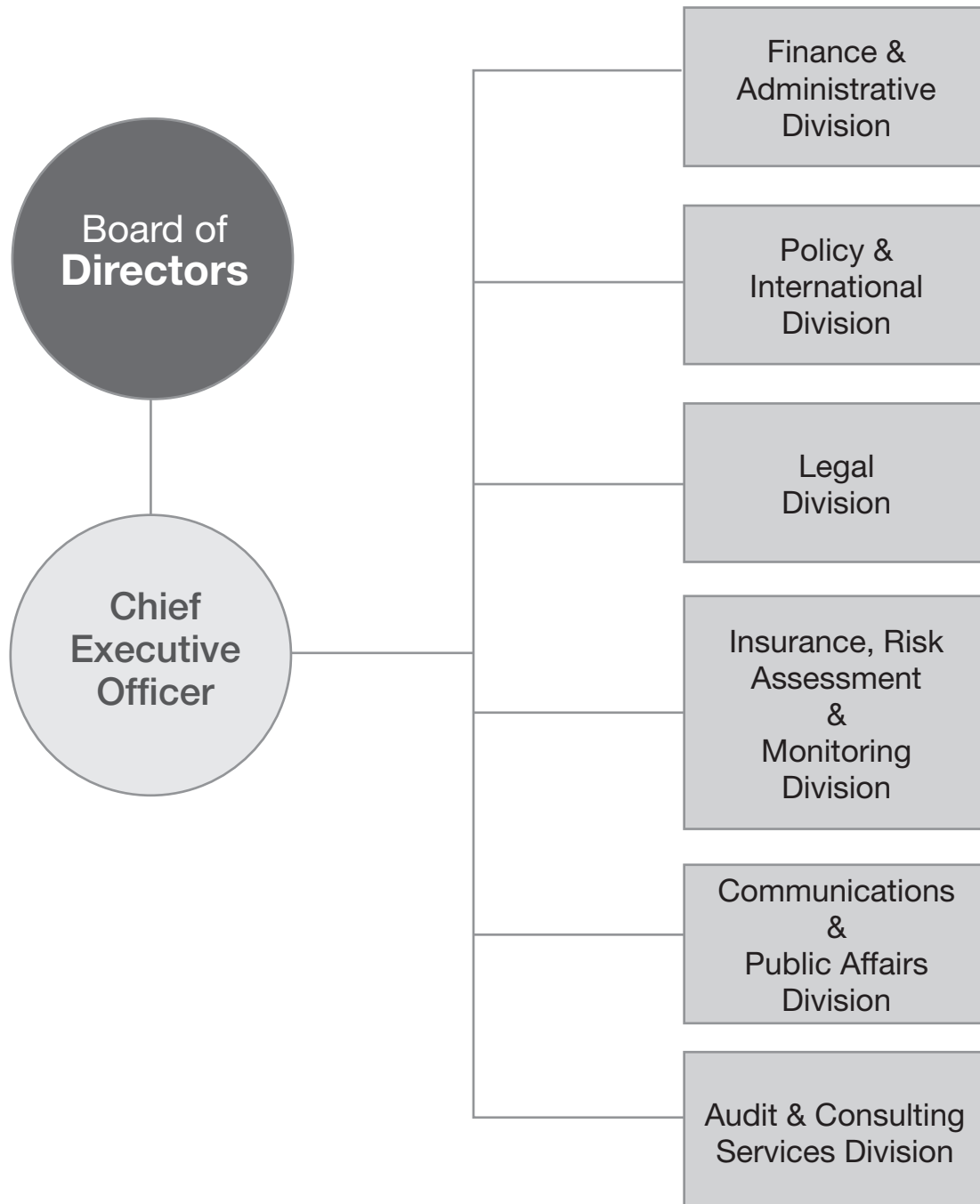
7. Risk Management – The Committee shall:

- (a) ensure that sound policies, procedures and practices are implemented for the management of key corporate risks;
- (b) receive sufficient information to understand the nature and magnitude of significant risks to which the Corporation is exposed;
- (c) review with Management and advise the Board on the Corporation's policies developed and implemented to manage the Corporation's risk exposures, and review such policies at least once a year to ensure that they remain appropriate and prudent;
- (d) on a regular basis, obtain reasonable assurance that the Corporation's risk management policies for significant risks are being adhered to;
- (e) report to the Board on: the significant risks; the policies and controls in place to manage these significant risks; and the overall effectiveness of the risk management process;
- (f) periodically consider the respective roles of the AG and internal audit function concerning risk management at the Corporation and annually evaluate the AG's and internal audit function's respective performance in relation to such roles; and
- (g) request reports from the internal audit function validating Management's risk assessments.

8. Ethical and Legal Compliance – The Committee shall:

- (a) review with the Corporation's counsel any legal matter that could have a significant impact on the Corporation's financial statements;
- (b) ensure oversight for ethics and integrity and preservation of the Corporation's reputation by receiving from Management, reports on compliance with the Corporation's policies or codes of business conduct and ethical behaviour and any other matter of conduct or behaviour that may give rise to a liability to the Corporation; and by reviewing any report that is received from the internal audit function, the AG and/or other Committee Chairs on their review of compliance with same;
- (c) ensure there is a system for monitoring the Corporation's compliance with laws and regulations, and obtain reports, on an annual basis, that the Corporation is in conformity with applicable legal requirements;
- (d) review the results of Management's investigation of, and actions taken in connection with, any internal control or accounting matters that may be questionable;
- (e) establish a process for (i) the receipt, retention and treatment of complaints or concerns regarding accounting, internal controls or auditing matters; (ii) the confidential and anonymous submission, in accordance with established corporate policies, by the Corporation's employees of concerns regarding questionable accounting or auditing matters and (iii) the receipt, retention and treatment of complaints regarding the CEO and senior officers of the Corporation. Establish a process for the evaluation, investigation and resolution of concerns relating to accounting, internal controls or auditing matters that may be questionable; and
- (f) investigate any allegations that any officer or director of the Corporation, or any other person acting under the direction of such a person, took any action to influence, coerce, manipulate or mislead any person engaged in the performance of an audit of the financial statements of the Corporation for the purpose of rendering such financial statements materially misleading and, if such allegations prove to be correct, take or recommend to the Board appropriate disciplinary action.

organisational structure



management discussion and analysis

Management has prepared the following discussion and analysis. This discussion includes an operational review and a financial overview. It also outlines our 3-year Corporate Plan.

A. OPERATIONAL REVIEW

MDIC has a clearly defined mandate in the MDIC Act. Given MDIC's wide mandate, there is a need for continued vigilance to assess our operating environment and to regularly review our ability to meet our public policy objectives.

The year 2005

i. Premiums

For the 2005 financial year, member institutions were given an option to apply a premium rate of either 0.06% of total insured deposits or 0.02% of total deposits, subject to a minimum premium of RM250,000 as required by the MDIC Act. Assessments were based on deposits held as of 1 September 2005. The amount of premium payable was pro-rated for the truncated year of assessment. In total, MDIC collected RM35.67 million in premiums comprising RM3.30 million in relation to Islamic deposits and RM32.37 million in relation to conventional deposits.

Member institutions were given the option, for this year only, of calculating the premium at either rate, given the limitations of some information systems and the deadline given for paying the premiums. Apart from three commercial banks, all member institutions computed their premiums based on total insured deposits in respect of conventional first premiums. For Islamic premiums, only one commercial bank and one finance company used total deposits as a basis for computation.

Based on the returns submitted by member institutions, total deposits as at 1 September 2005 amounted to RM640.9 billion.

ii. Deposit Insurance Funds

MDIC maintains and administers two separate funds, namely the Conventional Deposit Insurance Fund and the Islamic Deposit Insurance Fund. The Islamic Deposit Insurance Fund is being managed in accordance with appropriate guidelines in line with Shariah principles.

MDIC manages and invests the Funds prudently to preserve capital and provide sufficient liquidity to cover operating costs and build reserves for payments to depositors in the event of a failure of a member institution. As mandated by law, MDIC will only invest its funds in safe and liquid instruments such as Ringgit denominated securities issued or guaranteed by the Government or Bank Negara Malaysia or of high investment grade as rated by a reputable rating agency, deposits with Bank Negara Malaysia or any financial institution or any other investments as approved by the Minister of Finance upon the recommendation of the Board of Directors of MDIC.

In 2005, MDIC's surplus funds were invested in short-term Malaysia Islamic Treasury Bills, Bank Negara Malaysia Negotiable Notes and Bank Negara Malaysia Bills. Investments that form the Islamic Deposit Insurance Fund are managed in accordance with Shariah principles.

B. FINANCIAL OVERVIEW

Balance Sheet Highlights

Cash and Investments

As at 31 December 2005, the combined balance of cash and investments of both the Islamic and Conventional Deposit Insurance Funds totalled RM32.00 million, consisting of cash and short-term investments of RM1.71 million and investments of RM30.29 million. The investments consisted of Bank Negara Negotiable Notes and Bank Negara Malaysia Bills, with varying maturities of up to June 2006. The sources and uses of cash are described in the Statements of Cash Flows.

MDIC's investment policy as approved by the Board of Directors is to only invest in short-term Ringgit denominated Government securities of varying maturities. As a general rule, no investments are to be made with member institutions since MDIC is the insurer of deposits.

Property and equipment

MDIC's capital expenditure incurred for the financial period ended 31 December 2005 was on office equipment, furniture and fittings and office refurbishment necessary to set up MDIC's premises and operations. These fixed assets will be depreciated over 3 years, except for the office refurbishment expenditures which will be depreciated over the current term of the office lease of 18 months.

management discussion and analysis

Other assets

Other assets were mainly made up of various deposits and pre-payments which included rental deposits for MDIC's premises and the down-payment for MDIC's motor vehicle which is expected to be delivered within the first half of 2006.

Liabilities

For the financial period ended 31 December 2005, MDIC's liabilities comprised various sundry payables for utilities, telecommunication and Information, Communication and Technology (ICT) operational expenditure required for the day-to-day operations of MDIC. The payables included those to Bank Negara Malaysia for the services of its officers seconded to MDIC.

Contingencies

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

Income Statement Highlights and Comparison to Budget

MDIC ended the four-month period of 2005 with a combined net surplus of RM32.54 million (Islamic Deposit Insurance Fund of RM3.01 million and Conventional Deposit Insurance Fund of RM29.53 million) on the back of a total revenue of RM35.88 million and net expenditure of RM3.33 million.

Revenues

Premium income received and earned for the four-month period ended 31 December 2005 was RM35.67 million (Islamic premium of RM3.30 million and Conventional premium of RM32.37 million), 8.1% higher than the estimated premium of RM33 million. The estimated premium was set based on the results of a survey on depositors' profile conducted in September 2004.

Investment income for the financial period was RM0.21 million with weighted average yield rates of 2.77% and 2.81% for the Islamic and Conventional portfolio, respectively.

Pre-operating expenditures

Pre-operating expenditures were expended for the start-up of MDIC prior to the enactment of the MDIC Act. It consisted mainly of advisory and consulting fees, including research conducted by legal advisors during the bill drafting process, fees and travelling expenses incurred by advisors as well as training costs. Actual pre-operating expenditures up to 31 December 2005 were RM0.99 million, representing a 2.1% positive variance from the budgeted amount of RM1.01 million.

Operating expenditures

The overall operating expenditures up to 31 December 2005 were RM2.34 million which comprised personnel cost of RM1.28 million, communications cost of RM0.69 million, administration and general costs of RM0.28 million, and depreciation charges of RM0.09 million. Actual operating expenditures for the financial period were lower by RM1.93 million or 45.2% than the budgeted amount of RM4.27 million.

The positive variance against budgeted amount was mainly contributed by the lower personnel and communications costs.

The actual personnel cost was lower by RM0.90 million or 41.3% against budget because MDIC only had 15 officers by 31 December 2005 against the budgeted 27 officers.

Communications cost was lower by RM1.12 million or 61.9% against budget as certain expenditure or activities were deferred to the following year. These activities included the printing of information brochures on deposit insurance, efforts on communication collaterals and public awareness seminars which are being carried out in early 2006.

Capital expenditures

Actual capital expenditures of RM1.12 million incurred up to 31 December 2005 represent 68.4% utilisation of the 2005 budget. These costs were mainly expended on office refurbishment for the current office premise of MDIC (approximately RM0.92 million). Another significant portion of the capital expenditures was spent on ICT infrastructure such as LCD projectors, servers, computers, and software and application licences (approximately RM0.20 million).

management discussion and analysis

C. GOING FORWARD

WHAT TO EXPECT IN 2006

MDIC has, with the approval of the Minister of Finance, set the rate of premiums at 0.06% of insured deposits for 2006. Premium revenue is projected to amount to RM103 million based on a growth rate of 11.45% of total deposits in 2005.

MDIC expects to earn interest and finance income on investments of RM1.9 million during 2006. In total, MDIC anticipates total revenue of RM104.9 million. Operating expenses are expected to total RM20 million and capital expenditures are expected to total RM2.1 million during 2006.

As a result, MDIC anticipates a net income of RM84.9 million for 2006 which will increase the deposit insurance funds to RM116.5 million (Islamic RM10.8 million, conventional RM105.7 million based on the assumptions set in the Plan). MDIC does not receive government appropriations and it has no debt. Furthermore, MDIC does not anticipate any need to borrow funds to meet its objectives.

SUMMARY OF OUR 3-YEAR CORPORATE PLAN

Objectives

MDIC's objectives are clearly set out under the MDIC Act, namely:

- to administer a deposit insurance system,
- to provide insurance against the loss of part or all deposits of a member institution,
- to provide incentives for sound risk management in the financial system, and
- to promote or contribute to the stability of the financial system.

Our Plan

MDIC's corporate plan (the Plan) for the period 2006 to 2008 sets out the business strategies to achieve these objectives. The Plan is based on an assessment of MDIC's current operating environment and on a set of clear planning assumptions. The key planning assumptions in preparing the Plan include an unchanged statutory mandate, stable financial system, no failure of member institutions, same number of member institutions as well as the adopted business model.

MDIC will nevertheless continue to monitor the operating environment and review the relevance of these strategies in the face of any significant changes. This will ensure that our strategies remain effective. Factors that could affect the attainment of our objectives include the general economy, the state of the financial institutions, changes in the financial landscape as well as changes in the legislative and regulatory environment.

Business strategies

The Plan defines and details the four corporate strategies that will underline MDIC's work over the planning period. These strategies are:

- Readiness – in fulfilling its role as the deposit insurer for the financial institutions in Malaysia;
- Sound business and financial practices – putting in place sound policies, procedures, systems, practices and reporting;
- Public awareness – establishing sound public awareness and educational programme; and
- Strong partnerships – building and enhancing relations with stakeholders, including member institutions, regulators and suppliers.

Laying the foundations

MDIC's vision is to build an effective and world-class deposit insurance corporation; one in which the public has confidence, and which all other stakeholders will respect. MDIC's most immediate task is, therefore, to lay the right foundations. The focus continues to rest on:

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

Given MDIC's objectives and strategic direction, the core functions of MDIC are assigned to the respective divisions of MDIC, namely, finance and administration, human resource management, internal audit and consulting services, policy and international, legal, risk assessment and monitoring, communications and corporate services. MDIC intends to develop a corporate culture based on five sets of core values, namely, excellence and professionalism, integrity and trustworthiness, communication and teamwork, respect and fairness and financial stewardship.

management discussion and analysis

Areas of focus for 2006

i. Promote incentives for sound risk management in the financial system

MDIC has the power to set the rate of premiums, subject to ministerial approval. As noted earlier, in the year 2005, premiums were assessed using a “flat rate” method. The flat rate system is easier for member institutions to understand and apply. Most deposit insurers adopt such a system in the early years of operation, largely for ease of administration and acceptance among the affected community. As a matter of policy, MDIC will assess annual premiums on a flat rate system for the assessment years 2006 and 2007.

Thereafter, MDIC plans to introduce a differential premium system by 2008. This is a system that seeks to differentiate premiums based on individual bank risk profiles. This would help promote incentives for sound risk management in the financial system, within the terms of MDIC’s mandate.

A key policy project for 2006, therefore, will be to begin development of a differential premium system, in readiness for its implementation by 2008.

ii. Governance, risk management, and internal policies, controls and procedures

MDIC plans to continue to enhance corporate governance on internal policies, controls and procedures. During this corporate planning period, MDIC will be focussing on developing and implementing a sound risk management system, including setting out appropriate policies, procedures, practices and internal controls to build a sound foundation.

iii. Public awareness

We will continue our public awareness programme which is extensively discussed on page 58.

iv. Strong partnerships

MDIC worked closely with Bank Negara Malaysia which is the primary banking regulator and supervisor. MDIC also relies extensively on its examination work. Given MDIC’s objectives to operate effectively and efficiently, MDIC must have a clear understanding of the nature of member institutions’ business and activities. This enables MDIC to make policies and rules in consultation with member institutions, and therefore, effectively meet our objectives. All this entails building strong partnerships with Bank Negara Malaysia, other authorities and member institutions. Accordingly, MDIC will continue to enhance and maintain these relationships as part of our ongoing work.

directors' report

The Directors hereby submit their report and the audited financial statements of MDIC for the financial period ended 31 December 2005.

PRINCIPAL ACTIVITIES

MDIC is a statutory body established under the *Malaysia Deposit Insurance Corporation Act 2005*.

The principal activities of MDIC are to administer a deposit insurance system, provide insurance against the loss of part or all deposits of a member institution; provide incentives for sound risk management in the financial system and to promote or contribute to the stability of the financial system. MDIC is to carry out its functions and activities in such manner that will minimise the costs to the financial system.

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

RESULTS

| | 2005 RM |
|---|------------|
| Combined net surplus for the financial period | 32,542,041 |

DIRECTORS

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

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

Members of the Board of Directors of MDIC were appointed by the Minister of Finance in accordance with Section 11(2) of the *Malaysia Deposit Insurance Corporation Act 2005*.

DIRECTORS' BENEFITS

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

RESERVES AND PROVISIONS

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

BAD AND DOUBTFUL DEBTS

Before the income statements and balance sheets of MDIC were completed, the Directors took reasonable steps to ascertain that action had been taken in relation to the writing off of bad debts and the making of provisions for doubtful debts, and have satisfied themselves that there are no known bad debts to be written off or doubtful debts to be provided for.

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

directors' report

VALUATION METHODS

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

CHANGE OF CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

The results of the operations of MDIC for the financial period were not, in the opinion of the Directors, substantially affected by any item, transaction or event of a material and unusual nature.

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

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

CONTINGENT LIABILITIES

Exposure to losses from member institutions

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

RESPONSIBILITY FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

The Directors, in providing the opinion on the financial statements, had relied on the representation by Management of MDIC on the processes and the system of internal controls designed to ensure that the financial statements have been drawn up in accordance with applicable approved accounting standards in Malaysia and Shariah principles and requirements so as to give a true and fair view of the financial position of MDIC as at 31 December 2005 and of the results and the cash flows of MDIC for the period ended on that date.

AUDITORS

In accordance with the *Malaysia Deposit Insurance Corporation Act 2005*, the accounts of MDIC are audited by the Auditor General of Malaysia.

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



Tan Sri Dato' Abdul Aziz bin Haji Taha



Datuk Dr Abdul Samad bin Haji Alias

statement by directors

We, Tan Sri Dato' Abdul Aziz bin Haji Taha and Datuk Dr Abdul Samad bin Haji Alias, being two of the Directors of MDIC, do hereby state that, in the opinion of the Directors, the financial statements are drawn up in accordance with the applicable approved accounting standards in Malaysia and Shariah principles and requirements so as to give a true and fair view of the state of affairs of MDIC as at 31 December 2005 and of the results and the cash flows of MDIC for the period ended on that date.

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



Tan Sri Dato' Abdul Aziz bin Haji Taha



Datuk Dr Abdul Samad bin Haji Alias

Kuala Lumpur
8 March 2006

statutory declaration

BY MANAGEMENT IN RELATION TO THE RESPONSIBILITY FOR FINANCIAL REPORTING

The preparation of the financial statements of Malaysia Deposit Insurance Corporation and the information related to the financial statements are the responsibility of Management. The financial statements have been prepared in accordance with Shariah principles and requirements and as a matter of policy, have been prepared in accordance with applicable approved accounting standards in Malaysia so as to give a true and fair view of the state of affairs of the Malaysia Deposit Insurance Corporation as at 31 December 2005 and of the results and the cash flows of the Malaysia Deposit Insurance Corporation for the period ended on that date.

The financial statements have been approved by the Board of Directors.

In discharging its responsibility for the integrity and fairness of the financial statements, Management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are duly authorised, assets are safeguarded and proper records are maintained in accordance with the *Malaysia Deposit Insurance Corporation Act 2005* as well as the *Statutory Bodies (Accounts and Annual Reports) Act 1980*. The auditors have free access to the Audit Committee of the Board, which oversees Management's responsibilities for maintaining adequate control systems and the quality of financial reporting and which recommends the financial statements to the Board of Directors.

These financial statements have been duly audited by the Malaysia Deposit Insurance Corporation's auditor, the Auditor General of Malaysia.

We, Jean Pierre Sabourin and Md Khairuddin bin Hj Arshad, being the two officers primarily responsible for the financial management of Malaysia Deposit Insurance Corporation, do solemnly and sincerely declare that the financial statements are, to the best of our knowledge and belief, correct, and we make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the *Statutory Declarations Act 1960*.

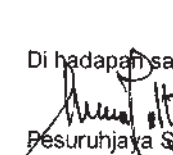
Subscribed and solemnly declared by the abovenamed at Kuala Lumpur on 8 March 2006




Jean Pierre Sabourin



Md Khairuddin bin Hj Arshad

Di hadapan saya,

 Pesuruhjaya Sumpah



Tingkat 10 Wisma UCA Damansara
 50, Jalan Dangan,
 Bukit Damansara,
 50490 Kuala Lumpur



**CERTIFICATE OF THE AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF
MALAYSIA DEPOSIT INSURANCE CORPORATION
FOR THE YEAR ENDED 31 DECEMBER 2005**

I have audited the financial statements of Malaysia Deposit Insurance Corporation for the year ended 31 December 2005. These financial statements are the responsibility of the management. My responsibility is to express an opinion on these financial statements based on my audit.

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

3. In my opinion, the financial statements give a true and fair view of the financial position of Malaysia Deposit Insurance Corporation as at 31 December 2005, and of the results of its operations and its cash flows for the year ended in accordance with approved accounting standards.

A handwritten signature in black ink, consisting of a stylized 'A' followed by a horizontal line.

(TAN SRI DATO' SETIA HAJI AMBRIN BIN BUANG)

AUDITOR GENERAL

MALAYSIA

PUTRAJAYA

10 MARCH 2006

balance sheet

AS AT 31 DECEMBER 2005

| | Note | December 2005 RM |
|--|------|------------------------|
| ASSETS | | |
| Cash and cash equivalents | 3 | 1,706,628 |
| Investments | | |
| <i>Held-to-maturity investments</i> | 4 | 30,295,189 |
| Other assets | 5 | 149,394 |
| Property and equipment | 6 | 1,025,273 |
| Total Assets | | 33,176,484 |
| LIABILITIES | | |
| Payables | 7 | 634,443 |
| Total Liabilities | | 634,443 |
| DEPOSIT INSURANCE FUNDS AND RESERVES | | |
| Islamic Deposit Insurance Fund | 8a | 3,014,065 |
| Conventional Deposit Insurance Fund | 8b | 29,527,976 |
| Total Deposit Insurance Funds | | 32,542,041 |
| Total Liabilities and Deposit Insurance Funds | | 33,176,484 |

COMMITMENTS AND CONTINGENCIES

15 & 16

income statement

FOR THE FOUR MONTHS PERIOD ENDED 31 DECEMBER 2005

| | Note | December 2005 RM |
|---|------|------------------------|
| REVENUES | | |
| Premiums | 9 | 35,671,770 |
| Investment income from cash and securities | 10 | 204,692 |
| | | 35,876,462 |
| Less | | |
| EXPENDITURES | | |
| Pre-operating expenditures | 11 | 991,231 |
| Operating expenditures | 12 | 2,343,190 |
| | | 3,334,421 |
| Net surplus for the financial period | | 32,542,041 |

The accompanying notes form an integral part of the financial statements

cash flow statement

FOR THE FOUR MONTHS PERIOD ENDED 31 DECEMBER 2005

| | Note | December 2005 RM |
|---|----------|------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Premium receipts from member institutions | | 35,671,770 |
| Payments in the course of operations to suppliers and employees | | (2,759,970) |
| Receipts of investment income | | 82,997 |
| Net cash flow from operating activities | | 32,994,797 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sale of securities | | 24,917,002 |
| Purchase of securities | | (55,090,497) |
| Purchase of property and equipment | | (1,114,674) |
| Net cash flow used in investing activities | | (31,288,169) |
| CASH FLOW FROM FINANCING ACTIVITIES | | |
| Advances received from Bank Negara Malaysia | 18 | 5,500,000 |
| Repayment of advances from Bank Negara Malaysia | 18 | (5,500,000) |
| Net cash flow from financing activities | | - |
| Net Increase/(Decrease) in Cash & Cash Equivalents | | 1,706,628 |
| Cash & Cash Equivalents at 1 September 2005 | | - |
| Cash & Cash Equivalents at 31 December 2005 | 3 | 1,706,628 |

The accompanying notes form an integral part of the financial statements

statement of changes in funds and reserves

FOR THE FOUR MONTHS PERIOD ENDED 31 DECEMBER 2005

| | Note | Islamic Deposit Insurance Fund 2005 RM | Conventional Deposit Insurance Fund 2005 RM | Total 2005 RM |
|----------------------------|------|---|--|---------------------|
| At 1 September 2005 | 8 | – | – | – |
| Net surplus for the period | | 3,014,065 | 29,527,976 | 32,542,041 |
| At 31 December 2005 | 8 | 3,014,065 | 29,527,976 | 32,542,041 |

The accompanying notes form an integral part of the financial statements

islamic deposit insurance fund balance sheet

AS AT 31 DECEMBER 2005

| | Note | December 2005 RM |
|--|---------|------------------------|
| ASSETS | | |
| Cash and cash equivalents | 3 | 77,650 |
| Investments | 4 | |
| <i>Held-to-maturity investments</i> | | 2,889,927 |
| Other assets | 5 | 13,507 |
| Property and equipment | 6 | 94,940 |
| Total Assets | | 3,076,024 |
| LIABILITIES | | |
| Payables | 7 | 61,959 |
| Total Liabilities | | 61,959 |
| DEPOSIT INSURANCE FUNDS AND RESERVES | | |
| Islamic Deposit Insurance Fund | 8a | 3,014,065 |
| Total Liabilities and Deposit Insurance Funds | | 3,076,024 |
| COMMITMENTS AND CONTINGENCIES | 15 & 16 | |

The accompanying notes form an integral part of the financial statements

islamic deposit insurance fund income statement

FOR THE FOUR MONTHS PERIOD ENDED 31 DECEMBER 2005

| | Note | December 2005 RM |
|---|------|------------------------|
| REVENUES | | |
| Premiums | 9 | 3,303,016 |
| Investment income from cash and securities | 10 | 19,841 |
| | | 3,322,857 |
| Less | | |
| EXPENDITURES | | |
| Pre-operating expenditures | 11 | 91,788 |
| Operating expenditures | 12 | 217,004 |
| | | 308,792 |
| Net surplus for the financial period | | 3,014,065 |

The accompanying notes form an integral part of the financial statements

islamic deposit insurance fund cash flow statement

FOR THE FOUR MONTHS PERIOD ENDED 31 DECEMBER 2005

| | Note | December 2005 RM |
|---|------|------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Premium receipts from member institutions | | 3,303,016 |
| Payments in the course of operations to suppliers and employees | | (252,059) |
| Receipts of investment income | | 4,889 |
| Net cash flow from operating activities | | 3,055,846 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sale of securities | | 1,995,109 |
| Purchase of securities | | (4,870,086) |
| Purchase of property and equipment | | (103,219) |
| Net cash flow used in investing activities | | (2,978,196) |
| Net Increase/(Decrease) in Cash & Cash Equivalents | | 77,650 |
| Cash & Cash Equivalents at 1 September 2005 | | – |
| Cash & Cash Equivalents at 31 December 2005 | 3 | 77,650 |

The accompanying notes form an integral part of the financial statements

conventional deposit insurance fund balance sheet

AS AT 31 DECEMBER 2005

| | Note | December 2005 RM |
|--|---------|------------------------|
| ASSETS | | |
| Cash and cash equivalents | 3 | 1,628,978 |
| Investments | | |
| <i>Held-to-maturity investments</i> | 4 | 27,405,262 |
| Other assets | 5 | 135,887 |
| Property and equipment | 6 | 930,333 |
| Total Assets | | 30,100,460 |
| LIABILITIES | | |
| Payables | 7 | 572,484 |
| Total Liabilities | | 572,484 |
| DEPOSIT INSURANCE FUNDS AND RESERVES | | |
| Conventional Deposit Insurance Fund | 8b | 29,527,976 |
| Total Liabilities and Deposit Insurance Funds | | 30,100,460 |
| COMMITMENTS AND CONTINGENCIES | 15 & 16 | |

The accompanying notes form an integral part of the financial statements

conventional deposit insurance fund income statement

FOR THE FOUR MONTHS PERIOD ENDED 31 DECEMBER 2005

| | Note | December 2005 RM |
|---|------|------------------------|
| REVENUES | | |
| Premiums | 9 | 32,368,754 |
| Investment income from cash and securities | 10 | 184,851 |
| | | 32,553,605 |
| Less | | |
| EXPENDITURES | | |
| Pre-operating expenditures | 11 | 899,443 |
| Operating expenditures | 12 | 2,126,186 |
| | | 3,025,629 |
| Net surplus for the financial period | | 29,527,976 |

The accompanying notes form an integral part of the financial statements

conventional deposit insurance fund cash flow statement

FOR THE FOUR MONTHS PERIOD 31 DECEMBER 2005

| | Note | December 2005 RM |
|---|----------|------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Premium receipts from member institutions | | 32,368,754 |
| Payments in the course of operations to suppliers and employees | | (2,507,911) |
| Receipts of investment income | | 78,108 |
| Net cash flow from operating activities | | 29,938,951 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sale of securities | | 22,921,893 |
| Purchase of securities | | (50,220,411) |
| Purchase of property and equipment | | (1,011,455) |
| Net cash flow used in investing activities | | (28,309,973) |
| CASH FLOW FROM FINANCING ACTIVITIES | | |
| Advances received from Bank Negara Malaysia | 18 | 5,500,000 |
| Repayment of advances from Bank Negara Malaysia | 18 | (5,500,000) |
| Net cash flow from financing activities | | - |
| Net Increase/(Decrease) in Cash & Cash Equivalents | | 1,628,978 |
| Cash & Cash Equivalents at 1 September 2005 | | - |
| Cash & Cash Equivalents at 31 December 2005 | 3 | 1,628,978 |

The accompanying notes form an integral part of the financial statements

notes to the financial statements

31 DECEMBER 2005

1. PRINCIPAL ACTIVITIES

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

The principal activities of MDIC are to administer a deposit insurance system, provide insurance against the loss of part or all deposits of a member institution; provide incentives for sound risk management in the financial system and to promote or contribute to the stability of the financial system. MDIC is to carry out its functions and activities in such manner that will minimise the costs to the financial system.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of accounting

The financial statements have been prepared under the historical cost convention and, in compliance with Shariah principles and requirements. As a matter of policy, the financial statements have been prepared in compliance with approved accounting standards in Malaysia.

The financial statements incorporate those activities relating to the administration of both Islamic and Conventional Deposit Insurance Funds of MDIC.

(b) Financial instruments

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held at call with banks and short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. The cash flow statement is prepared using the direct method.

(ii) Investments

Investments comprise primarily of Malaysian Government Securities and other investment securities guaranteed by Bank Negara Malaysia, which are marketable securities and are intended to be held to maturity. These securities with fixed or determinable payments and fixed maturity are stated at cost adjusted for amortisation of premiums or accretion of discounts, calculated on an effective yield basis, from the dates of purchase to the maturity date. The amortisation of premiums and accretion of discounts are recognised in the income statements.

(iii) Receivables and other assets

Receivables and other assets are stated at costs net of any provisions for bad or doubtful debts and net of any impairment loss on the value of the assets.

(iv) Payables

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

notes to the financial statements

31 DECEMBER 2005

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**(c) Impairment of assets**

At each balance sheet date, MDIC reviews the carrying amounts of its assets, other than financial assets, to determine whether there is any indication of impairment. If any such indication exists, impairments are measured by comparing the carrying values of the assets with their recoverable amounts. Recoverable amount is the higher of the net selling price and value in use, which is measured by reference to discounted future cash flows. Recoverable amounts are estimated for individual assets, or, if it is not possible, for the cash-generating unit to which the asset belongs.

An impairment loss is charged to the income statements immediately, unless the asset is carried at a revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of previously recognised revaluation surplus for the same asset.

Subsequent increase in the recoverable amount of an asset is treated as reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the income statements immediately, unless the asset is carried at a revalued amount.

A reversal of an impairment loss on the same revalued asset is credited directly to revaluation surplus. However, to the extent that an impairment loss on the same revalued asset was previously recognised as an expense in the income statement, a reversal of that impairment loss is recognised as income in the income statements.

(d) Property and Equipment and Depreciation

Property and equipment are stated at cost less accumulated depreciation and impairment losses.

Depreciation is calculated on a straight line basis to write-off the cost of the assets over their estimated useful lives. The principal annual rates of depreciation used are as follows:

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

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

On disposal of an item of fixed assets, the difference between net disposal proceeds and the carrying amount is recognised in the income statements.

(e) Recognition of income and expenditure

All income and operating expenditures are recognised on an accrual basis. In accordance with the Act, the expenditures of MDIC which could not be directly attributed to the Islamic Deposit Insurance Fund or Conventional Deposit Insurance Fund are apportioned based on the proportion of the Islamic and Conventional premiums received against total annual premiums immediately prior to the year in which such expenditures are incurred. However, for the first financial year of operations, the apportionment basis was to be determined based on the proportion of actual premiums received for the four months of MDIC's operations. The share of the Islamic premium and the Conventional premium for the reporting period was 9.26% and 90.74% respectively.

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

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

notes to the financial statements

31 DECEMBER 2005

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(f) Employee benefits

(i) Short-term benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of MDIC.

(ii) Defined contribution plan

As required by law, MDIC makes contributions to the statutory national pension scheme, the Employee Provident Fund (EPF). Such contributions are recognised as an expense in the income statements as incurred.

3. CASH AND CASH EQUIVALENTS

| | Conventional 2005 RM | Islamic 2005 RM |
|------------------------------------|----------------------------|-----------------------|
| Deposits with Bank Negara Malaysia | 77,288 | – |
| Cash and bank balances | 1,551,690 | 77,650 |
| | 1,628,978 | 77,650 |

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

4. INVESTMENTS

| | Conventional 2005 RM | Islamic 2005 RM |
|---|----------------------------|-----------------------|
| Bank Negara Bills and Negotiable Notes | 27,298,518 | 2,874,977 |
| Accretion of discounts net of amortisation of premium | 106,744 | 14,950 |
| | 27,405,262 | 2,889,927 |
| Market values of investments are as follows: | | |
| Bank Negara Bills and Negotiable Notes | 27,398,050 | 2,889,145 |
| | 27,398,050 | 2,889,145 |
| The maturity structure of investments is as follows: | | |
| Maturing within one year | 27,405,262 | 2,889,927 |
| | 27,405,262 | 2,889,927 |

The weighted average yield rates for the Malaysian Government Securities and Investment Issues and Bank Negara Malaysia Bills and Negotiable Notes that were effective during the period ended 31 December 2005 were 2.77% and 2.81% for the Islamic and Conventional portfolio respectively. The entire balance of investments is denominated in Ringgit Malaysia.

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

notes to the financial statements

31 DECEMBER 2005

5. OTHER ASSETS

| | Conventional 2005 RM | Islamic 2005 RM |
|--------------------------|----------------------------|-----------------------|
| Deposits and prepayments | 132,350 | 13,507 |
| Other receivables | 3,537 | – |
| | 135,887 | 13,507 |

6. PROPERTY AND EQUIPMENT**a. Conventional Deposit Insurance Fund**

| | As at 1.9.2005 RM | Additions RM | Disposals RM | As at 31.12.2005 RM |
|---------------------------------|-------------------------|-----------------|-----------------|---------------------------|
| Cost | | | | |
| Office equipment | – | 418,605 | – | 418,605 |
| Furniture and fittings | – | 139,148 | – | 139,148 |
| Office refurbishment | – | 453,702 | – | 453,702 |
| | – | 1,011,455 | – | 1,011,455 |
| Accumulated depreciation | | | | |
| Office equipment | – | 22,988 | – | 22,988 |
| Furniture and fittings | – | 7,723 | – | 7,723 |
| Office refurbishment | – | 50,411 | – | 50,411 |
| | – | 81,122 | – | 81,122 |
| Net book value | | | | |
| Office equipment | – | 395,617 | – | 395,617 |
| Furniture and fittings | – | 131,425 | – | 131,425 |
| Office refurbishment | – | 403,291 | – | 403,291 |
| | – | 930,333 | – | 930,333 |

notes to the financial statements

31 DECEMBER 2005

6. PROPERTY AND EQUIPMENT (CONT'D)**b. Islamic Deposit Insurance Fund**

| | As at 1.9.2005 RM | Additions RM | Disposals RM | As at 31.12.2005 RM |
|---------------------------------|-------------------------|-----------------|-----------------|---------------------------|
| Cost | | | | |
| Office equipment | – | 42,719 | – | 42,719 |
| Furniture and fittings | – | 14,200 | – | 14,200 |
| Office refurbishment | – | 46,300 | – | 46,300 |
| | – | 103,219 | – | 103,219 |
| Accumulated depreciation | | | | |
| Office equipment | – | 2,346 | – | 2,346 |
| Furniture and fittings | – | 788 | – | 788 |
| Office refurbishment | – | 5,145 | – | 5,145 |
| | – | 8,279 | – | 8,279 |
| Net book value | | | | |
| Office equipment | – | 40,373 | – | 40,373 |
| Furniture and fittings | – | 13,412 | – | 13,412 |
| Office refurbishment | – | 41,155 | – | 41,155 |
| | – | 94,940 | – | 94,940 |

7. PAYABLES

| | Conventional 2005 RM | Islamic 2005 RM |
|------------------------------------|----------------------------|-----------------------|
| Sundry creditors | 106,260 | 10,844 |
| Amount due to Bank Negara Malaysia | 466,224 | 47,578 |
| Other payables | – | 3,537 |
| | 572,484 | 61,959 |

8. DEPOSIT INSURANCE FUNDS**a. Islamic Deposit Insurance Fund:**

| | 2005 RM |
|-----------------|------------|
| Opening balance | – |
| Net surplus | 3,014,065 |
| Closing balance | 3,014,065 |

b. Conventional Deposit Insurance Fund:

| | 2005 RM |
|-----------------|------------|
| Opening balance | – |
| Net surplus | 29,527,976 |
| Closing balance | 29,527,976 |

notes to the financial statements

31 DECEMBER 2005

9. PREMIUM INCOME

| | 2005 RM |
|---|--------------------|
| Premium income on insured Islamic deposits | 3,303,016 |
| Premium income on insured Conventional deposits | 32,368,754 |
| | 35,671,770 |

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

- (a) 0.02% per annum of the total deposits of the member institution; or
- (b) 0.06% per annum of the total insured deposits of the member institution.

The first year premiums were due and payable by 30 September 2005.

10. INVESTMENT INCOME

| | Conventional 2005 RM | Islamic 2005 RM |
|---|-------------------------------------|--------------------------------|
| Malaysian Government Securities and Investment Issues | 19,565 | 4,891 |
| Bank Negara Bills and Negotiable Notes | 165,286 | 14,950 |
| | 184,851 | 19,841 |

11. PRE-OPERATING EXPENDITURES

Prior to the enactment of the Act, certain funds were expended for the start-up of MDIC. Pre-operating expenditures are expensed immediately.

| | Conventional 2005 RM | Islamic 2005 RM |
|------------------------------|-------------------------------------|--------------------------------|
| Advisory and consulting fees | 770,474 | 78,627 |
| Administration and general | 128,969 | 13,161 |
| | 899,443 | 91,788 |

notes to the financial statements

31 DECEMBER 2005

12. OPERATING EXPENDITURES

| | Conventional | Islamic |
|----------------------------|------------------|----------------|
| | 2005 | 2005 |
| | RM | RM |
| Personnel | 1,159,103 | 118,287 |
| Communications | 625,937 | 63,877 |
| Administration and general | 260,024 | 26,561 |
| Depreciation | 81,122 | 8,279 |
| | 2,126,186 | 217,004 |

Personnel costs include the Chief Executive Officer (“CEO”)’s remuneration and other benefits amounting to RM543,284 for the period ended 31 December 2005. Included in this amount are the relocation costs incurred for the CEO which amounted to RM86,404.

The number of employees at the end of the financial period was fifteen (15).

13. DIRECTORS’ REMUNERATION

Directors are paid on a fee structure as approved by the Minister of Finance. The fees paid to directors during the financial period ended 31 December 2005 amounted to RM116,000 which comprises of directors’ remuneration for the 2005/2006 term of service and meeting allowances.

14. TAXATION

MDIC’s application for tax exemption is currently being reviewed by the Ministry of Finance.

15. COMMITMENTS

The rent payment for MDIC’s office lease in effect as at 31 December 2005 is as follows:

| | |
|------|--------------------|
| 2006 | RM11,513 per month |
| 2007 | RM22,860 per month |

MDIC has paid a deposit in 2005 of RM77,130 to secure future office space and a long term lease agreement will be executed in 2006.

During 2005, a contract was entered into for the refurbishment of the existing office space and supplies of selected office equipment and furniture totalling RM1,381,490, of which MDIC has paid RM873,346 for the work completed and goods delivered. The remaining contract work will be completed during the first quarter 2006.

16. CONTINGENCIES

Exposure to losses from member institutions

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

notes to the financial statements

31 DECEMBER 2005

17. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

MDIC's financial risk management policy seeks to ensure that adequate financial resources are available for MDIC's activities whilst managing MDIC's currency, interest rate and rate of return, liquidity, market and credit risks. MDIC operates within guidelines that are approved by the Board of Directors and MDIC's policy is to only invest in short-term Ringgit denominated Government securities of varying maturities. No investments are made with member institutions since MDIC is the insurer of deposits.

a. Foreign currency risk

MDIC is currently not exposed to any currency risk as all transactions were transacted in Ringgit denominated currency.

b. Interest rate risk and rate of return risk

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

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

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

c. Liquidity risk

A significant amount of funds available for investment were invested in short-term securities. MDIC continuously endeavours to manage the maturity profiles of these securities in order to ensure that sufficient funds are available at all times, to meet the day to day working capital requirements.

d. Market risk

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

e. Credit risk

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

f. Fair values

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

notes to the financial statements

31 DECEMBER 2005

18. ADVANCES FROM BANK NEGARA MALAYSIA

As part of the arrangement for the establishment of MDIC, Bank Negara Malaysia had allocated funds of up to RM15 million to fund the establishment and initial operations of MDIC until it receives its first premiums. Of the amount allocated, MDIC had drawn down RM5,500,000 to fund the pre-establishment costs as well as the initial operational costs of MDIC. The amount drawn down was subsequently settled in full in October 2005 upon receiving the first premiums from member institutions.

19. CURRENCY

All amounts are stated in Ringgit Malaysia.

calendar of events 2005

| Date | Event |
|------------------|---|
| September | |
| 1 | Bank Negara Malaysia announced the establishment of MDIC and the launch of the deposit insurance system. In conjunction with the launch, BNM and MDIC held a Press conference and briefing for Senior Editors of the Press, Chief Executive Officers of member institutions and members of the Press. MDIC became a member of the International Association of Deposit Insurers. |
| 5 | MDIC commenced operations at its premises at Level 22, Dataran Kewangan Darul Takaful, No. 4 Jalan Sultan Sulaiman, 50000 Kuala Lumpur. |
| 12 | MDIC conducted a technical briefing on the computation of first premium to representatives from member institutions (including their respective associations) and Bank Negara Malaysia. |
| 13 | The Chief Executive Officer (CEO) of MDIC, Mr Jean Pierre Sabourin explained the concept of deposit insurance and its role in strengthening consumer protection in the overall financial safety net in a Press interview conducted by representatives of major newspapers. |
| 15 | MDIC participated in the Deposit Insurance International Forum held in Dalian, China. |
| 19-21 | Tabling and passing by Dewan Rakyat of the <i>Banking and Financial Institutions (Amendment) Bill 2005</i> being the consequential amendments arising from the <i>MDIC Act</i> . |
| 22 | Tabling and passing of the <i>Islamic Banking (Amendment) Bill 2005</i> being the consequential amendments arising from the <i>MDIC Act</i> by Dewan Rakyat. |
| 26 | MDIC established its own Customer Service Call Centre (1-800-88-1266) to address public queries on deposit insurance. |
| 27-29 | MDIC participated in the International Association of Deposit Insurers (IADI) 4th Annual Conference, Annual General Meeting (AGM) and the International Exhibition on Deposit Insurance held in Taipei, Taiwan. At the AGM, the CEO of MDIC, Mr Jean Pierre Sabourin was re-elected as Chair of the Executive Council and President of IADI for a two-year term. |
| 30 | MDIC received payment of first premiums from all member institutions. |
| November | |
| 22 | International Monetary Fund (IMF) Article IV Consultation with Ms. Laura Papi, Mr Jerome Vacher and Dr Phang Hooi Eng of IMF and officials from the Ministry of Finance. |
| December | |
| 1 | Visit by Central Deposit Insurance Corporation (CDIC, Taiwan) Executive Vice President Mr Wen-Hsian Lai and CDIC delegate Miss Fiona Yeh to learn more about the newly established Malaysian deposit insurance system and to strengthen mutual exchange and cooperation. |
| 8 | Tabling and passing by Dewan Negara of the <i>Banking and Financial Institutions (Amendment) Bill 2005</i> and the <i>Islamic Banking (Amendment) Bill 2005</i> being the consequential amendments arising from the <i>MDIC Act</i> . |
| 13 | Visit by Mr Ganiyu Ogunleye, CEO of Nigeria Deposit Insurance Corporation. |
| 14-16 | MDIC participated in the 3rd International Forum on Financial Consumer Protection & Education held at Westin Hotel, Kuala Lumpur. |

the deposit insurance system in malaysia

INTRODUCTION

Deposit insurance is a guarantee to holders of insured deposits that they will be repaid the principal value and returns on their deposits, in the event of failure of the financial institution with which the deposit is made. The main objective of a deposit insurance system is to protect depositors from losing their savings should a financial institution fail.

The implementation of an effective deposit insurance system is widely considered an important component of the financial safety net in a country. How, one might ask, does deposit insurance fit in as part of a financial safety net?

The banking system has unique features that make it susceptible to contagion risks and loss to depositors. Given the importance of banking systems to a country, financial safety nets are necessary to the stability of economies. Traditionally, financial safety nets include prudential regulation and supervision, a lender of last resort facility and having priority payments in the event of bank insolvency.

A deposit insurance system contributes to the soundness of the financial system by instilling public confidence. The explicit guarantee assures depositors that they will have immediate access to their insured funds. Such assurance minimises the risk of “runs” on a bank or banks that could lead to the loss of confidence in the entire banking system, and ultimately, the financial system.

Today, it is accepted that deposit insurance should form an integral component of a comprehensive financial safety net. Deposit insurance systems have been established in 95 countries around the world including Canada, Hong Kong, Japan, South Korea, Taiwan and the United States. Bank Negara Malaysia’s Financial Sector Master Plan in 2001 recommended a deposit insurance system as a measure to strengthen our existing depositor protection infrastructure.

DESIGNING A SYSTEM FOR MALAYSIA

The Financial Stability Forum (FSF) Report on *Guidance for Developing Effective Deposit Insurance Systems* makes several important recommendations for the development of effective deposit insurance systems. In designing a *made-in-Malaysia* deposit insurance system, Bank Negara Malaysia followed the best practices recommended by the FSF. As recommended, our deposit insurance system is being introduced at a time when the banking system is at its strongest.

A distinctive feature of the Malaysian deposit insurance system is its application to not just the conventional banking system, but the Islamic banking system as well. Two separate and distinct deposit insurance systems are therefore administered by a single organisation (see article on *The Islamic Deposit Insurance System in Malaysia*).

CONSTITUTION OF A DEPOSIT INSURANCE SYSTEM

MDIC, which is charged with administering the deposit insurance system, is a statutory body, with its own legal and governance framework. The MDIC Act allows for MDIC to charge premiums to member institutions, borrow or raise funds in such manner as it deems fit and to borrow from the Government. Member institutions pay the cost of deposit insurance through mandatory premiums since they, and their customers, benefit directly from an effective deposit insurance system.

All commercial banks (including foreign banks) and finance companies licensed under the *Banking and Financial Institutions Act 1989* and all Islamic banks licensed under the *Islamic Banking Act 1983* being compulsory member institutions, are required to pay annual premiums to the deposit insurer based on the insured deposits they hold as at December 31, each year.

SCOPE OF COVERAGE

Under the MDIC Act, depositors are covered to the extent of RM60,000 per depositor per member institution, including principal and accrued interest or (in the case of Islamic deposits) return. Deposits eligible for coverage include savings deposits, current deposits, fixed deposits and certain investment deposits. Instruments such as certified cheques and bank drafts are also eligible for coverage, so as to maintain confidence in the payments system. However there is no coverage for instruments such as deposits that are not payable in Malaysia, foreign currency deposits, money market deposits, negotiable instruments of deposits, other bearer deposits and repurchase agreements. MDIC may also specify any other liability or financial instrument to qualify for coverage.

In other words, not all deposits are covered by the deposit insurance system. The reason for this arises from the need to minimise moral hazard. Such limitations are intended to discourage risky behaviour and to incentivise more sophisticated depositors to monitor the financial condition of member institutions.

From a perspective of confidence, it might be noted that in Malaysia, the current deposit insurance system covers 95% of all depositors in full at the current coverage limit of RM60,000 per depositor per member institution. In value terms, the system insures about 35% of the total deposits in member institutions. This is in line with international practices.

the deposit insurance system in malaysia

PAYMENT TO DEPOSITORS

To maintain confidence in the financial system when a member institution fails, a deposit insurer is required to reimburse depositors quickly. Under the MDIC Act, payments to depositors may be made under these circumstances:

- (i) MDIC must make mandatory payments when a winding-up order has been made in respect of a member institution, and not merely when the member institution is illiquid. In this case, the MDIC Act requires MDIC to make payment to depositors as soon as possible and no longer than three months from the date of the winding-up order;
- (ii) MDIC may make discretionary payments (subject to the approval of the Minister of Finance) where –
 - (a) the member institution that holds the deposit is unable to meet deposit liabilities by reason of a court order, or action taken by a regulatory body or MDIC, or action taken by a receiver and manager;
 - (b) a petition for winding-up against the member institution has been presented; and
 - (c) the membership of the member institution is cancelled or terminated.

Payments to depositors will be made based on the records and information obtained from the failed member institution, without the need for depositors to file claims. In making payments, MDIC will aggregate all accounts of the same owner in the same institution and pay up to the insured limit of RM60,000.

MORE ABOUT MDIC

Our mandate. Our mandate is clearly specified in legislation. We are to:

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

In carrying out our mandate, we are required to act in such manner as to minimise costs to the financial system. As a “least-cost” deposit insurer, not only do we administer the deposit insurance system, we have to consider the broader objective of maintaining financial system stability and indeed, provide incentives for market discipline. As such we must assess and manage our risks in providing deposit insurance.

An independent body. MDIC was established as a separate, distinct and independent statutory body fully supported by the Government. The establishment of MDIC as an independent statutory body:

- (i) provides more focus in carrying out its mandate;
- (ii) provides a more effective check and balance against conflicts of interest that may arise between the supervisory, lender-of-last-resort and deposit insurance functions; and
- (iii) promotes stronger accountability and transparency through the balanced Board structure.

Administering the deposit insurance system. Apart from reimbursing depositors as described above, the key roles of MDIC involve (a) determining the premium rates for member institutions and (b) investing funds for depositors.

In determining premium rates, MDIC balances the need to have access to funds to meet future obligations to depositors and to finance operating and resolution costs, with the impact of imposing excessive premiums on members. The MDIC Act sets out a minimum annual premium payable of RM250,000 and a maximum premium rate of 0.5% of total insured deposits to ensure that premiums are capped.

Given our responsibility to our stakeholders and the need to accumulate surplus funds for purposes of meeting future obligations to depositors, MDIC’s investment policy objective is to achieve capital preservation while maintaining sufficient liquidity to meet its obligations. Legislation sets out the permitted investments, which include largely safe investments such as ringgit-denominated Government securities or securities of high investment grade and deposits with Bank Negara Malaysia or any financial institution. We may also make such other investments as approved by the Minister of Finance, on recommendation of the Board of Directors of MDIC.

Bank Negara Malaysia and us. Bank Negara Malaysia is the primary regulator of the banking system and responsible for maintaining the stability of the financial system as a whole. MDIC complements Bank Negara Malaysia with an effective deposit insurance system that encourages sound risk management in member institutions and operates in close collaboration with Bank Negara Malaysia.

the deposit insurance system in malaysia

From the prudential and supervisory perspective, it is Bank Negara Malaysia that conducts examinations of banking institutions and provides information to MDIC for it to assess its risks as a deposit insurer. Where MDIC has a reason to believe that a payment to depositors is imminent, MDIC may itself conduct a special examination on the member institution. In such circumstances, MDIC may commission an independent audit at the cost to the member institution.

Bank resolution. For bank resolution purposes, the MDIC Act also gives us substantial powers to act to reduce a risk to the financial system or a threatened loss to MDIC. MDIC is also required, when dealing with a non-viable member institution, to find and assess resolution options apart from formal liquidation. The rationale for this is to minimise disruptions or loss of confidence from bank failure with early intervention and to implement least-cost solutions. Accordingly MDIC has broad resolution powers under the Act, including the power to acquire assets from member institutions, make loans or advances with or without security, acquire shares of member institutions. However our resolution powers only arise upon notification by Bank Negara Malaysia that a member institution has ceased, or is likely to cease, to be viable.

MDIC AND DEPOSITORS

MDIC's guarantee removes uncertainties and concerns associated with rumours of troubled banks which inevitably surface from time to time. Hence, with MDIC, depositors are assured of the safety of their deposits. Also the inclusion of a broad range of insurable deposits and automatic coverage for depositors are just some of the special features which are designed specifically to provide maximum benefit to depositors.

the islamic deposit insurance system in malaysia

Since its inception in 1983, our Islamic banking system has evolved greatly. Demand was so significant that we saw conventional banking institutions offering Islamic products and services. Islamic banking today captures about 11% of the total assets in the banking system, and, with the support of Bank Negara Malaysia, has much potential to grow further. As at the end of December 2005, we have six Islamic banks and 23 conventional banking institutions offering Islamic products and services.

In Malaysia, therefore, Islamic banking is now well established alongside the conventional banking system. Indeed, the Financial Sector Master Plan considers Malaysia well-positioned to become an international player in offering Islamic financial products and services.

ISLAMIC DEPOSIT INSURANCE

Given this background and challenge, Bank Negara Malaysia conceived the concept of a separate Islamic deposit insurance system in relation to eligible Islamic deposits. This operates separately but in parallel with the conventional deposit insurance system.

Shariah principles naturally apply, so that Islamic deposit insurance must comply with such principles. The structure of Islamic deposit insurance has been endorsed by the Shariah Advisory Council on Islamic Banking and Takaful.

CONSTITUTION OF ISLAMIC DEPOSIT INSURANCE SYSTEM

As with the conventional system, the Islamic deposit insurance system is funded by premiums collected from Islamic banking institutions, and the premiums are based on total insured Islamic deposits.

To ensure that the Islamic deposit insurance system complies with Shariah principles, the deposit insurance (the “insurance contract”) is based on the concepts of *kafalah* (guarantee) and *tabarru* (donation). In line with these principles, the relevant member institution can make donations to MDIC, which would then provide depositors with insurance coverage and ensure payouts in the event of bank failure.

COVERAGE

Where possible, deposits, be they Islamic or conventional deposits, are protected equitably. Islamic deposits are covered separately from conventional deposits, up to the amount of RM60,000 per depositor per member institution.

Islamic deposits eligible for coverage include savings and investment deposits, but (like conventional deposits) excludes deposits payable outside Malaysia, foreign currency deposits, negotiable instruments of deposit, other bearer deposits and repurchase agreements. Similarly with conventional deposits, payment instruments are also covered and MDIC will develop a process to determine whether new products qualify as eligible deposits. For deposit insurance purposes, eligible Islamic deposits held by the same depositor in a member institution are aggregated, while conventional deposits in the same member institution are aggregated separately.

MANAGEMENT OF FUNDS AND PAYOUT

The Islamic Deposit Insurance Fund (from premiums collected on Islamic deposits) and the Conventional Deposit Insurance Fund (from conventional premiums) are both administered by MDIC. However, to ensure compliance with Shariah principles, the Islamic Deposit Insurance Fund is managed separately, and invested in accordance with Shariah principles.

Payments in the event of failure of member institutions are similarly separated, and no transfer of funds between the Islamic Deposit Insurance Fund and the Conventional Deposit Insurance Fund are permitted. Instead, MDIC is statutorily permitted to borrow from the Government should there be a need, and in the case of a payout for Islamic deposits, this borrowing must be in accordance with Shariah principles.

Another difference in administering payments for Islamic deposits is the need to determine priority among Islamic creditors and types of Islamic deposits. Based on the contracts underlying the deposits, *non-mudharabah*ⁱ (non-profit sharing) deposits such as *wadiah* deposits have priority over *mudharabah*ⁱⁱ (profit sharing) deposits.

- i Under the non-profit sharing contract, the deposits are accepted based on either *wadiah* (safe custody) or *qard* (loan). Depositors place their funds with the bank and the bank is liable to pay back the whole principal amount. All profits generated by the bank from the use of such funds belong to the bank. However the bank may at its absolute discretion reward customers by giving out a portion of the profit generated from the investment of the funds from time to time.
- ii Under the profit sharing contract, depositors or “provider of capital” place their deposits with the bank as an investment and the bank takes the role as “entrepreneur” to invest the fund. Any profit arising from the investment will be shared between depositors and the bank based on a pre-determined ratio. Losses, if any, will be borne by depositors, except in cases where there is evidence of negligence on the part of the bank.

public awareness and education initiatives

Public awareness is key to the success of any deposit insurance system. And rightly so, since depositor protection is at the heart of deposit insurance. Hence, our main aim is to promote a clear understanding of what deposit insurance does and its benefits. An informed depositor is aware and confident of the safety of his deposits with our member institutions. Such depositor confidence enhances the stability of our deposit insurance system, and ultimately, contributes to the stability of our banking system. Public education already forms an important aspect of our public awareness programme and will continue to be so.

GETTING READY

Given our mandate, we have already taken steps to make ourselves immediately accessible to the public. One of the primary means of disseminating information to the general public and the banking industry is our Customer Service Call Centre. In anticipation of the launch of deposit insurance, a Call Centre was established by Bank Negara Malaysia two weeks prior to the launch date of 1st September 2005. The Call Centre gives immediate response to public queries on deposit insurance. We have three operators, dedicated to handling public queries in the various languages of choice. In the first month of its operation, our Call Centre received an average of 60 calls per week. We continue to receive enquiries from a broad cross section of the public.

Main callers comprised depositors, the general public and employees of member institutions, with questions about coverage limit or how depositor protection operates.

BUILDING PARTNERSHIPS

Member institutions are a logical channel for information dissemination since they hold a position of trust with their depositors. As such, we plan to form information partnerships with member institutions. For example, in the first quarter of 2006, we will distribute educational materials and brochures through member institutions to their employees and members of the public. A total of 4 million pieces of brochures have already been distributed nationwide.

In the first quarter of 2006, we issued a Handbook on deposit insurance and conducted training sessions for employees of member institutions who are responsible for training. In particular, our focus was on operation and front-line employees, who are most likely to be involved in advising their customers about deposit insurance.

OUR WEBSITE

Another important communication tool is our website which is a major source of information about deposit insurance in Malaysia. It contains comprehensive information about deposit insurance, which will be updated from time to time. In addition, we will post brochures, fact sheets and other articles on our website. Depositors can consult us with questions online and there is a section on Frequently Asked Questions. We shall include a gateway on our website to enable member institutions to have access to us.

GOING FORWARD

Our public awareness and education campaign will be ongoing to build up the level of understanding on deposit insurance. Our target audiences will include stakeholders, of which a key segment will be members of the depositing public, including students and senior citizens. Other important stakeholders will include member institutions, professional and business associations, Government agencies and consumer groups.

We will also pursue public awareness and further education by:

- Engaging the media using print and broadcast media in all the main languages so that key messages are delivered to a broad cross-section of society.
- Collaborating with or giving public lectures and presentations to interested organisations and associations as a channel for disseminating accurate information to others.

CONCLUSION ONGOING

On an ongoing basis, we plan to conduct surveys and monitor calls to the call centre to ascertain how well depositors understand deposit insurance. In the meantime, our awareness building efforts will continue on a nationwide basis so that depositors across the country will have accurate and timely access to deposit insurance information to meet their needs.

frequently asked questions

The following Frequently Asked Questions in our information brochure entitled “**Your deposits are now insured and it’s automatic**” are reproduced below for ease of reference.

1. What is Deposit Insurance?

- Deposit insurance is a system established by the Government to protect depositors against the loss of their insured deposits placed with member institutions in the unlikely event a member institution is unable to meet its obligations to depositors. This system was launched in Malaysia on 1 September 2005.

2. What is Perbadanan Insurans Deposit Malaysia (PIDM) or Malaysia Deposit Insurance Corporation (MDIC)?

- We are an independent statutory body that provides protection for depositors in the remote event a member institution is unable to repay its depositors holding insured deposits. Within the country, we wish to be known as PIDM being short for Perbadanan Insurans Deposit Malaysia.

3. What is the role of PIDM or MDIC?

- PIDM or MDIC’s role is to administer a deposit insurance system and protect depositors. PIDM provides incentives for sound risk management in the financial system, and promotes and contributes to the stability of the financial system.

4. How does PIDM contribute to the stability of the financial system?

- PIDM reinforces and complements the existing regulatory and supervisory framework by promoting incentives for financial institutions to implement sound risk management practices. We contribute to the stability of the financial system by dealing with any individual non-viable bank expeditiously thereby preventing it from affecting other banks or the banking system. In carrying out our mandate, PIDM is empowered to acquire assets from member institutions, make loans or advances with or without security, acquire shares of member institutions and take all other necessary measures.

5. Who are member institutions?

- Member institutions are all commercial banks (including foreign banks operating in Malaysia) and finance companies licensed under the Banking and Financial Institutions Act 1989 and all Islamic banks licensed under Islamic Banking Act 1983. Membership is compulsory as provided under the Malaysia Deposit Insurance Corporation Act 2005 (MDIC Act). A list of member institutions can be obtained either by contacting PIDM at 1800-88-1266 or by accessing PIDM’s website at www.pidm.gov.my

6. Must I apply for deposit insurance coverage?

- No, you don’t need to. Eligible deposit accounts are automatically insured at no charge to you.

7. Who pays for the insurance premium?

- Your member institution is required to pay annual premiums to the deposit insurance system administered by PIDM.

8. What is the deposit insurance coverage limit?

- PIDM insures eligible deposits up to RM60,000 per depositor per member institution. The RM60,000 limit includes both the principal amount of a deposit and the interest/return.

9. Can I buy additional insurance for my deposits if it is more than RM60,000?

- No. Deposit insurance is not a general or life insurance product. It is provided by the Government through the MDIC Act and administered by PIDM.

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

- Current and savings deposit accounts, fixed deposits, investment deposits and certified cheques and bank drafts drawn or made against a deposit account are eligible for deposit insurance protection.

11. What types of deposits are NOT insured?

- Deposits not payable in Malaysia, foreign currency deposits, money market deposits, negotiable instruments of deposits (NIDs), other bearer deposits and repurchase agreements are not insured.

12. Are Islamic and conventional deposits insured separately?

- Yes. Islamic and conventional deposits are eligible for a separate coverage limit of RM60,000 each.

13. Do joint accounts and trust accounts enjoy separate deposit insurance coverage?

- Yes. Joint accounts and trust accounts enjoy separate deposit insurance coverage limit each, provided the records of the member institution disclose the names of the joint or trust account holders and their individual interests in the deposit.

14. Are repurchase agreements, money market placements and unit trusts eligible for deposit insurance?

- No. Repurchase agreements, money market placements and unit trusts are not eligible for deposit insurance.

frequently asked questions

- 15. Are there other accounts that are separately insured?**
 - Yes. Deposits held under a sole proprietorship or a partnership or held by a depositor who carries on any professional practice are separately insured, provided such information has been disclosed on the records of the member institution.
- 16. If I have deposits in several member institutions, will all my deposits be added up for deposit insurance purposes?**
 - No. Deposits in different member institutions are insured separately. The RM60,000 coverage limit is applicable per depositor per member institution.
- 17. If I have deposits in different branches of the same member institution, will all my deposits be insured separately?**
 - No. Deposits held in different branches of the same member institution will be added together for deposit insurance purposes.
- 18. What happens to my deposit if two member institutions merge?**
 - You will continue to be separately insured for a period of two years or upon maturity or until withdrawal, whichever is earlier.
- 19. Are deposits made by a non-resident of Malaysia insured?**
 - Your place of residence or nationality doesn't affect deposit insurance coverage. Deposits placed with a member institution of PIDM will be covered up to RM60,000 per depositor per member institution.
- 20. How can I maximise coverage for my deposits in a single bank?**
 - The RM60,000 limit is for each separate legal ownership of the deposit account. If the ownership of several accounts is different from one another, deposit insurance coverage would be given separately for each account. For example, if you hold an individual account, three joint accounts with different individuals, be part of a partnership or professional practice account, you will enjoy separate coverage of up to RM60,000 for all the five accounts totalling up to RM300,000.
- 21. If that is so, why did PIDM decide on coverage of up to RM60,000 per eligible deposit account?**
 - The current coverage limit was set based on statistics showing 95% of deposits will already be protected in full. Under current rules, almost all depositors are protected by deposit insurance.
- 22. How do I make a claim?**
 - In the unlikely event a member institution is not able to meet its obligations, you don't have to make any claim. PIDM will announce how, where and when you will be paid up to your insured amount. PIDM will be transparent and pay you speedily.
- 23. Does it mean our financial institutions are no longer supervised by Bank Negara Malaysia (BNM)?**
 - No. BNM remains the primary supervisor and regulator of the financial system. It continues to be responsible for maintaining the stability of the financial system. PIDM complements BNM's role and contributes to stability of the system by managing this deposit insurance system in a manner that encourages prudent risk management in member institutions.
- 24. Who do I contact for further information?**
 - Call PIDM's toll free information line 1-800-88-1266
 - Email to: info@pidm.gov.my
 - Visit PIDM's website at: www.pidm.gov.my

list of member institutions

AS AT 31 JANUARY 2006

ISLAMIC BANKS

1. BANK ISLAM MALAYSIA BERHAD
2. BANK MUAMALAT MALAYSIA BERHAD
3. COMMERCE TIJARI BANK BERHAD
4. HONG LEONG ISLAMIC BANK BERHAD
5. KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD
6. RHB ISLAMIC BANK BERHAD

COMMERCIAL BANKS

1. ABN AMRO BANK BERHAD
2. AFFIN BANK BERHAD
3. ALLIANCE BANK MALAYSIA BERHAD
4. AMBANK (M) BERHAD
5. BANGKOK BANK BERHAD
6. BANK OF AMERICA MALAYSIA BERHAD
7. BANK OF CHINA (MALAYSIA) BERHAD
8. BANK OF TOKYO-MITSUBISHI UFJ (MALAYSIA) BERHAD
9. BUMIPUTRA-COMMERCE BANK BERHAD
10. CITIBANK BERHAD
11. DEUTSCHE BANK (MALAYSIA) BERHAD
12. EON BANK BERHAD
13. HONG LEONG BANK BERHAD
14. HSBC BANK MALAYSIA BERHAD
15. J.P. MORGAN CHASE BANK BERHAD
16. MALAYAN BANKING BERHAD
17. OCBC BANK (MALAYSIA) BERHAD
18. PUBLIC BANK BERHAD
19. RHB BANK BERHAD
20. SOUTHERN BANK BERHAD
21. STANDARD CHARTERED BANK MALAYSIA BERHAD
22. THE BANK OF NOVA SCOTIA BERHAD
23. UNITED OVERSEAS BANK (MALAYSIA) BERHAD

FINANCE COMPANY

1. KEWANGAN BERSATU BERHAD

contact details

For more information:

- (i) Contact our Customer Service Call Centre at 1-800-88-1266 (toll-free) from 8.30 am to 5.30 pm on Monday – Friday
- (ii) Visit our Web site at: <http://www.pidm.gov.my>
- (iii) Obtain a copy of PIDM's public awareness information brochure from all member institutions
- (iv) E-mail us at: info@pidm.gov.my

(v) Write to us at:

Perbadanan Insurans Deposit Malaysia
Level 22, Dataran Kewangan Darul Takaful
No 4, Jalan Sultan Sulaiman,
50000 Kuala Lumpur
Tel: 03 2260 7436
Fax: 03 2260 7431 or 03 2260 7432

(Attention: Communications and Public Affairs Division)